
Joint Administrators' progress
report from 4 December 2018 to
3 June 2019

***Extra Energy Supply Limited
and Utility Professional
Business Operations Limited***
(both in administration)

3 July 2019

High Court of Justice

Business and Property Courts in Birmingham

Insolvency & Companies List (ChD)

Case no. 8325 of 2018 and Case No. 8340 of 2018

IR16M543

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Useful information

Further information can be obtained from the sources below.

General enquiries

<https://www.pwc.co.uk/extraenergy>

Customers

Telephone: 0800 953 4774 / 0800 368 5452

<https://www.pwc.co.uk/extraenergy>

<https://www.scottishpower.co.uk/extra-energy>

<https://www.OFGEM.gov.uk/publications-and-updates/extra-energy-customers-your-questions-new-supplier-scottish-power>

Suppliers

<https://www.pwc.co.uk/extraenergy>

extra.suppliers@uk.pwc.com

Employees

<https://www.pwc.co.uk/extraenergy>

extra.employees@uk.pwc.com

Abbreviations and definitions

The following table shows the abbreviations and insolvency terms that may be used in this report:

Abbreviation or definition	Meaning
(the) Administrators/we/us/our	Michael Thomas Denny, David Matthew Hammond and Ian David Green
BEIS	Department for Business, Energy & Industrial Strategy
CCL	Climate Change Levy – a tax on energy delivered to non-domestic users in the United Kingdom
CDDA	Company Directors’ Disqualification Act 1986
(the) Companies or Group	Extra Energy Supply Limited and Utility Professional Business Operations Limited - both in administration
CRM	Customer Relationship Management
CVL / Liquidation	Creditors’ Voluntary Liquidation
DCA(s)	Debt collection agenc(y/ies)
Director	Mordechay Ben-Moshe
EEG / secured creditor (first ranking)	Extra Energie GmbH
EEHCL / secured creditor (second ranking)	Extra Energy Holding (Cyprus) Limited
EESL	Extra Energy Supply Limited – in administration
Energy Act	The Energy Act 2004 – an Act of the Parliament of the United Kingdom, relating to the energy sector
Eversheds	Eversheds Sutherland LLP
FAQs	Frequently Asked Questions
HMRC	HM Revenue & Customs
IA86	Insolvency Act 1986
IR16	Insolvency (England and Wales) Rules 2016
John Pye	John Pye & Sons Ltd
OFGEM	Office of Gas and Electricity Markets

preferential creditors	Claims for unpaid wages earned in the four months before the insolvency up to £800, holiday pay and unpaid pension contributions in certain circumstances
prescribed part	The amount set aside for unsecured creditors from floating charge funds in accordance with section 176A IA86 and the Insolvency Act 1986 (Prescribed Part) Order 2003
PwC	PricewaterhouseCoopers LLP
ROCs	Renewables Obligation Certificates
RPS	Redundancy Payments Service, an executive agency sponsored by the Department for Business, Energy & Industrial Strategy, which authorises and pays the statutory claims of employees of insolvent companies under the Employment Rights Act 1996
Sch B1 IA86	Schedule B1 to the Insolvency Act 1986
secured creditors	Creditors with security in respect of their debt, in accordance with section 248 IA86
SIP	Statement of Insolvency Practice. SIPs are issued to insolvency practitioners under procedures agreed between the insolvency regulatory authorities. SIPs set out principles and key compliance standards with which insolvency practitioners are required to comply.
SIP 2	Statement of Insolvency Practice 2: Investigations by office holders in administrations and insolvent liquidations and the submission of conduct reports by office holders
SIP 9	Statement of Insolvency Practice 9: Payments to insolvency office holders and their associates
SIP 13	Statement of Insolvency Practice 13: Disposal of assets to connected parties in an insolvency process
SMEs	Small to medium-sized enterprises
SoLR	Supplier of Last Resort
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
unsecured creditors	Creditors who are neither secured nor preferential
UPBOL	Utility Professional Business Operations Limited - in administration

Key messages

Why we've sent you this report

We're writing to update you on the progress of the administration of Extra Energy Supply Limited and Utility Professional Business Operations Limited in the six months since our appointment on 4 December 2018.

