Supplier of Last Resort in Electricity under the Single Electricity Market

Consultation Paper

CER/07/114

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# Table of Contents

1. Supplier of Last Resort – Changes Arising from the Introduction of Single Electricity Market ........................................................................................................... 3  
   1.1 Background of Previous Decisions on SoLR ........................................ 3  
   1.2 Legislative Framework ........................................................................ 3  
   1.3 Structure of this Paper ....................................................................... 3  
   1.4 Executive Summary ........................................................................... 4  
   1.5 Invitation to Comment ....................................................................... 5  
2. SEM Impact on the Supplier of Last Resort Process ............................... 6  
3. Changes to the Supplier of Last Resort Process ...................................... 6  
   3.1 Removal of Defaulted Supplier from Trading ....................................... 7  
   3.2 Explicit Aggregation of the Supplier of Last Resort Supplier Unit for Wholesale Settlement .................................................................................... 7  
   3.3 Business Processes for Change of Supply, Wholesale Settlement Adjustments, and Use of System Billing .......................................................... 7  
   3.4 Options for Aligning Wholesale and Retail ......................................... 8  
   3.5 Allowed Recovery of Costs, SoLR Tariff ............................................. 11  
   3.6 Enumeration of Options ................................................................... 11  
4. Comments Sought ................................................................................ 12
1. **Supplier of Last Resort – Changes Arising from the Introduction of Single Electricity Market**

1.1 **Background of Previous Decisions on SoLR**

In February 2006 the Commission for Energy Regulation (the Commission) published a decision paper (CER/06/006) on the role and appointment of a Supplier of Last Resort (SoLR) in the Irish market. That decision set out:

- the method of initiating the SoLR process;
- the duties of the Supplier of Last Resort;
- the application of the rules to Customers;
- appointed ESB PES as the SoLR;
- described a Customer “Lock-In” after a SoLR event;
- how Customer data could be made available to other suppliers during a SoLR event;
- SoLR cost recovery and SoLR tariffs;
- the mechanics of the SoLR process; and
- Supplier’s duties in relation to the SoLR process.

Further to this in February 2007 the Commission and NIAUR consulted jointly on arrangements for the regulation of NIE and ESB in the new market. The RAs set out in a subsequent decision paper that ESB CS will act as the Supplier of Last Resort and Universal Service provider in the Republic of Ireland. NIES will fulfil a similar function in Northern Ireland. This decision is set out in the relevant licensing decision papers and will be reviewed as the market matures.

This paper consults on further changes to the SoLR process arising from the introduction of the Single Electricity Market (SEM).

1.2 **Legislative Framework**

This document seeks to re-examine the arrangements set out in decision (CER/06/006) made by the Commission under Condition 21 of Statutory Instrument 60 (European Communities Internal Market in Electricity Regulations) of 2005.

1.3 **Structure of this Paper**

Section 2 provides background to the necessity of re-examining the previous decision in light of the new SEM requirements. Section 3 describes potential changes to the previous decision.

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1 AIP/SEM/07/16
2 AIP/SEM/07/304
1.4 Executive Summary

The time from the Commission issuing a Supplier of Last Resort direction, to the time when the Supplier to which the direction relates (the “Defaulted Supplier”) ceases trading in the wholesale market defines the effective exposure of the Single Electricity Market (“SEM”) to a Defaulted Supplier. Reducing this time reduces the exposure of the market to a Defaulted Supplier. Reduction of this time conceptually reduces the required level of credit cover requirements for all Suppliers. This time is directly linked to the speed of the Supplier of Last Resort process in ensuring the customers of the Defaulted Supplier are move so that they accrue liability for the Supplier of Last Resort, and not the Defaulted Supplier.

This acceleration of the Supplier of Last Resort process with respect to the wholesale market is proposed to be achieved as follows:

- The Defaulted Supplier’s Supplier Units will be treated as follows, either:
  - The Defaulted Supplier’s Supplier Units will no longer be sent to the Market Operator for settlement from the date when the Supplier of Last Resort direction becomes effective, proposed to be the day after the Supplier of Last direction is issued; or
  - The Defaulted Supplier’s Supplier Units will continue to be sent to the Market Operator for settlement from the date when the Supplier of Last Resort direction becomes effective, but will be emptied of all Meter Point Registration Numbers (MPRNs) in time for Initial Settlement of that Unit, and deregistered shortly thereafter;
- A Supplier of Last Resort Supplier Unit (SoLR SU) will be registered to the Supplier of Last Resort; and
- Business processes will need to be put in place to manage accelerated retrospective (if necessary to the date of the SoLR direction) change-of-supply, wholesale market settlement adjustments (if necessary), and use-of-system charges, given the instantaneous effect of the Supplier of Last Resort direction.

