



Michael Lewis
Chief Executive

10 July 2022

Dame Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

E.ON UK plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

cc: Darren Jones MP Chair, BEIS Select Committee 23 June 2022

Dear Dame Hillier,

The Regulation of Energy Suppliers – taking action to prevent access to customer money

I wanted to write to you directly to highlight our submission to your inquiry and my concern at some of the claims being made against taking swift and decisive action to prevent the reckless gambling of customers money that we have seen in the energy retail market in recent years. As we know, this has already cost every home and business in Britain more than £5 billion.

In particular, I want to challenge the claim that taking such action to prevent energy suppliers accessing customer money as their own “free” working capital will materially increase customer bills.

Ofgem is rightly progressing plans to require suppliers to ringfence customer credit balances and receipts from the Renewables Obligation (RO) scheme and we strongly support their minded-to position. These two sources of free insurance under the current regulatory regime for energy supply are the primary drivers of the reckless risk-taking we have seen in the recent past which has driven significant and unnecessary costs to every home and business in Britain. Had such controls been in place, the cost of mutualisation paid by every household would have been substantially lower and resulted in lower energy bills today.

In its report¹ published alongside Ofgem’s recent consultation, NERA calculated the cost to suppliers of insuring customer credit balances and RO receipts at just £1.80 per customer on the assumption that suppliers’ credit ratings fall to reflect the lower risks in their business given they can no longer gamble with their customers’ money. As such we believe introducing such protection for customers would have no bearing on the price cap, and directly counters the claims made by some who have suggested the cost is between £15 and £30.

The inference of NERA’s expert analysis is clear: risky business models will cost more to insure, but such risky business models have no place in our energy supply market, and, with lower risk business models comes lower costs - so preventing access to customer money and preventing its misuse by

¹ <https://www.ofgem.gov.uk/sites/default/files/2022-06/Proposed%20Reforms%20on%20Protecting%20Credit%20Balances%20and%20Renewables%20Obligations%20%20Evaluating%20Cost%20and%20Benefits%20%285%29.pdf>

unscrupulous suppliers in reality costs very little, particularly when compared to the possibility of further significant sums falling on all customers if no effective action is taken.

When there is a catastrophic fire, you do not only count the cost of the fuel used to ignite that fire, but of the damage caused. In this case, the cost of the damage already caused is more than £5 billion. We need simple, clear rules in place, informed by the 2008 banking crisis, that prevent the misuse of customer money by all market participants at all times and prevent such risk-taking and unnecessary costs in future.

The benefits of simple and clear rules to ringfence credit balances and RO receipts are much broader than simply having funds to pay money back to customers of failed suppliers. The proposals to ringfence customer credit balances and RO receipts will encourage less extreme risk-taking and more sustainable business models for every participant in the energy retail sector, so the benefit is in reducing the overall cost of failure, this is the full £5 billion additional and unnecessary costs we have seen fall on customers in recent months.

I very much hope you will agree and support the necessary action Ofgem is taking.

Yours sincerely,

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke at the end.