3rd Floor North
200 Aldersgate Street
London EC1A 4HD

Tel: 03000 231 231

citizensadvice.org.uk

5 November 2021

Dear Neil,

Last Resort Supply Payment claim (LRSP) process

Thank you for the opportunity to comment on the proposed changes to the process for a Supplier of Last Resort (SoLR) to make a levy claim (or LRSP).

We recognise the need to facilitate faster payment to SoLRs. This will enable suppliers to support future SoLR events, ensuring continuity of supply to customers of failed customers, and so is in the best interests of consumers. The process by which the final value paid to SoLRs is assessed, following the 'true up' claim, should be consulted upon to ensure it is fair to consumers.

However, it is not acceptable for consumers to be expected to fund these levy claims from April 2022, which would be the result of these proposals, at a time when the retail price cap is expected to be increasing significantly anyway. The recovery from customers should be deferred until 2023 and then spread over a number of years.

Speeding up levy claims

We believe that speeding up levy claims is in consumers' interests provided there is sufficient oversight to ensure that only valid claims are approved. The proposed 2-stage process is a sensible approach that could provide the required balance between speed and scrutiny.

It is clearly not ideal that the initial claims will be decided without consultation. In order to ensure the final amount funded by consumers is appropriate, extensive consultation will be required for the second claim that provides a 'true up' to the initial claim. Ahead of receiving second claims, Ofgem should consult on the methodology it intends to use when assessing these claims. This is important as the ability for stakeholders to assess individual claims may be limited by some information being commercially confidential (such as relating to hedging costs).

Even where a declaration is made that no 'true up' is required, this should be consulted upon (with as much detail as possible).

We recognise that, by including only commodity costs in initial claims, generally SoLRS will be receiving lower amounts in initial claims than the final position i.e. the 'true up' is likely to be a further payment to the SoLR. However, it is still possible that SoLRs will receive too much money from the initial claim. We support the binding commitments to repay such a true up and believe this should be reflected in licence conditions.

Impact on network charges and customer bills

Unless further action is taken these proposals will result in a big increase in network charges from April 2022. These will, in turn, be reflected in the retail price cap.

Ofgem has already warned that significant price increases should be expected when the retail price cap is reset[1]. The price cap could increase by £400 a year next April and we estimate those on Warm Home Discount will be £193 worse off[2]. The cost of these levy claims is currently estimated to be around an additional £2 billion[3], over £60 per household, on top of this. Consumers should not be faced with this additional increase next April. We are particularly concerned about people on the lowest incomes who, in addition to rising energy costs, are facing up to the cut of £20-a-week to their Universal Credit and a higher cost of living due to inflation.

We believe that the inclusion of levy claim costs in network costs should be delayed until April 2023 and then spread over a number of years. It is possible that the retail price cap may be lower in April 2023, if commodity prices reduce, and so better able to accommodate an increase in network charges.

---

[1] Jonathan Brearley speech at Energy UK Annual Conference 2021

[2] From bad to worse — how will people cope with even higher energy prices next year?

[3] GDNs have included £877m in indicative prices from April 2022. https://www.gasgovernance.co.uk/indic/2022. Assuming consistent amounts for Electricity gives an estimate of £1.95b

The best way to do this is for the Government to provide loans to the network companies, to cover the levy claims, as it did to the Low Carbon Contracts Company (LCCC) to cover Contract for Difference Scheme costs in 2020[4]. The loans could then be repaid over a number of years.

Alternatives are for the network companies to fund the levy claims or for a commercial counterparty to provide the loans. Given the extremely low risk nature of these loans, with repayment effectively guaranteed, we would not expect interest rates to be prohibitive, although they would still represent an unnecessary consumer cost relative to Government borrowing.

Please contact me if you would like to discuss in more detail.

Yours faithfully,

Andy Manning,

Principal Economic Regulation Specialist, Citizens Advice

[4] Contracts for Difference: proposed changes to the Electricity Supplier Obligation Regulations in response to COVID-19