The retrospective accelerated change of supplier process is being examined at this time by the MRSO. This will not impact the existing change of supply processes. The facility to not send the Defaulted Supplier’s Supplier Units to the Market Operator is currently being impact assessed as well; this functionality is required for some of the options presented below.

This retrospective change of supplier allows certain possibilities of how the retail market may handle the movement of customers to the supplier of last resort. These options are:

- The Minimum Change option: The retail Supplier of Last Resort direction takes effect. The SoLR SU is sent to the Market Operator, containing zero volumes. Customers have 14 business days to choose an alternative supplier after being contacted by the Supplier of Last Resort. The contact from the Supplier of Last Resort will take place under fixed timeframes.
If the Defaulted Supplier’s Supplier Units are not sent to the Market Operator, all change of supply during this 14 business day period for the Defaulting Supplier’s customers are made retrospective through manual alteration by the MRSO.

If the Defaulted Suppliers’ Supplier Units are sent to the Market Operator during this 14 business day period, the normal change of supply process can be utilised as long as all changes of customer supply are completed by the end of the 14 business day period.

Remaining customers are moved with the automated retrospective change of supplier to the PES, that date set to either the SoLR direction (Defaulted Supplier’s Supplier Unit not sent to the Market Operator) or to the end of the 14 business day period (Defaulted Supplier’s Supplier Unit not sent to the Market Operator). Customers that do not avail of the option to move to a different Supplier to the Supplier of Last Resort will be locked in for a three month period.

• The Immediate option: The retail Supplier of Last Resort direction takes effect. The MPRNs belonging to the Defaulted Supplier immediately begin to transfer to the SoLR SU. If this transfer process takes several days, the change of supply will have retroactive effect to the date of effect of the Supplier of Last Resort direction. As customers have no opportunity to choose an alternative supplier, the “lock-in” period would need to be removed.

Under the scenarios above, the Supplier of Last Resort supplies all customers (i.e. those that do not switch under the Minimum Change option) of the Defaulted Supplier from the day after the issue of the Supplier of Last Resort direction. The Defaulted Supplier’s customers will be aggregated to a single SoLR SU.

The allowed recovery of costs for the Supplier of Last Resort arising from a Supplier of Last Resort event and the tariffing mechanisms for Supplier of Last Resort customers will remain as per the previous decision.

1.5 Invitation to Comment

Interested parties are invited to comment on the proposed modifications to the Supplier of Last Resort process. Alternatively, interested parties are invited to propose alternatives, noting that previous decisions on the SoLR tariff arrangements are not under scope of this review. Please submit your comments to Hugh Mullany by email (hmullany@cer.ie) or by letter to:

Hugh Mullany  
The Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24.

The closing date for receipt of comments is 31 August, 2007.
2. **SEM Impact on the Supplier of Last Resort Process**

The SEM trading arrangements (described by the Trading & Settlement Code, “the Code”) require Suppliers to purchase all their supplied energy directly from the gross mandatory pool (“the Pool”). The Market Operator issues invoices to suppliers on the market’s behalf, and the Market Operator pays the generators with the monies received from the Suppliers. All Participants are required under the Code to post credit cover so that payments in respect of Generator Units can still be made in the event that a Participant cannot pay the invoice submitted by the Market Operator.

A Supplier’s customers will continue to consume energy on that Supplier’s behalf until that Supplier ceases to trade in the Pool. Therefore, the longer it takes to stop a Supplier trading in the Pool after it has not paid its bills, the greater the amount of energy its customers could consume, the greater final unpaid invoice, and, conceptually, the greater the amount of required credit cover. A Supplier is stopped from trading in the wholesale market through the Supplier of Last Resort process or other regulatory action (e.g. licence revocation). The longer the Supplier of Last Resort process takes, the greater the market’s exposure to a Defaulted Supplier.

It is the increased cost of credit cover arising from the extent of collateralisation of the SEM design in comparison with the existing bilateral trading arrangements which drives the re-examination of the Supplier of Last Resort decision (CER/06/006) in order to ensure an efficient and timely process.

Under the Code, when a Suspension Order is issued against a Supplier, there is a fixed period, the Supplier Suspension Delay Period, after which, if a Supplier of Last Resort direction is given by the Commission during the Supplier Suspension Delay Period, that Supplier is suspended and ceases trading.