How much creditors may receive

EESL

The following table summarises the possible outcome for creditors, based on what we currently know.

Estimated outcome for secured creditors

What secured creditors are owed:		£
EEG		103,087,000 (*)
EEHCL		15,000,000 (*)
What we think secured creditors could recover:	<u>% Recovery</u>	<u>Forecast timing</u>
EEG	Uncertain	Up to 18 months
EEHCL	Uncertain	Up to 18 months

(*) These are the estimated total debts owed to the secured creditors. Subject to a review of its validity, our expectation is that the security will only apply to new credit provided after 1 November 2018, the date when the security was registered. At the time of writing, the Administrators have still not been provided with documentation relating to the granting of security by EEG, EEHCL or their advisors. This has been requested over a period of several months.

As reported in our proposals dated 28 January 2019, the security position is subject to a review of its validity which remains ongoing. Our expectation is that the security (if valid) will only apply to new credit provided to EESL after 1 November 2018, the date when the security was registered. This was understood to be c.£5m. EESL paid c.£4.7m to EEG following the creation of the security but prior to the administration. The net new lending which is secured (if valid) therefore appears to be approximately £0.3m. Based on the information currently available, we think the secured creditors will be fully repaid their total outstanding secured lending of approximately £0.3m out of their security over EESL's assets.

Estimated dividend prospects

	<u>% Recovery (*)</u>	<u>Forecast timing (*)</u>
For preferential creditors:	N/A	N/A
For unsecured creditors (**):	Up to 7%	24+ months

(*) Please note this guidance on dividends is only an indication and should not be used as the main basis of any bad debt provision or debt trading.

(**) We understand that the principal unsecured creditors are EEG and EEHCL after deduction of any nominal secured debt, together with the Office of Gas and Electricity Markets ("OFGEM") and ScottishPower as a subrogated creditor.

Based on what we currently know, there are no preferential creditors.

Based on the information currently available we expect that EESL's unsecured creditors will be paid a dividend over and above the prescribed part.

There is, at present, material uncertainty around the level of return to creditors. This is due to two primary factors:

1. Overall level of creditor claims - we have not yet received claims in respect of potential amounts owed to EEG and EEHCL, or to ScottishPower regarding any potential subrogated claim for the refund of customer credit balances. Creditor claims received to date total £28,860,160.01 but the overall quantity is as yet unknown. We anticipate total claims will significantly exceed those received to date.
2. Final billing – the overall level of returns is uncertain given the fact that the final billing process remains ongoing.

The amount and timing of any dividend will primarily be dependent upon the level and timing of book debt and other realisations, as well as the final level of unsecured claims admitted for dividend.

UPBOL

There are no registered charges and therefore no secured creditors of UPBOL.

The following table summarises the possible outcome for creditors, based on what we currently know.

Estimated dividend prospects

	<u>% Recovery (*)</u>	<u>Forecast timing (*)</u>
For preferential creditors:	100 %	18 months
For unsecured creditors:	3-5%	N/A

**Please note this guidance on dividends is only an indication and should not be used as the main basis of any bad debt provision or debt trading.*

Preferential creditors

Based on what we currently know, all the Group’s employees were employed by UPBOL. Accordingly, any preferential creditors (mainly employees) would fall under UPBOL. We estimate that preferential creditors will be paid in full.

There will be no claims for arrears of wages in respect of basic pay, with preferential claims mainly relating to accrued but not taken / paid holiday in respect of former employees who were made redundant on 4 December 2018 following our appointment. Some of the preferential claims will have been paid by the RPS with residual claims to be paid by UPBOL.

Unsecured creditors

We anticipate that there will be a small dividend to unsecured creditors of UPBOL based on our current estimates of potential asset realisations, level of creditor claims and costs of the administration. Creditor claims received to date total £1,913,730.97 but we are yet to receive claims from the largest unsecured creditors. We anticipate total claims will significantly exceed those received to date.

What you need to do

As we anticipate that dividends will be paid to the unsecured creditors of both Companies, we are inviting all creditors to submit their proof of debt.

A claim form can be downloaded from our website at www.pwc.co.uk/extraenergy or you can get one by telephoning Nadia Mann on 0113 289 4208.

