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Michael Campbell
The Utility Regulator
Queens House
14 Queen Street
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23 June 2017

Dear Michael,

<u>Supplier of Last Resort (Electricity) Consultation on Dealing with Customer Credit Balances</u>

firmus energy welcomes this opportunity to respond to the consultation on Electricity Supplier of Last Resort (SoLR) Credit Balances. firmus energy is an active natural gas supplier across two network areas as well as holding licences for the conveyance of natural gas in the Ten Towns area and supply of electricity in Northern Ireland. As the Utility Regulator (UR) has stated in this consultation document, any changes to the electricity SoLR procedures may be considered for application in the natural gas industry at a later date, and therefore, it is important that the views of the natural gas industry are considered.

While this consultation relates to the Electricity SoLR, firmus energy has responded to the issues where we believe there is a potential impact on the natural gas industry. We would like to assert that any changes to the Gas SoLR Retail Market Procedure (RMP) or associated procedures should be subject to a separate consultation.

As a starting point it is important to recognise the difference between a SoLR event in the electricity market and the gas market. firmus energy Supply and SSE Airtricity are the nominated SoLRs for the Ten Towns and Greater Belfast Network Areas respectively. They are also the current commissioning suppliers and an assumption is made in the SoLR RMP that neither supplier shall become insolvent. Given that SSE Airtricity and firmus energy Supply account for 100% of the domestic market place in Northern Ireland, any SoLR event (at present) will only affect customers in the I&C market.

Paragraphs 4.5 and 4.6 of the consultation state:

4.5 Business customers will have engaged in more detailed financial planning with regard to their energy purchasing, and have more structured cash-flow processes in place, all of which will leave them in a better position to deal with a supplier failure. Lastly, they are *commercial entities and as such will take on more risk than ordinary household customers in a host of different areas regarding financial transactions.*

4.6 We are therefore of the opinion that any protection on customer credit balances resulting from this consultation process will apply to domestic customers only.

We agree therefore with paragraphs 4.5 & 4.6 and subsequently our considerations on credit balances will apply to a hypothetical situation whereby another Gas Supplier has entered the domestic market. This supplier would reasonably be expected to account for only a small percentage of the market share.

The UR has requested opinions on whether reimbursement for domestic customers should be:

- No reimbursement
- Full reimbursement
- Capped reimbursement

Firmus energy reiterates its current stance, as stated at industry level within GMOG, that there should be no reimbursement for credit balances, and choosing the failed supplier was a decision, involving consideration of financial risk, that the customer must be willing to accept. Whilst we do not support a process where credit balance customers are reimbursed, similarly we do not advocate domestic customers having to repay any monies owed if their balance was in debt. Although domestic customers may be subject to insolvency administrators attempting to recoup monies owed to the failing company.

A capped payment is the next best option, as it may remove (in part) the burden and administrative challenges of calculating, auditing and repaying exact amounts owed to each customer. In addition to this, a capped payment hedges the risk to the customer of choosing a supplier that becomes insolvent.

The capped payment amount could be arrived at by the SoLR calculating the average of all its current domestic credit accounts in the network area.

Recovery of Costs

In the event that credit balances were to be repaid to domestic customers firmus energy supports a process whereby those costs are recovered through the industry levy. Similarly in the natural gas market these costs would be recouped by the gas SoLR via the Distribution Network Operator. All credit balance payments would be deemed a fair and reasonable pass through cost. Given the small number of accounts this would apply to (in the gas market) we deem this method to be appropriate.

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In conclusion, we believe it is the key participants within the electricity sector that should decide on the most equitable way to address credit balances to ensure the protection of customers, suppliers and other electricity stakeholders. Similarly it is those equivalent groups in the natural gas market that should address the SoLR credit balance issues for the natural gas industry.

There are key differences between the electricity and natural gas markets in terms of size and maturity in Northern Ireland. The natural gas network is still developing and growing and as a result the industry is particularly sensitive to ensuring only fit and proper supply companies enter the market. It is essential for continued development that there is consumer confidence in the industry and its participants.

We recognise that by consulting on the credit balance issue for an electricity SoLR, the UR has given gas suppliers and Network Operators an opportunity to consider its own SoLR processes and procedures. Subsequently, we would envisage the natural gas market stakeholders to learn from this consultation and continue to progress a review of the SoLR credit balance obligations within the Northern Ireland natural gas industry.

Yours sincerely,

Stephen Miller

Regulatory Affairs

firmus energy