This paper re-evaluates the previous decision of the Commission regarding the SoLR process in order to minimise the Supplier of Last Resort process’s effect on the period before a Defaulted Supplier can be removed from participation in the Pool. For every day that the Supplier Suspension Delay Period is reduced, it is estimated that this removes €12 million of required credit cover for the market (settlement reallocations notwithstanding).

3. **Changes to the Supplier of Last Resort Process**

The core element of the change to the Supplier of Last Resort Process, i.e. removal of the Defaulting Supplier from the wholesale market, is described first. There are two options by which this can be handled.
Then two options (Minimum Change, Immediate) of how the retail market may aligned over the following days to the wholesale position are described, with variations on those options. The total enumeration of the options and the variations are given at the end of this section.

Under both retail alignment options, the existence of an accelerated retrospective change of supply process, used only for the purposes of the Supplier of Last Resort, is required. If this retroactive process does not exist, then either the Supplier Suspension Delay Period would need to be significantly extended to collateralise the market (simultaneously under consultation AIP/SEM/07/427), or the market would have to accept a further degree of non-collateralisation arising from the SoLR process.

3.1 Removal of Defaulted Supplier from Trading

Effective from the date stated within the Supplier of Last Resort direction for the direction to take effect, metered data for the Supplier (the “Defaulted Supplier”) to which the direction relates will either:

- not be sent to the Market Operator for settlement. Therefore, this Supplier will effectively stop incurring liabilities from this date. The time between the issue of the SoLR direction and the date stated within that direction for the direction to take effect, can be as short as one day; or
- continue to be sent to the Market Operator for settlement until the all MPRNs are removed from the Supplier Unit. Under this option, it is proposed that this transfer of MPRN process will be complete within three week days, so that the Initial Settlement in respect of the Defaulted Supplier Units in the wholesale market will be zero.

3.2 Explicit Aggregation of the Supplier of Last Resort Supplier Unit for Wholesale Settlement

A Supplier of Last Resort Supplier Unit (“SoLR SU”) will be registered to the Supplier of Last Resort from the effective date of the Supplier of Last Resort direction. MPRNs from the Defaulted Supplier will be transferred to this Supplier of Last Resort Supplier Unit under one of the two processes (“Minimum Change”, or “Immediate” as described below). The SoLR SU will be explicitly aggregated and sent to the SMO for settlement. The effective date of transfer will be the day specified in the Supplier of Last Resort direction as when the SoLR direction comes into effect, even if the MPRN transfers themselves do not occur for a number of days after that date.

3.3 Business Processes for Change of Supply, Wholesale Settlement Adjustments, and Use of System Billing

1. Adjustments to Wholesale Settlement

Any Defaulted Supplier MPRNs that have not been transferred over to the SoLR SU by the Initial Aggregation (week day + 4) will result in an error in wholesale settlement volumes. As ESB PES remains as the Supplier of Last Resort, this
error will be captured in the Jurisdictional Error Supplier Unit, and the relative volumes of ESB PES’s liability will be resolved by the fourth month resettlement. If ESB PES is not the Supplier of Last Resort at a future date, depending on the degree of error, ESB PES or the Supplier of Last Resort may query their wholesale volumes after a number of days to correct the SoLR SU and the Jurisdictional Error Supplier Unit volumes once the process has completed.

2. Alterations to Business Process for Change of Supply

Following the SoLR direction, the designated Supplier of Last Resort will receive sufficient information from the MRSO so that the Supplier of Last Resort can send in registration change-of-supply messages for all relevant Defaulted Supplier’s MPRNs. This ideally will occur on an accelerated timeframe, facilitated by an automated script. This process may generate estimates of particular meter readings, e.g. maximum demand customers, to facilitate the change of supply process. The effective date of the change of supply will be the date specified in the SoLR direction, irrespective of when the Supplier of Last Resort sends each change-of-supply message to the MRSO. Currently, this process is being tested by the MRSO and the Supplier of Last Resort to ensure that if the Defaulted Supplier’s Supplier Units continue to be sent to the Market Operator for settlement, that this change of supply process will be complete within 3 week days.

3. Adjustments to Use of System (UoS) Billing

As the change of supply process is now effectively retrospective in nature, this means that the Distribution UoS billing, which is integrated into the retail market registration systems, will automatically capture the SoLR event and bill the relevant Suppliers appropriately. TUoS billing can facilitate a once-off re-bill once the SoLR process has completed.

3.4 Options for Aligning Wholesale and Retail

Section 4.1 through to 4.3 described how the Defaulted Supplier will stop incurring liability effective from a date specified in the SoLR direction. This section 4.4 describes two options (with variations) to describe how the appropriate Supplier will have sufficient information to bill the final customer from the date specified in the SoLR direction.