We may decide that some or all creditors who are owed £1,000 or less by the Companies won't be required to submit a proof of debt in order to receive the anticipated dividend payment.

A creditor who we decide is not required to submit a proof of debt will be notified when we deliver notice of our intention to pay a dividend of the amount we'll treat as their admitted debt for the purpose of the dividend, unless the creditor advises us that the amount is incorrect (in which case a proof of debt will be required) or not owed.

Overview of what we've done to date

You may remember from our proposals for achieving the purpose of administration that when we were appointed, the position was as follows:

- EESL's principal activity was the retail supply of gas and electricity to approximately 129,000 domestic customers and SMEs across the UK. The principal activity of UPBOL was a service company to EESL including holding the gas shipping licence used to transport gas to EESL's customers.
- EESL faced challenges around billing, customer service and complaints management. It had been under investigation by OFGEM in these areas at the time of our appointment. Its trading performance was impacted by poor debt collection and operational inefficiencies, as well as an increase in energy prices in early 2018 driven by unusually cold weather.
- EESL was unable to repay OFGEM c.£15.5m in relation to Renewables Obligation Certificates ("ROCs") on the due date of 31 October 2018 due to liquidity issues the Companies were facing.
- A short term cash flow was produced by the Companies for the period from 1 November to 31 December 2018 indicating that EESL would need an additional £14.2m (before applying sensitivities) in funding to maintain operations to the end of the calendar year. This funding requirement was in addition to the ROCs liability.
- On 1 November 2018 debentures were put in place in favour of EEG and EEHCL, the current secured creditors.
- The Companies tried but failed to agree a potential business combination opportunity with similarly sized industry competitors due to the scale of the funding requirement, the inherent uncertainty around the regulatory and macro environments heightened by the introduction of the standard variable tariff price cap from 2019, and the less than certain level of return.
- Due to the nature of the Companies' business and industry, the move to administration was a complex process governed by the Energy Act and designed to protect the supply of energy to customers.
- OFGEM withdrew the energy supply licences and commenced the Supplier of Last Resort ("SoLR") process. ScottishPower was identified as the new supplier for EESL's customers, who transferred to ScottishPower with effect from 25 November 2018.
- Following all the above pressures the director had no choice but to place the Companies into administration.
- Due to delays in procuring the necessary consents to our appointment from EEHCL as secured creditor, we were not appointed Administrators until 4 December 2018, nine days after the SoLR process had completed.

After an initial review, we decided the most appropriate strategy was to retain a number of the Companies' staff to finalise customers' accounts, issue final bills and collect EESL's substantial trade debtors. As detailed later in this report, this process was complicated by the fact that the Companies' billing systems were owned by overseas companies connected with the director, and we were unable to agree terms on which these could be used by the Companies. Despite this, we have worked with a third party billing provider to develop a new billing system to allow us to complete the final accounts process.

We have also worked with ScottishPower to develop a process and provide the necessary information to enable ScottishPower to honour customers' credit balances. ScottishPower committed to do this as part of their agreement with OFGEM in relation to the SoLR transfer.

Immediately on our appointment, we undertook (amongst other things) the following actions:

- Attended the Companies' head office;
- Liaised with key stakeholders to update them on the position;
- Commenced the process of notifying all staff of our appointment;
- Effected 313 redundancies in total and liaised with the Redundancy Payments Service ("RPS") and Job Centre Plus;
- Arranged a full retained employee briefing;
- Collected company information;
- Took control of the Companies' pre-appointment bank accounts;
- Drafted and sent letters to all known creditors and employees;
- Drafted and sent letters to the landlord, lawyers and accountants;
- Drafted answers to Frequently Asked Questions ("FAQs") for customers, employees, suppliers, etc.;
- Set up a PwC hosted webpage to provide the FAQs;
- Set up and operated dedicated employee and supplier e-mail inboxes;
- Identified critical suppliers and contacted them to secure continuity of supply of services;
- Addressed customer queries;
- Liaised with ScottishPower;
- Collected VAT and tax information and notified HMRC of the Administration;
- Liaised with our specialist colleagues regarding the implications of the CCL charge on the administration;
- Liaised with debt collection agencies ("DCAs") to consider their portfolio and the ongoing debt collection strategy;
- Started the implementation and monitoring of the customer billing strategy;
- Started the implementation of the meter reading strategy.

