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Dear Simon,

Statutory consultation on modifications regarding Last Resort Supply Payment Claims

We welcome Ofgem's efforts to smooth the impact of SoLR payments on customer bills. We agree with the policy objectives to smooth the impact on customer bills and support any future SoLR processes by improving working capital availability. We believe it is in consumers' interests to progress these objectives. Given the expected increase in the Retail Price Cap from April 2022 and the general cost of living crisis, we think it is essential to examine all opportunities to reduce energy costs.

In our recent Market Meltdown¹ report we asked for SoLR payments to be spread over a number of years. We remain of the view that the government² would be best placed to provide the financing to allow this and that would be the best solution for consumers. We do not believe that Third Party finance is ideal, due to the higher financing costs that will be involved. We would also note that the benefits to consumers of smoothing the impact of SoLR will depend, in part, on the level of future bills. Nevertheless, we support Ofgem facilitating Third Party finance as we believe it is likely to be in the best interests of consumers as it will keep a significant number of consumers out of fuel poverty (although this depends on the full details of the financing arrangements being acceptable).

Interest rates

The consultation does not provide detailed information about the interest rates that will need to be funded by consumers. Given the high level of assurance that Third Parties would have over the repayment of SoLR costs through network charges, there is an extremely low risk to providing the finance. We would therefore generally expect a low interest rate to reflect the level of risk. An interest rate representing the risk-free rate plus a small premium would represent good value for consumers. Taking, for example, the SONIA 2-year swap rate to represent the risk-free rate this would imply an interest rate of between 1.5% and 2%.

¹ [Market Meltdown](#)

² [Response to Last Resort Supplier Payment claim process open letter](#)

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We do recognise that this a novel arrangement and Ofgem has had limited time to provide Third Parties with the necessary level of confidence. This means it may take some time before the low-risk nature of providing this finance is fully appreciated by potential providers. We note that the consultation states only one party was ready to provide financing in the required timescales. A more competitive process may be needed to achieve the best value for consumers. It is therefore important that arrangements do not lock customers into higher than necessary interest rates.

As well as providing protection to consumers over increasing costs, spreading of SoLR costs also provides protection to all suppliers with customers on fixed-price contracts. Ofgem should consider how this can be reflected in the allocation of financing costs.

Future arrangements

Clarity is required over whether these arrangements should be expected to be used in the future. For example, we know that further SoLR claims will be made. These will require funding from April 2023. We wish to avoid the situation where suppliers make tariff offerings on the basis that the further claims are funded fully from April 2023 but subsequently are deferred. This would create a risk of windfall gains.

The process over any future deferrals, and the potential use of Third Party finance, also needs to evolve. Under this proposed process it is the SoLRs who decide whether to enter into an agreement with a Third Party. However, as the SoLR can then include the additional costs (including interest costs) in the SoLR claim, it is customers who are exposed to the additional costs (and not the SoLR). The interests of consumers need to be represented more directly in the decisions about whether to use Third Party finance. This requires a transparent consultation process giving stakeholders, including consumer groups, the ability to fully assess, and respond to, the detailed financing arrangements.

Yours sincerely,

Andy Manning

Principal Economic Regulation Specialist