3.4.1 The Minimum Change Option

1. Overview

Effective from the date of the Supplier of Last Resort direction, a 14 business day window will be open to allow customers to choose an alternative supplier. The ESB PES (who may or may not be the Supplier of Last Resort) will be required to purchase all energy for the Defaulted Supplier’s customers during
this 14 day period, until resettlement occurs in the wholesale market. During this 14 day window, all Suppliers will utilise either

- a standard change of supply process to take on the appropriate customers of the Defaulted Supplier which is no longer being sent to the Market Operator. The MRSO will manually adjust all change of supply against the Defaulted Supplier’s Supplier Units to be retrospective to the date of the SoLR direction; or
- a standard change of supply process to take on the appropriate customers of the Defaulted Supplier which continues to be sent to the Market Operator. These standard change of supply requests must complete with an effective date of customer transfer that is no later than the end of the 14 business day period, which will be the effective date of the SoLR direction;

At the end of the 14 day window, all MPRNs not subject to a change of supply request will be transferred to the SoLR SU automatically and retrospectively to the data of the SoLR direction.

It is important to note that if the second variation above is utilised, i.e. the Defaulted Supplier’s Supplier Units continue to be sent to the Market Operator, the Defaulted Supplier will continue to incur liabilities in the wholesale market until the end of those 14 business days (which is dependent on the time for the Supplier of Last Resort to contact the relevant customers), for which the Defaulted Supplier may not be fully collateralised.

2.  Process

The process remains identical to that described in CER/06/006, except

- the timing of, and the retrospective nature of the change of supply process;
- the Supplier of Last Resort will be obliged to contact the customers under an explicit timeframe; and
- that the Supplier of Last Resort volumes will be identifiable through explicit aggregation of the SoLR SU, and not through the utilisation of an SSAC (Supplier Sub-Aggregation Code).

The re-evaluation of the 3-month lock-in for customers is not proposed to change under this option.

3.  Advantages and Disadvantages

Advantages: This process maintains the most customer choice and is closest to the spirit of the previous decision in CER/06/006. While there will be more initial instability in the credit cover requirements, once the credit cover requirement settles for the Supplier of Last Resort, it will remain locked-in for a period of three months.

Disadvantages: The MRSO will have to manage potentially large numbers of manual adjustments to standard change of supply messages as Suppliers (other than the Supplier of Last Resort) take on new customers, or (depending
on the variation) the Defaulted Supplier will remain in the market until the end of the 14 business day period, incurring further liabilities. The MRSO will have to coordinate the production of a final list of MPRNs to the Supplier of Last Resort that excludes customers that have moved to alternative Suppliers. This level of manual work increases the risk of registration errors during this period. The greater element of retroactivity in the change of supply process may complicate the estimation or determination of customers’ readings at the date of transfer (in comparison to the Immediate Option in Section 4.5). Under this option, ESB PES will undertake the Initial Settlement for customers that may move to other Suppliers retrospectively by the end of the 14 business day period; consequently, ESB PES will facilitate this cash flow in the market as it is settled by differencing. This will be rectified by the scheduled market resettlement after 4 months, or before then via a query raised by ESB PES.

3.4.2 Aligning Wholesale and Retail: The Immediate Option

1. Overview

Effective from the date specified in the Supplier of Last Resort direction, the Supplier of Last Resort (currently ESB PES) will supply all customers of the removed supplier. Customers have no formal opportunity to choose an alternative supplier prior to this direction. As the 14 Business Day period for customers to choose and alternative supplier is removed, the lock-in period of three months is also removed.

2. Process

Following the SoLR direction, the designated Supplier of Last Resort will receive sufficient information from the MRSO so that the Supplier of Last Resort can send in registration change-of-supply messages for all of the Defaulted Supplier’s MPRNs. Ideally this will occur on an accelerated timeframe, facilitated by an automated script generating change of supply messages. The effective date of the change of supply will be the date specified in the SoLR direction, irrespective of when the Supplier of Last Resort sends each change-of-supply message to the MRSO.

The MRSO will facilitate an accelerated SoLR process which allows the effective date of the change of supply to be the date specified in the SoLR direction. This may require estimates of meter readings if they are not available.

The designated Supplier of Last Resort is required to inform all transferred customers of the deemed contract, and the fact that they may move to an alternative supplier at any time (providing a list of such suppliers), following the standard 20 working day lock-in period after a normal change of supplier event.
3. Advantages and Disadvantages

Advantages: The Supplier of Last Resort will have unambiguous volumes for settlement, i.e. on the day of the Supplier of Last Resort direction, all of the Defaulted Supplier’s customers will be with the Supplier of Last Resort.

