Supplier of Last Resort in Electricity under the Single Electricity Market

Decision Paper

CER/07/171

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1. Supplier of Last Resort – Changes Arising from the Introduction of Single Electricity Market

On 08 August 2007, the Commission for Energy Regulation (the Commission) published a consultation (CER/07/114) on potential changes to the previous Commission decision (CER/06/006) on the process for the Supplier of Last Resort, arising from the introduction of the Single Electricity Market. Comments were received from three parties. This paper sets out the key elements of these responses, and the Commission’s decision.

1.1 Background to the Consultation

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 would, if the market was fully collateralised, reduce 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 moved so that they accrue liability for the Supplier of Last Resort, and not the Defaulted Supplier.

The potential changes in the Supplier of Last Resort process, consulted on in CER/07/114, sought to remove the Defaulted Supplier as quickly as practical from the wholesale market. Furthermore, it sought to provide sufficient retail information to the Supplier of Last Resort (and any other suppliers) to bill final customers for any wholesale liabilities incurred.

Tariffs levied on customers transferred to the Supplier of Last Resort remain outside of the scope of this consultation.

1.2 Executive Summary of the Decision and Responses

Three responses were received, from Bord Gáis Energy Supply, ESB Customer Supply (as the acting Supplier of Last Resort) and the Meter Registration System Operator (MRSO).

Both suppliers were in favour of instantaneously removing the Defaulted Supplier from wholesale settlement. All responses were in favour of aligning the retail market under what was known as the “Minimum Change Option”, which maintains the spirit of the previous Commission decision regarding the Supplier of Last Resort process.

The Commission determines that the Defaulted Supplier should be removed immediately from wholesale settlement, and a Supplier of Last Resort Supplier
Unit (containing no MPRNs at first) should be sent to the Market Operator. The wholesale liabilities will accrue for Initial Settlement in the SEM to ESB Customer Supply’s Error Supplier Unit. Furthermore, under the “Minimum Change” option:

- from the effective date of the Supplier of Last Resort direction, the Supplier of Last Resort will contact customers within 5 working days;
- customers should have 14 working days to choose an alternative supplier at the end of the 5 day contact period;
- all change of supply during this customer choice period will be made retroactively to the effective date of the Supplier of Last Resort;
- at the end of the 14 working day period, all remaining customers will be transferred to the Supplier of Last Resort, retroactively to the effective date of the Supplier of Last Resort Direction.

It is the intention of the Commission to maintain the 3-month lock-in period for customers who have transferred to the Supplier of Last Resort as per the previous decision. The MRSO has indicated in their response, however, that this functionality does not currently exist in the retail market design. Due to development work to support the SEM, this functionality will not be in place for SEM go-live. Consequently, until the MRSO completes this development work, there is no requirement for a 3-month customer lock-in; a standard 20 business day customer lock-in will apply.

The Supplier of Last Resort, ESB Customer Supply, indicated that to appropriately manage a Supplier of Last Resort event, that advance knowledge of the size of the Defaulting Supplier would be required. Previous all-island market decisions indicated that such information is confidential to the supplier (AIP/SEM/07/11), and that information on a customer level would not be provided prior to a Supplier of Last Resort direction (AIP/SEM/07/430). It is determined by the Commission that the MRSO will provide information to the Supplier of Last Resort of the percentage market share (expressed as a single percentage to the nearest 5%) of the defaulting supplier within 1 business days of the issue (and publication) of the Suspension Notice in the wholesale market. Detail regarding the number of customers and their Meter Point Registration Numbers (MPRN) will be provided only after a Supplier of Last Resort direction has taken place.

Tariffs levied on customers transferred to the Supplier of Last Resort (and potentially further impacts on the 3 month lock-in period referred to above) remain outside the scope of this consultation and decision. ESB Customer Supply responded that as Supplier of Last Resort, the tariffs levied should

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1 In the TSC context, the Regulatory Authorities do not support the concept that the Supplier of Last Resort should be given information to allow it to prepare for the transfer of MPRNs once the relevant Direction is given. The Regulatory Authorities take the view that it would be inappropriate for them to enable information to be provided to the SoLR prior to the making of a Supplier of Last Resort Direction, while noting that such a direction is likely to have a period before it comes into effect during which the SoLR can make the necessary preparations.
match SEM pool prices, and that further costs should be levied on the whole market. This request is different to the previous decision in CER/06/006 whereby customers transferred to the Supplier of Last Resort would be placed on standard PES tariffs which currently differ from pass-through pool prices. It is the Commission’s intention not to alter the tariffing elements of the previous decision through this consultation at this time.

