

# SoLR Cost Recovery Modification to the Electricity Distribution Licence

25 February 2018

## Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the consultation. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

## Consultation Process

Energy UK is concerned that the consultation process that Ofgem has undertaken in this instance has not been sufficient, especially for a modification that could have a significant impact upon suppliers' financeability and market competition. We believe that progressing from an informal consultation letter to a statutory consultation restricts engagement from affected parties and risks limiting their informed consideration of the proposed changes.

## Risks to Competition and Supplier Financeability

As previously outlined in our response to Ofgem's informal consultation, Energy UK remains concerned that the consequences and risks associated with reopening Distribution Use of System (DUoS) tariffs at short notice in order to levy the Supplier of Last Resort (SoLR) charge have not been fully appreciated or analysed by Ofgem.

Our fundamental concern remains that the change would undermine the rationale behind the original introduction of the required 15 months' notice requirement via DCP178 in 2015, which Ofgem supported. We note that Ofgem responded to this point in its statutory consultation, however, Energy UK are concerned that in deciding to continue with the proposed changes it has not fully assessed the impact upon costs faced by suppliers and customers as a result of the proposed changes. First and foremost, suppliers would not be able to adjust fixed price contracts

for within period changes and risk being unable to recover these added costs. As Ofgem noted in its November 2018 informal consultation: *'One of the consequences of these proposed changes would be that there could be multiple changes in charges within a charging year'*. Such consequences pose a real risk to supplier financeability, and their restricted ability to account for the costs increases via their fixed-term contracts could perversely precipitate further supplier market exits and, ultimately, greater burden of mutualised costs for the market and consumers to bear.

Such consequences must also be assessed in the context of the default tariff price cap, which further reduces suppliers' ability to account for any increased volatility in costs and could push some suppliers closer to insolvency. Ofgem has acknowledged the default tariff cap could place an upwards pressure upon the prices of Fixed Term Supply Contracts, and the increased cost unpredictability that will arise from these changes would likely compound that impact.

We note Ofgem's response in its statutory consultation to these concerns that were raised by Energy UK and others in response to the informal consultation. We also note that since that informal consultation a derogation from the 15 months' notice period has been granted to all DNOs in respect of the Octopus Energy Limited's Last Resort Supply Payment claim. Energy UK retains its position that any derogation from the 15 months' notice requirement should only be granted if a DNO demonstrates that without the derogation it would be unable to maintain an investment grade credit rating.

Energy UK would urge Ofgem to conduct a robust impact assessment to assess the impacts of its proposed changes, and the admitted likelihood of multiple changes in charges within a charging year. This should assess the impact to suppliers' financeability under the default tariff cap and impact that increased cost unpredictability would have on customer experience and choice within the market.

**If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at [steve.kirkwood@energy-uk.org.uk](mailto:steve.kirkwood@energy-uk.org.uk).**