Disadvantages: The removal of the lock-in period would mean that the Supplier of Last Resort may only have customers for less than one billing cycle. The estimation of customer reads on the effective date of the change of supply may be further complicated by the fact that a customer may have moved from the Defaulting Supplier to the Supplier of Last Resort, and then on to a different supplier. The removal of customer choice means that customers would definitely be moved to the regulated PES tariffs for a period of time; this may prove costly to certain classes of customers in comparison to a competitive tariff. The Supplier of Last Resort will have to actively manage their credit cover position for several months following the SoLR direction, as customers move to alternative Suppliers.

3.5 Allowed Recovery of Costs, SoLR Tariff

It is noted that the removal of the lock-in period of three months for customers on the PES tariff did reduce (but did not fully remove) the risk to the Supplier of Last Resort in taking on a Defaulted Supplier’s customers. In the Commission’s decision on the Supplier of Last Resort, it was stated that

- “Costs above-and-beyond those recoverable in the SoLR tariff (see below) will be recovered ex post, subject to Commission approval, via the TUoS charge.”

Therefore, the Supplier of Last Resort can recover such costs ex post via the TUoS tariff.

There may also be costs associated with facilitating any automated process of MPRNs by the Supplier of Last Resort. While not strictly necessary vis-à-vis the Supplier Suspension Delay Period given the proposed retroactive nature of the change of supply process, it is recognised that this will have benefit in reducing settlement uncertainty for all customers. This is a preparatory cost that is incurred before any SoLR direction is envisaged. The recovery of this preparatory cost would need to be re-examined if the Supplier of Last Resort is taken on by a non-Regulatory business.

3.6 Enumeration of Options

This paper has presented a series of options and variations enumerated below. Where the 14 business day “customer choice” window remains in effect, the 3

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3 The retail tariff, designed to average the estimate cost of the wholesale market price over the year, may lead the Supplier of Last Resort to be in a position of retail and wholesale imbalance if required to take on a customer for a limited period of time where the daily wholesale price deviates from the retail tariff.
month lock-in period for customers transferred to the SoLR SU remains. Where the 14 business day window has been removed, the 3 month lock-in is reopened for consideration.

1. Minimum Change Option; instant removal of the Defaulted Supplier’s Supplier Units from wholesale settlement and manual retroactive change of supply during the 14 business day window for non-SoLR suppliers; bulk transfer of remaining MPRNs to the SoLR SU effective from the removal of the Defaulted Supplier’s Supplier Unit from Settlement;

2. Minimum Change Option; normal change of supply during the 14 business day window for non-SoLR suppliers; bulk transfer of remaining MPRNs to the SoLR SU effective from the end of the 14 business day window; removal of the Defaulted Supplier’s Supplier Unit from Settlement from the end of the 14 business day window;

3. Minimum Change Option; normal change of supply during the 14 business day window for non-SoLR suppliers; bulk transfer of remaining MPRNs to the SoLR SU effective from the end of the 14 business day window; removal of the Defaulted Supplier’s Supplier Unit from Settlement from the end of the bulk MRPN transfer process (assumed to be within 3 week days);

4. Immediate Option; instant removal of the Defaulted Supplier’s Supplier Units from wholesale settlement; standard 20 day customer lock in period;

5. Immediate Option; removal of the Defaulted Supplier’s Supplier Unit from Settlement from the end of the bulk MRPN transfer process (assumed to be within 3 week days); 20 day customer lock in period;

6. Immediate Option; instant removal of the Defaulted Supplier’s Supplier Units from wholesale settlement; 3 month customer lock in period; or

7. Immediate Option; removal of the Defaulted Supplier’s Supplier Unit from Settlement from the end of the bulk MRPN transfer process (assumed to be within 3 week days); 3 month customer lock in period.

4. Comments Sought

The Commission seeks comments on the proposal for handling the wholesale Supplier of Last Resort process, and on the two options for aligning the wholesale and retail market positions (with variations). Alternatively, alternative proposals may be suggested at this time, noting the following assumptions:

- The accelerated retroactive change of supply process is only available to one Supplier and Supplier Unit at a time, in this case the Supplier of Last Resort and the SoLR SU;
• The longer a Defaulted Supplier's Supplier Units remain in settlement, the greater the chance that their liabilities in the wholesale market may not be fully collateralised; and
• tariff structures set out in the previous decision are not under scope of this review.