

Emailed to: grant.mceachran@ofgem.gov.uk

The Office of Gas and Electricity Markets
3rd Floor, Commonwealth House
32 Albion Street
Glasgow
G1 1LH

11 December 2018

Dear Grant,

Informal consultation on modification to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

I write in response to the informal consultation on modification to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort (SoLR).

About Ombudsman Services:

Ombudsman Services (OS) is a not-for-profit private limited company established in 2002 which runs a range of discrete national ombudsman schemes across different sectors including energy and communications. Each scheme is funded by the companies under our jurisdiction and our service is free to consumers. Last year we received 172,865 initial contacts from complainants and resolved 92,110 complaints. The company currently employs approximately 600 people in Warrington and has a turnover in excess of £35 million.

For consumers, we offer a free and accessible way of resolving complaints, with a focus on swift, impartial resolutions based on principles of fairness. We also use the insights and data we gather through our casework and other sources to help bring about wider improvements which deliver benefits to all consumers, not just those who have turned to us for help.

For businesses, we help resolve disputes with customers in a fast and non-adversarial way, helping with customer retention and brand loyalty. We go beyond individual complaints to identify broader trends which can be a source of innovation. We also use our expertise to help companies identify opportunities for improvement, which can sharpen competitiveness and help build reputation.

General comments:

We agree that the proposals outlined in this informal consultation are right and form part of Ofgem's wider



consideration of the implications of having to approve a SoLR in the event of an energy provider going into liquidation.

We responded to the Ofgem consultation on the proposed modifications to SoLR supply licence conditions (attached at Annex A) and the points we raised in that response remain valid for this informal consultation in that:

- it is right to place consumers at the heart of the SoLR arrangements to ensure they continue to have an energy supply, that any credit is protected, any benefit a consumer might receive, for example, the warm home discount is not lost and that consumers can switch when they are clear what the SoLR arrangements are if they wish to do so;
- prevention is better than cure and that entry and on-going requirements on energy providers are appropriate to ensure sustainability both in terms of financial stability and good consumer service are in place. We want to play our part in this by developing the tripartite working with Ofgem, Citizens Advice and the Extra Help Unit to use key metrics to spot energy providers that may be struggling with financial stability and customer service as early as possible to act in a preventative way; and
- the focus when looking at the SoLR structure should be holistic in that it enables cost recovery from stakeholders in the sector that are affected.

We agree that it is appropriate to make sure that the financial costs of having to appoint a SoLR does not fall disproportionately on any one part of the energy landscape. We think the proposals around enabling electricity Distribution Network Operators (DNOs) and Independent Distribution Network Operators (IDNOs) are right in helping to put in place a more effective cost recovery model and reduce time delays that currently happen when a DNO/IDNO compensates an appointed SoLR and seeks to claim back the costs. We appreciate that this consultation focusses on electricity DNOs/IDNOs and not gas, however, unless Ofgem is reviewing the gas distribution licence in another consultation or it is not appropriate to do so, it seems a missed opportunity not to consider both electricity and gas at the same time.

Wider consideration of the energy stakeholder landscape:

We welcome the fact that Ofgem is also currently consulting on reviewing the licence conditions for energy providers with a focus on strengthening the requirements in terms of financial viability and customer service. That wider review will look at:

- conditions for energy providers entering the market;
- ongoing requirements, monitoring and engagement; and
- arrangements for managing supplier failure and market exit.

We will be submitting full responses to the consultation that will make up that review. An important part of that discussion will be looking at the impact on the wider stakeholder population within the energy sector of appointing a SoLR.

From our experience of trying to place consumers at the heart of what we do, we know, there will be consumers who will have made a complaint about the failed energy provider and that complaint will be with the Energy Ombudsman to consider. We will always consider a complaint made to us by a consumer, even if this means that that we are not able to recover our costs for that complaint. However, the implications of having to appoint a SoLR go wider than consideration of our costs in that:

- individual consumers with a complaint, despite the fact they will have a decision from the Energy Ombudsman, may have no way of obtaining implementation of the remedies and are at best reliant upon the goodwill of the SoLR around remedy implementation; and
- the impact on our service and the knock-on effects for potential savings we can offer to the energy sector. For example, we have reduced our costs of handling cases in the energy sector and will continue to do so in 2019 by an estimated £5 million per year due to increased efficiencies in our service. These are significant savings that will be impacted by failing energy providers.

Please do not hesitate to contact us if you would like further information regarding our response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Vickers', with a long horizontal flourish extending to the right.

Matthew Vickers
Chief Executive and Chief Ombudsman

For more information regarding this consultation please contact:

Mr David Pilling
Head of Lobbying and Policy
Ombudsman Service
3300 Daresbury Park
Daresbury
Warrington
WA4 4HS

t: 07595 449366

e: dpilling@ombudsman-services.org