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Sent via email: retailpolicyinterventions@ofgem.gov.uk

22 July 2022

Dear Neil

RE: Review of how the costs of supplier failure are recovered

I am writing in response to Ofgem's open letter regarding its review of how the costs of supplier failure are recovered. This is a high-level industry view - Energy UK's members may hold different views on particular aspects of Ofgem's proposed review. 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.

Rationale and Scope of Review

Energy UK supports the intent underlying Ofgem's proposed review in ensuring that it fully assesses the fairness of cost recovery for all customers, and in particular those in vulnerable circumstances. Ofgem will need to ensure that any decision to change the way that costs are recovered is as a result of a robust evidence base that shows the clear delivery of fairer outcomes for customers in vulnerable circumstances. As this evidence is currently lacking, we do not have a position on whether Ofgem should change the process for these costs to be recovered.

Overall, we believe that if Ofgem is to review the use of standing charges to recover costs, and assess its fairness, then it should undertake a full-scale review of the fairness of standing charges rather than a piecemeal approach of just one particular cost, as had been suggested by Jonathan Brearley at his latest Select Committee appearance.

While we recognise and support Ofgem's intention to ensure that costs are collected by the fairest means possible, we consider that the scale of the task is challenging in the timeline being proposed by Ofgem, especially to avoid any unintended consequences and to fully assess the impacts on customers, suppliers and industry processes. For example, if these costs are moved into volumetric charges for this winter, Ofgem will need to consider the risks and impacts of over or under recovery on different customer segments and for supplier financial resilience. If we see a harsh winter, there is an increased likelihood of over recovery through a volumetric charge, while a milder winter could risk under recovery of costs. In addition, the impacts on self-disconnection and self-rationing, particularly by PPM customers, will need to be considered. Ofgem will also need to assess the impacts on fixed tariffs that have already been agreed that cover the winter period, as well as the impacts on any credit cover required to be provided by suppliers.

Although it is dependent upon the exact changes that Ofgem might propose following the review, Energy UK generally believes that if it concludes that changes are in the best interest of consumers then they should be made on an enduring basis, and designed properly to avert any unintended detriment. This would also limit the amount of disruption to industry process and customer experience that could be caused by changing the method of cost recovery then reverting back to the norm following the winter

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period. Therefore, if Ofgem conclude that a volumetric approach is more appropriate from this October, we recommend that existing industry processes are used and an industry change is raised to implement the approach on an enduring basis to remove the need for licence and code derogations and directions for future SoLR levy cost recovery processes.

We hope that these comments on Ofgem's proposed review have been useful, and we would welcome the opportunity to engage further as it develops its thinking.

Yours sincerely,

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