



Grant McEachran,
Ofgem,
10 South Colonnade,
London,
E14 4PU

19th February 2019

Dear Grant,

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

Thank you for the invitation to respond to the above consultation. Bristol Energy is an independent supplier of electricity and gas with a business model that has a regional focus on the South West of England, although we supply customers across Great Britain. We have a mission to fight fuel poverty and be a force for social good.

Bristol Energy is disappointed that Ofgem has decided not to take this issue to a formal policy consultation. We were not aware that the informal consultation would supplant a formal policy consultation and the lack of response from suppliers suggest neither were any other suppliers. The fact that Ofgem has decided to jump straight to statutory consultation having had only 4 responses from suppliers (all of whom are big6 suppliers) to their informal consultation does not, in our view meet Ofgem's usual high standards regarding consulting industry. This response should therefore be considered as our formal response to the policy debate which Ofgem has not formally had with industry.

We recognise that the current state of affairs is not acceptable to either suppliers or network companies. Suppliers ability to offer fixed term tariffs is highly dependent on the 15-month advance notice of network charges. Without this 15-month certainty, then usually suppliers would price in a risk premium resulting in higher prices to consumers. However, in a price cap era, whilst fixed tariffs are not technically capped, they cannot be priced above the cap otherwise customers would opt for a cheaper default tariff instead. Thus, the ability to include such a risk premium is limited. We therefore strongly disagree with Ofgem's assertion around fixed rate tariffs "that this creates a lower level of risk that suppliers can manage" and request Ofgem publish the evidence to substantiate that statement.

We believe Ofgem's proposals significantly favour suppliers with large numbers of SVT customers, such as the big6, at the expense of those with a greater proportion of customers on fixed rate tariffs, mainly newer, smaller suppliers and as such is detrimental to retail competition. Although we acknowledge the current situation also has this bias Ofgem should be seeking to fix this risk for suppliers in its reform, not aggravate them.

The proposal to set a de-minimis value at which network charges can be changed within the 15-month period, is in our view back to front. Most suppliers with fixed rate tariffs can absorb small incremental changes to network charges. However, if network charges are increased significantly within the 15-month notice period, then many suppliers may be faced with supplying a significant proportion of their customer portfolio at a loss for several months. This could have the impact of causing more supplier failures, and subsequent revisions to network charges creating a cycle of failure.

As we have stated above, we recognise that the current state of affairs is not desirable and change to improve the situation for both suppliers and network companies is needed. We therefore proposed that a more acceptable solution would be for network charges to continue to be set 15 months ahead as they currently are, but with no option of revision. However, DNOs, when setting the next set of charges after an SoLR event



should be entitled not just to recover the SoLR and bad debt claims, but any costs they themselves have borne such as interest charges, maybe even formalised by Ofgem as a Base Rate + "x" rule. This would mean network companies would be recompensed fairly, suppliers would have certainty of charges and customers would benefit as any risk premium in tariff setting could be reduced and passed on.

An alternative to this could be that the Supplier of last resort waits for their reimbursement but is allowed to claim the cost of funding that waiting period. However, there is a risk in that this approach may deter some suppliers from acting as a Supplier of Last Resort.

If Ofgem continue to believe its proposed approach is the way forward, then we would suggest that as a minimum it should only allow changes in the window up to a de-minimis time period. Currently Ofgem has just granted a derogation 2 months before the new charges take effect. So, suppliers have some customers with up to 10 months of a 1-year fixed rate deal set under previous notified network charges. We would suggest the derogation window is set to close at 9 months before the charging period, so that supplier exposure is limited to 3 months on any 1Y fixed rate deals.

I hope you find this response useful. If you have any queries, please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby".

Chris Welby
Head of Regulation