By email only

Grant McEachran
Ofgem,
3rd Floor Commonwealth House
32 Albion Street
Glasgow
G1 1LH

21 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 aforementioned letter published on the 28th January 2019, npower welcomes the opportunity to offer its opinion and views on the proposals set out.

We are not supportive of the proposed modifications that Ofgem are seeking to make via the additional licence conditions that reopen the Distribution Use of System (DUoS) tariffs in order to levy Supplier of Last Resort (SoLR) and bad debt charges incurred from any market exiting supplier. We remain of the view that Ofgem is acting ultra vires in setting up this financial insurance scheme.

Fundamentally we do not believe that Ofgem has fully considered or appreciated the risks and market consequences associated with reopening the Distribution Use of System (DUoS) tariffs in order to levy the SoLR charge. We continue to reiterate our belief that there is value in investigating alternate methods that are available to you in terms of standard financial administration processes. This could include for example the use of a special administrator.

During 2018 the energy market saw an unprecedented level of Supplier defaults. Whist this has formed part of the price cap calculation for the second quarter of 2019 it is clear that this will have negative impacts on customers who will now be paying more for their energy as a direct consequence of the derogation you have made in order to pass through those charges accrued and unpaid by the defaulting supplier. This seems unfair to all customers (and market participants) who are being penalised for the financial mismanagement of other suppliers'.

We remain concerned that the introduction of the 15 months' notice that was introduced as part of Distribution Connection use of System Agreement (DCUSA) modification DCP178 (2015) would be undermined by the additional modifications you are now seeking to make. Suppliers would not be able to adjust fixed price contracts for within period charges and would be presented with a significant financial risk that these charges would not be recoverable. Thereby having the effect of placing wider supplier parties under additional financial and operational stress.

There is much to learn from the recent supplier incidences of late payments, defaults, exits, and the continuation of companies with defaulted subsidiaries. The costs associated flow through to consumers in a variety of ways, one of which being the mandated insurance levied through use of system charges. Recently we have seen an increase in costs to domestic customers as part of the derogation granted to all DNOs. It seems unfair and perverse to levy the costs associated to all customers regardless of if they have been supplied by the defaulting supplier or not.

In addition to the associated debts for distribution businesses additional consideration should be given to Supplier industry scheme charges such as Green Deal and ECO costs. As stated in the above we believe that there would be merit in investigating alternate methods and processes that are available and could be applied in the event of a supplier defaulting.

I trust this response meets your approval and I am available to discuss at your convenience if needed on the details shown below.

Yours Sincerely,

Matthew Keen

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