We secured and took control of the Companies' assets, which included:

- Credit cover – commodity purchases (security deposits);
- Fixtures and fittings;
- A VAT bad debt relief claim receivable of significant value;
- Aged debtor ledger with a book value of c.£69m (net of £42.5m provisions) and unbilled final customer statements of significant value;
- Cash held in the Companies' bank accounts.

Further information and detail regarding our initial actions on appointment can be found in our proposals.

We remain in office for the following main reasons:

- to collect the outstanding book debts;
- to generate and issue final debit statements to customers;
- to generate and issue final credit statements to customers to assist ScottishPower in honouring credit balances;
- to review the validity of secured creditors' charges;
- to continue to review the Companies' affairs in the periods before and after administration in line with our statutory duties as administrators;
- to consider the merit of any recovery actions or claims available to us as administrators;
- to pursue a VAT bad debt relief claim;
- to adjudicate creditors' claims; and
- to pay distributions to creditors.

Progress in the period

Book debts

As reported in our proposals, the key asset of EESL is the book debts. As at the appointment date, EESL's accounts indicated the aged debtor ledger totalled c.£69m inclusive of any VAT but net of provisions. However, there were significant system and billing issues during the early years of the Companies' trading as management focused on revenue growth. This led to some segments of the debtor ledger being significantly aged, and includes, for instance, deceased debtors of c.£0.5m, and insolvent customers of c.£6.7m.

Since we last reported, we have actively contacted customers that have outstanding debts due to EESL relating to unpaid final bills to recover the amounts due. This process has involved outbound dialling together with text messages and the issuing of debt letters to c.37k customers. These debt collection activities have resulted in £3.5m being collected as at 3 June 2019, of which £0.1m relates to collections against final billing (see below) which commenced at the end of May 2019.

We have retained a dedicated customer service team at EESL to support our strategy of resolving customer queries within a reasonable period and have strongly encouraged customers to call this team in order to agree payments or discuss queries. We are only seeking to recover debts that we believe are validly owed to EESL.

Where customers do not pay as a result of our standard debt collection activities, debts are allocated to third party debt collection agencies, and/or to solicitors to commence legal action to recover the amounts due. This is standard industry practice to collect debts that a company's in-house debt collection team have been unable to recover.

Final billing

We advised in our proposals that there was significant value in the unbilled debt (relating to amounts owed by customers but not yet billed) estimated at c.£19m. However, we have been faced with several challenges in achieving final billing.

For the above value to be released, final customer statements are required to be generated and issued. The billing systems were owned by EEHCL and hosted by EEG, both companies are connected with the Companies' director. Following appointment, we spent a number of weeks assessing the required changes to final statements and working with system developers in EEHCL to assess the requirements and proposed solutions. The impact of insolvency on the business has resulted in a number of required changes to customer statements, which required alterations to the billing systems.

We had intended to continue to use both parties and pay a commercial, arms-length rate for the services. In early February 2019, when we considered that the billing system solution was close to being ready to implement, we were presented with a proposal for continued service provision by EEHCL that (in addition to significant ongoing costs) would have seen an initial substantial cash cost to the administrations, together with a licence fee that would have seen further significant sums payable on a monthly basis. This was without us having any certainty of the success of this solution.

We did not consider that we could agree such a proposal given the high values and significant risks involved. After we unsuccessfully attempted to negotiate, EEHCL unilaterally and without notice switched off access to the billing systems.

We retained access to necessary customer information to enable final billing through system back-ups. At a materially lower level of overall cost, we instructed an independent third party to build a billing platform to allow the final billing process to take place. Due to the highly complex nature of this process, a significant

amount of time was required by members of our staff and EESL's management teams to complete the development work and validation process.

Despite the significant challenges described above, we were able to commence final billing on 23 May 2019, five months following our appointment and three months following the withdrawal of systems access. As at 3 June 2019, a total of 11,114 final customer statements had been issued with a total value of £6.3m.