This decision is made under Condition 21 of Statutory Instrument 60 (European Communities Internal Market in Electricity Regulations) of 2005.
2. **Supplier of Last Resort Timelines and Responses**

This section sets out the key comments from respondents, and gives further detail to the decisions taken as a result. Wholesale timelines and retail timelines are dealt with separately.

### 2.1 Wholesale Timelines Comments

Key Comments from ESB Customer Supply on the instant removal of the Defaulted Supplier Units from Settlement:

“This is the preferred solution for ESBCS. It has the advantage of transferring the wholesale liability from the defaulting supplier to the SoLR quickly and effectively from the specified day of the SoLR direction. In addition the SoLR Supplier unit which will be explicitly aggregated can be sent to the MO for settlement.”

Key Comments from Bord Gáis Energy Supply on the instant removal of the Defaulted Supplier Units from Settlement:

“BGES support the instant removal of a defaulted Supplier’s supplier units from SEM settlement effective from the date that the SoLR direction is to take effect. This is the option which decreases Pool liability the most. As stated in the consultation paper errors in wholesale settlement volumes can be resolved through the query process once the SoLR process is complete or through resettlement.”

Both ESB Customer Supply and Bord Gáis Energy Supply therefore prefer the immediate removal of the Defaulted Supplier from the wholesale market settlement. The MRISO did not express a preference. Further details regarding the wholesale timelines are given in section 2.2.

### 2.2 Wholesale Timelines Decision

After the issue of a Suspension Order, e.g. for non-payment of bills and insufficient credit cover, to a supplier in the wholesale market, the defaulting Supplier has some time to rectify the issue. If the Commission is satisfied that these issues have not and will not be rectified, it will issue a Supplier of Last Resort direction in respect of that supplier’s Supplier Units to the retail market. From that date, the MRISO will cease sending the Defaulted Supplier’s Supplier Units, and will commence sending a Supplier of Last Resort Supplier Unit to the wholesale market for settlement.

Until the relevant customers in the Defaulted Supplier Unit are transferred to the Supplier of Last Resort Supplier Unit, ESB Customer Supply’s Error
Supplier Unit will take on the volumes of the Defaulted Supplier Unit as the Error Supplier Unit balances the market for Initial Settlement.

All movement of Defaulted Supplier Units will occur to the effective date of the Supplier of Last Resort direction. Therefore, when subsequent resettlement of the Error Supplier Unit and the Supplier of Last Resort Supplier Unit occurs after the customer transfer process, the appropriate volumes will appear in each Supplier Unit.

2.3 Retail Timelines Comments

Key Comments on Retail Timings from ESB Customer Supply:

“ESBCS regards it as essential that an indication of the potential increase in volumes from the defaulting supplier is received by ESBCS, as the current SoLR, during the SSDP period. ESBCS proposes that half way through the SSDP (which may be 7 days based on the recent SSDP consultation paper on which a decision is still outstanding) information should be sent to ESBCS regarding the number of potential SoLR customers from the possible defaulted supplier and an indication of the resulting increased demand. This is necessary due to the implications in relation to increased pool settlement and the level of credit cover ESBCS posts in the market. The SSDP notice will already have put ESBCS, as SoLR, on a standby situation to address the numerous process implications required to implement a SoLR directive.”

“The Minimum Change Option is most similar to the original CER decision paper CER on the Supplier of Last Resort (Ref. CER/06/006). Of the three variations listed in the consultation paper the first variation is the option preferred by ESBCS. In this option variation, effective from the specified date in the SoLR direction customers of the defaulted supplier have 14 business days to choose an alternative supplier. If they choose not to move they remain locked-in to the SoLR for three months.”

“ESBCS concurs with the advantages listed in the consultation paper regarding the first variation of the minimum change option and would argue that this justifies choosing this option i.e.

- closest in spirit to original decision paper
- although ESBCS will have to purchase energy for the defaulted supplier’s customers until the end of the 14 day period the subsequent 3 month lock-in period allows for stability for a reasonable period of time

Under this minimum change option (for all three variations) three items which are different to the original decision are mentioned in the consultation paper:

- timing of and retrospective nature of the change of supply process SoLR will be obliged to contact customers under an explicit timeframe
- SoLR volumes will be identifiable through aggregation of the SoLR Supplier Unit and not through the use of a separate SSAC
ESBCS requests that clarification regarding the timeframe mentioned in the second change above is included in the final decision paper. It should be noted that although this option is termed ‘The Minimum Change Option’ the term relates to the original CER decision in that there are minimum changes to it. However, significant development work to ESB Networks and ESBCS IT systems is required to enable this option to operate. ESB Networks have advised the market, via the Industry Governance Group (IGG), over the last number of months that the required changes cannot be introduced until at least mid-2008. An interim solution, is therefore, required until the final solution is put in place.”

