

SUPPLIER OF LAST RESORT (ELECTRICITY)
Consultation on Dealing with Customer Credit Balances

SSE AIRTRICITY RESPONSE TO
THE UTILITY REGULATOR

2017

INTRODUCTION

SSE Airtricity welcomes the opportunity to comment on the Utility Regulator's consultation on Supplier of Last Resort, Credit Balances.

SSE Airtricity is the largest independent supplier operating in Ireland with almost 800,000 domestic and commercial customers on the Island of Ireland.

SSE Airtricity is part of the SSE group. Last financial year SSE contributed £9.3bn to the UK economy, representing 0.5% of total Gross Domestic Product, while supporting over 100,000 jobs. In total, SSE contributed over £50bn to the UK and Irish economies since 2013¹.

SSE Airtricity is committed to developing competition in Northern Ireland and to present its customers with choice and quality customer services. We are pleased that the Utility Regulator has reviewed the Supplier of Last Resort (SOLR) processes following the December 2016 SOLR event as customers must have confidence in all market processes. Customers must also have certainty that they will be protected should their supplier exit the market through a SOLR event.

GENERAL COMMENTS

SSE Airtricity has reviewed the options put forward in the consultation paper in relation to Coverage and Funding. Having examined the options carefully, particularly the impact on customers which we believe should include business customers, we put forward an alternative proposal that we believe will protect all customers and give all customers the continued confidence in the Northern Ireland electricity market.

QUESTION 1: SCOPE

While SSE Airtricity agrees with the key differences between domestic and business customers identified in the paper by the Utility Regulator, we believe that business customers must be included in the scope of any protection measures implemented by the Utility Regulator. According to the Quarter 1 Retail Monitoring Report published recently by the Utility Regulator there are 8 suppliers certified by the Utility Regulator to operate

¹ http://sse.com/media/467700/SSE-economic-impact-assessment-FY17_FINAL.PDF

in the I&C sector compared with 6 in the domestic sector. Business customers must have confidence that when they enter a contract with a supplier, certified by the Utility Regulator, the supplier will remain a supplier for the duration of the contract. Business customers tend to pay higher deposits compared to domestic customers. Should a supplier to business customers exit the market through a SOLR event, registered business customers of that supplier could end up losing their deposit with the exiting supplier and having to pay another deposit to a new supplier should they choose to move away from the nominated SOLR, like 37% of Open Electric's customers did once switching was enabled. We believe this could result in two things happening. Firstly, the business customer may have no option but to remain with the nominated SOLR as they may not have the finance available to pay another deposit to another supplier and may potentially not benefit from more favourable tariffs with another supplier. Secondly, if those customers do remain with the SOLR, the SOLR is potentially carrying an increased risk by having an increased number of business customers, who cannot switch away, registered to it without holding a deposit as security.

SSE AIRTRICITY ALTERNATIVE PROPOSAL

SSE Airtricity believes that the Utility Regulator must continue to take a proactive approach to the SOLR process and must put robust processes in place to minimise the financial impact on all customers of a supplier who is exiting the market through a SOLR event. Regulatory processes must provide confidence to all Northern Ireland customers that the financial impact on all customers is being managed when a supplier exits the market through a SOLR event. We have carefully considered the funding options contained in the consultation paper however we do not support the options put forward as we believe that customers will ultimately end up paying for these options.

CREDIT COVER

Credit Cover is required under the Trading and Settlement Code to protect creditors from the effects of the financial failure of a market participant. This credit cover can be used by the Market Operator in the event of a payment default to satisfy any outstanding financial obligations of the participant in the Single Electricity Market.

SSE Airtricity proposes that all suppliers be required to provide similar credit cover by way of a Letter of Credit, Parent Company Guarantee, or cash for

security against credit balances as part of the certification process. A Parent Company Guarantee should be from a parent with an investment grade financial rating. The level of credit cover required would be based on the level of credit balances held by the supplier.

REMM REPORTING OF CREDIT BALANCES

Following on from above SSE Airtricity proposes that suppliers be required to report on credit balances in their quarterly REMM return. This would allow the Utility Regulator to monitor the level of credit balances held by a supplier and to determine whether the security being held is sufficient to cover the credit balances of the supplier should they go into administration and exit the market through an SOLR event. Specific rules should be developed, in conjunction with industry, for the reporting of credit balances through REMM, particularly PPM balances.

CREDIT RATING

We also propose that the credit rating per supplier be published by the Utility Regulator to allow customers, in particular business customers often entering into contracts for significant amounts, make an informed decision when entering into a contract with a supplier.

PPM CREDIT

Finally, we suggest that the DNO investigate whether it's possible to restrict the level of credit that can be held on a prepayment meter. As it currently stands an electricity PPM customer can hold up to £999.99 credit on their PPM meter. It should be investigated whether it's possible to limit the amount of credit a customer can build up on a PPM meter.

CONCLUSION

SSE Airtricity welcomes the Utility Regulator's review of the SOLR process in relation to credit balances. We believe customers must have confidence that suppliers, certified by the Utility Regulator to operate in the Northern Ireland electricity market, have the necessary financial arrangements in place to cover outstanding credit balances should the supplier go into administration and exit the market. SSE Airtricity supports the Utility Regulator's commitment to ensuring that consumers are adequately protected in the event of an electricity supplier failure or insolvency however we believe that it is consumers themselves who will ultimately pay for this protection if any of the options put forward in the paper are implemented. SSE Airtricity believes that our proposal protects Northern Ireland customers as it puts the responsibility on suppliers to ensure that they have robust financial management in place.