Since the end of the period covered by this report, the value collected from customers between 4 June 2019 and 28 June 2019 totals c.£2.6m (including c.£0.2m of historic debt). This equates to a weekly average of c.£650k per week, and compares to a weekly average of £135k for the period covered by this report which did not have the benefit of any significant final billing activity.

The continued high collections resulting from final billing are expected to more than justify the costs incurred in reaching this position.

We have held regular communications with ScottishPower to agree operational and commercial matters, in particular in relation to providing customer credit balance information to assist ScottishPower with refunding credit balances due to EESL's customers.

We have also maintained regular dialogue with other stakeholders such as OFGEM and the Citizens' Advice Bureau regarding the final billing progress, debt collection activities and customer matters.

In line with standard industry practice, customers are provided with a fair and reasonable period of time to settle their debt. There are c.159k final statements that will need to be generated and issued to customers in total. Due to the high volume of these statements, we estimate that it will take at least three months to complete the final billing exercise from its commencement in late May.

We have committed significant time and resource to support the robustness of the final billing process. In particular, we have taken the following steps:

- We have worked closely with ScottishPower to agree closing meter reads for EESL customers as at the date of transfer to ScottishPower, which are also used as opening meter reads for ScottishPower. Where possible these have involved processing actual meter reads. Where estimated reads have been required, these have been undertaken with reference to industry data and agreed by both EESL and ScottishPower.
- We have retained experienced billing experts within EESL, and also consulted industry experts within PwC. Both were involved in the selection of our third party billing provider and the development of the final billing process undertaken.
- We have engaged a third party billing provider (known to both PwC and ScottishPower and used by a number of other industry participants) to develop and host our billing system. As an additional level of control, we have performed a number of independent tests on the outputs generated from their billing system.
- We have reviewed and amended customer final bill formats so that they are appropriate to an insolvency scenario. For example, we have reviewed VAT and CCL treatment and ensured that exit charges (which would otherwise automatically crystallise on an insolvency) have been removed.
- We have proactively engaged with OFGEM and the Citizens' Advice Bureau to identify and address any issues in respect of the customer experience, particularly in relation to vulnerable customers.

Customers

Prior to our appointment, EESL was required to comply with the Energy Act under its licence for the supply of energy. This meant that administrators could not be appointed over the Companies until OFGEM had made arrangements to transfer customers to a Supplier of Last Resort (“SoLR”). Before our appointment, we assisted the Companies’ management team to collate the information requested by OFGEM for this purpose. In addition, we worked on the completion of a witness statement confirming the Companies’ insolvency, as requested by OFGEM. Eventually, OFGEM withdrew EESL’s supply licence, and once the SoLR process was completed, all EESL customers transferred to ScottishPower with effect from 25 November 2018 and the Companies were placed into administration by their sole Director on 4 December 2018.

If customers have queries regarding ongoing supply and outstanding credit balances please contact ScottishPower directly and refer to the FAQ section on the OFGEM and ScottishPower websites below.

<https://www.ofgem.gov.uk/publications-and-updates/extra-energy-customers-your-questions-new-supplier-scottish-power>

<https://www.scottishpower.co.uk/extra-energy>

Since our appointment, we have been reconciling all customer accounts to help produce final statements for all customers, which has taken a number of months to complete. This process has been frustrated and delayed by the lack of access to the pre appointment billing system. It has also been exacerbated by the complexity of the data available to us and the need to build a new technology platform in order to effect the final billing process. However, as reported earlier in this report, we have now started the process of issuing final statements to customers. We appreciate that this delay has been frustrating to customers and we have been focused on making this complex process as efficient as possible whilst maintaining appropriate levels of customer service.

The OFGEM website states that ScottishPower will honour outstanding credit balances for both current and past customers of EESL who are still owed money.

Amounts outstanding to EESL relating to energy supplies prior to 25 November 2018 are still due and payable to the Company. If customers have queries regarding these outstanding amounts please contact the EESL customer services team on 0800 953 4774 / 0800 368 5452. Customers can also find out more information under the Customer section on our dedicated website at <https://www.pwc.co.uk/extraenergy>.