Key Comments on Retail Timings from Bord Gáis Energy Supply:

“Options for Aligning Wholesale and Retail
BGES support the Minimum Change Option for aligning wholesale and retail. We firmly believe that customers should be given 14 days to choose an alternate Supplier before being moved to the SoLR. This should be coupled with the first variation in the consultation paper – MRSO manual adjustments to change of supply against the defaulted Supplier’s supplier units to be retrospective to the date of the SoLR direction – as this ties in with the immediate removal of a defaulted Supplier’s supplier units from settlement.

Customer Lock In
If a customer is not given the opportunity to choose an alternate Supplier then the 3 month lock in period for customers of the SoLR should not be implemented. However, as stated above BGES firmly believe that customers should be given 14 days in which to choose an alternate Supplier and in this case it is fair for any remaining customers of the SoLR to be locked in for 3 months.”

Key Comments from the MRSO:

“The MRSO view is that the Minimum Change Option is preferable i.e. option 3.4.1. in the consultation paper.”

“…any manual management of the 3 month lock in period would not be feasible prior to the necessary system changes being made. We therefore propose that the existing 20 day lock in continues until the freeze on changes ends and the system modification can be made”

Overall, therefore, there is support for maintaining the 14-day customer choice period. Further details regarding the retail timelines are given in section 2.4.

2.4 Retail Timelines Decision

Once a Suspension Order has been issued, the MRSO will provide to the Supplier of Last Resort a percentage market share to the nearest 5% of the defaulting supplier within 1 business day. This percentage market share will be reflective of the market share of the customer’s total energy volumes over the
preceding month. This means that even if a Supplier rectifies the issue that led to the Suspension Order, the Supplier of Last Resort will have received market share information regarding a continue supply competitor.

It is worth noting that while the Regulatory Authorities have previously stated that no detail of the Defaulting Supplier’s customers should be provided to the Supplier of Last Resort prior to the Supplier of Last Resort direction (see AIP/SEM/07/460, page 11), it is not reasonable to place the Supplier of Last Resort under risk by not allowing sufficient time for it to prepare for its working capital and increased credit cover requirements. Therefore, it is considered appropriate to provide a sufficient level of information to the Supplier of Last Resort to manage required the necessary credit cover and working capital, particularly if the Defaulted Supplier is of reasonable size in relation to the Supplier of Last Resort’s business.

The retail Supplier of Last Resort direction will contain a date when the direction is to become effective. On that date, the MRSO will provide the Supplier of Last Resort the contact details of all customers supplied by the Defaulted Supplier. The Supplier of Last resort will have five business days to write to all customers previously supplied by the defaulting supplier, indicating that they have 14 business days to choose a supplier alternate to the Supplier of Last Resort. Those 14 business days will commence at the end of the five day contact period.

During the 14 day business period, suppliers other than the Supplier of Last Resort will utilise a standard change of supply process. The MRSO will back-date the effective date of the change of supply to the effective date of the SoLR direction.

At the end of the 14 day business period, the remaining customers will be transferred to the Supplier of Last Resort, the effective date of the change of supply to the effective date of the SoLR direction.

As per the previous direction, a three month-lock in period will apply, noting that the implementation timeframes required for this work will not be in place for SEM go-live. Consequentially, this lock-in element of the design will be deferred until it is technically feasible, and a 20-day lock-in period will apply on a temporary basis until as such time as the retail market design can facilitate this customer transfer freeze.

3. **Next Steps**

3.1 **Retail Tariffs**

ESB Customer Supply has noted:
“Although the current consultation specifies that ‘previous decisions on the SoLR tariff arrangements are not under scope of this review’ ESBCS is of the opinion that the appropriate SoLR tariffs applicable in the SEM should match Pool prices and that all costs associated with the SoLR process should be recovered from the whole market. If the outcome of the decision to this consultation is contrary to this view ESBCS reserves the right to revisit the issue.”

ESBCS correctly identifies that this issue is outside the scope of this consultation. Their request is different to the previous decision in CER/06/006 whereby customers transferred to the Supplier of Last Resort would be placed on standard PES tariffs which currently differ from pass-through pool prices. It is the Commission’s intention not to alter the tariffing elements of the previous decision through this consultation at this time.

3.2 Next Steps

The decisions in this paper should be incorporated into the ongoing retail market design work on the Supplier of Last Resort process in the retail Industry Governance Group.

The Commission will examine the Code to see if there are any requirements for alterations to the procedural elements of the Code arising from this decision, and the recent decision on the Supplier Suspension Delay Period (AIP/SEM/07/460). If required, a Code Modification Proposal will be taken forward with required changes to the Supplier of Last Resort provisions in Agreed Procedure 1 to ensure that the Code is aligned with this decision.