We have had a significant volume of customer calls, emails, letters and website enquiries, not only from customers with outstanding debt but also from those expecting a credit balance refund. We thank customers for their patience whilst we deal with this volume of enquiries.

Employees

As at the date of our appointment, UPBOL employed 418 staff, all of which operated from the Companies’ head office.

Due to EESL commencing the SoLR process on 21 November 2018, the Companies’ director, having taken legal advice, made the decision to instruct the staff members that were unlikely to be required during the administration period to cease their work duties and not attend site from 21 November 2018 onwards. All staff affected have been paid their basic salary up until our appointment on 4 December 2018.

One of our key priorities on appointment was to ensure communication with all affected staff, and to provide key information and support to staff as soon as possible.

It should also be noted that, prior to the SoLR process, UPBOL had started to review the staff costs and a consultation programme had been commenced with a number of employees. For the affected employees, this process was accelerated on our appointment, which required a bespoke set of communications.

In order to undertake our administration strategy for EESL, it was critical that we retained a certain number of roles and associated staff in order to assist with final billing, debt collection and other administrative matters during the administration period. A total of 107 staff were retained upon appointment to carry out those activities.

Regrettably, due to the significant staff cost base and due to certain functions no longer being required, such as sales and business development, it was necessary to make 311 redundancies immediately upon appointment and a further two redundancies on 31 December 2018 and 4 January 2019, respectively. We have set up a dedicated employee e-mail inbox to assist with any queries.

We have paid all arrears of wages to ensure continuity of business with the exception of overtime, bonuses, commission and accrued holiday. The payment was made by EESL due to cash flow constraints in UPBOL, and due to the retained employees being required to effect EESL's administration strategy. A costs reconciliation will be undertaken in due course and any relevant amounts recharged by EESL to UPBOL, subject to sufficient asset realisations. EESL is meeting all ongoing costs relating to UPBOL's employees and continuing operations.

To ensure the administrative process is maintained, we have continued to process payroll and associated payments to the relevant authorities, such as the payment of taxes to HMRC and pension contributions.

We have also maintained a small HR function to assist in managing the employees. Their work has included legal correspondence, consultancy arrangements, providing support with the payment of wages, answering all ongoing enquiries and continuing to answer questions received from former employees.

Our ongoing work will include communications with legal advisors, payroll and associated employee-related payments, and working with the small HR function to maintain an appropriate level of support for retained and former employees.

Credit cover

As advised in our Proposals, utility providers such as EESL source their energy supply and infrastructure services (such as distribution, transmission & metering) from a wider industry supplier network. It is standard practice for such industry suppliers to request security deposits / credit cover in order to supply the service to its customers, in this case, EESL and UPBOL.

Since our appointment, we have been working with the suppliers to verify the value of credit cover due to be repaid to the Companies.

As at 3 June 2019, EESL and UPBOL have received £570k and £724k respectively in relation to credit cover realisations from 6 industry suppliers (3 suppliers to EESL and 3 suppliers to UPBOL).

We are currently working with one remaining supplier to verify the value of credit cover due to be repaid to UPBOL.

No further receipts regarding credit cover are expected in relation to EESL.

Cash on appointment

From the cash which was in the Companies' bank accounts at the time of our appointment we had collected £3,405,800 at 3 June 2019.

We remain in discussions with the pre-appointment bankers regarding any potential contingent liabilities that they may have in respect of the merchant banking facilities. Once these contingent liabilities have crystallised, we anticipate further funds will be released to the Companies, but the amount of such funds is currently unknown.

Leasehold property

On appointment, the Companies operated from leasehold office premises in central Birmingham. The lease is in the name of Extra Energy Supply Limited, with a guarantee provided to the landlord by EEG.

The Companies continue to operate from these premises during the administration period.

The lease covers six floors and the use of a canteen/recreational space and 61 car parking spaces. We are only operating from three floors and using the canteen and car parking spaces for the purposes of the administration. As such, we are discussing options with the landlord to return the unused floors for the potential occupation by other tenants.

Rates refunds

We have recovered £50,814.98 into EESL from the local authorities in respect of business rates prepayments.

Fixtures and fittings

As advised above, we're not in occupation of three office floors for the purposes of the administration. As such, we instructed John Pye to remove all of the Companies' office equipment and furniture from those floors and prepare for auction. As at 3 June 2019, we're waiting for the auction to be scheduled.

In addition to the forthcoming sale of the assets by auction, a sale of certain office desks and chairs was made to a third party for £5,175 which has been received into EESL's administration account.

Once we no longer require the use of the remaining office furniture and equipment, John Pye will be instructed to collect and auction the remaining assets.

CCL and VAT receivables

The energy sector can generally be complex from a VAT perspective. VAT accounting in the industry is typically carried out on a cash basis for domestic customers, and an invoice basis for SME customers. Furthermore, different rates of VAT are applicable for different types of customers and can be dependent on certain certificates or de minimis limits. It is common to face difficulties in insolvent situations due to the potential misalignment between VAT and insolvency law.

Initially we had to consider the time of supply for the energy supplies. EESL ceased to trade pre-appointment but had considerable amounts that had not been invoiced. Normally under the VAT legislation continuous supplies such as energy would have a tax point at the earlier of date of invoice or date of payment, however this had to be considered alongside the insolvency legislation which would indicate that supplies had been made pre-appointment. Applying the VAT law in isolation would lead to a post-appointment VAT liability on what would be considered a provable debt under insolvency rules. We have revisited this particular question and have sought advice from legal Counsel, as well as entering discussions with HMRC around this matter.

Further to this, EESL had been using a German-style accounting system which does not have the capability to issue credit notes. To ensure VAT compliance in an insolvency scenario, we needed to devise a method whereby we could issue credit notes post-appointment.

As noted previously, a final billing exercise is required for some 159k customers in relation to energy supplied pre-administration. If this billing creates tax points post-administration, the VAT will have to be paid over to HMRC out of administration funds regardless of when or if the bill is paid by the customer. This risks creating a substantial negative cash flow impact on the administration. This was an area we discussed with HMRC in order to receive sign-off in principle. HMRC has provided initial guidance which has addressed some aspects of our queries and provided us with sufficient comfort to start the final billing process. However, there are other matters that require further discussions with HMRC.

This also led to several conversations with EESL finance staff around cash allocation, and how we would be able to identify cash relating to supplies that had already been reported on prior VAT returns, versus further cash payments (which would determine the VAT correct to the post appointment returns).

As a result of the outstanding debts discussed above, EESL has particularly large Bad Debt Relief claims, with large claims still to be made for funds to be recovered as an asset of the administration. The calculation used for Bad Debt Relief applied a number of assumptions and non-standard workings, and we needed to consider and alter the calculations carefully to ensure they would be acceptable to HMRC.

In addition, after establishing many new VAT procedures, the loss of access to the accounting system run by EEG meant that nearly all procedures had to be revisited and amended to work on the more limited data available.

Next steps (CCL and VAT)

We need to progress all the issues elaborated on above to bring them to a conclusion.

We are about to enter more detailed discussions with HMRC around pre-appointment provable debt and time of supply. This could dramatically alter which returns VAT is attributable to, and how much VAT would be an expense of the administration. These discussions are exploring concepts that have not been tested before, particularly around the interaction between VAT law and insolvency law.

We also expect HMRC will want to review our VAT return workings, due to the complexity and non-typical method for Bad Debt Relief claims.

We are also in the process of reviewing the Companies' CCL reclaim position and expect that this should lead to further recoveries for the administration estate.

Connected party transactions

SIP 13 requires us to disclose details regarding any disposal of assets in the administration to a director or other connected party. As at the date of this report, there are no such transactions to report.

Other issues

As at the date of this report we have still not received the following:

- Statement of affairs in relation to both EESL and UPBOL - it is a statutory requirement for company directors to provide this information. We had previously extended the statutory deadline for submission 3 times in addition to the original request, with a final deadline of 22 January 2019. We have also made available support and information to the company director to assist in completing this exercise. Together with our solicitors, we held a conference call with the Director to address any issues, and our solicitors have also demanded the submission on a further five occasions. To date, we have not received any acceptable explanation for the failure to submit the documents.
- Supporting documentation regarding the validity of security granted by EESL to EEG and EEHCL. These have not been provided by either the sole director or by the relevant counterparties. We have requested these documents on multiple occasions and are not aware of any reasonable basis for why the director/secured creditors have not been able to provide these.

We are continuing to review conduct matters and fulfilling our other obligations under SIP 2 in respect of the periods prior to and following our appointment, in line with our statutory duties as administrators. It would not be appropriate at this stage to comment in any detail on these matters. Further updates will be provided, where relevant, in our future reports.

Approval of our proposals

We issued our proposals to creditors for achieving the purpose of administration dated 28th January 2019.

EESL

We sought a decision by deemed consent for the approval of our proposals. No creditors objected to the decision or requisitioned a physical meeting, and our proposals were deemed approved on 11 February 2019.

UPBOL

We said in our proposals that we thought UPBOL did not have enough assets to pay a dividend to unsecured creditors other than from the prescribed part. This meant that we did not have to seek a decision from creditors regarding the approval of our proposals and our proposals would be treated as approved if creditors did not request a decision in the required manner. As creditors did not request that a decision be sought, our proposals were treated as approved on 7 February 2019.

Investigations and actions

During the period covered by this report, we fulfilled our duties under the CDDA and Statement of Insolvency Practice No.2; and made the required submissions to the Insolvency Service.

The content of our submission to the Insolvency Service is confidential and therefore we are unable to provide any further information in that regard. We will continue to comply with our statutory duties under the CDDA, including responding to any requests from the Insolvency Service or other authorities as and when required. Further updates will be provided, where appropriate, in our future reports.

Our receipts and payments accounts

We set out in Appendix A accounts of our receipts and payments in the administration from 4 December 2018 to 3 June 2019.

Our expenses

We set out in Appendix B statements of the expenses we've incurred to the date covered by this report and estimates of our future expenses.

Our fees

We set out in Appendix C an update on our remuneration which covers our fees, disbursements and other related matters in this case.

Pre-administration costs

You can find in Appendix D information about the approval of the unpaid pre-administration costs previously detailed in our proposals.

Creditors' rights

Creditors have the right to ask for more information within 21 days of receiving this report as set out in Rule 18.9 IR16. Any request must be in writing. Creditors can also challenge fees and expenses within eight weeks of receiving this report as set out in Rule 18.34. This information can also be found in the guide to fees at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2017/administration-creditor-fee-guide-6-april-2017.ashx?la=en>

You can also request a copy free of charge by e-mailing Nadia Mann at nadia.mann@pwc.com or telephoning 0113 289 4208.

What we still need to do

As described above, the key asset of EESL is the debtor book and unbilled debt. EESL has started to issue final customer statements to both debit and credit customers. This process is expected to take at least three months from its commencement in late May 2019.

Once the issuing of final statements has concluded, we may need to pursue the outstanding amounts due via debt recovery and legal action. The timescales to recover the outstanding debts is unknown but may take several months.

As the debt collections draw to a close, we will need to wind down the operations of the business including termination of undertakings granted to suppliers and the surrender of the lease to the landlord.

In addition to this, we will need to take the following action:

- Finalise all other asset realisations and recovery actions;
- Conclude tax and VAT compliance matters;
- Obtain clearance from HMRC;
- Conclude on the validity of the secured creditors' charges;
- Agree and pay preferential creditor claims;
- Agree unsecured claims and distribute any funds available.

Next steps

We are currently considering the best strategy for extending or ending the administration, taking into account the complexities of the case, especially the difficult circumstances surrounding final billing and debt collection. We'll provide an update on this in our next report.

We expect to send our next report to creditors at the end of the administration or in about six months, whichever is the sooner.

If you have any questions, please get in touch with Nadia Mann at nadia.mann@pwc.com or on 0113 289 4208.

Yours faithfully
For and on behalf of the Companies



Michael Denny
Joint Administrator

Michael Thomas Denny, David Matthew Hammond and Ian David green have been appointed as Joint Administrators of Extra Energy Supply Limited and Utility Professional Business Operations Limited to manage their affairs, business and property as its agents without personal liability. All are licensed in the United Kingdom to act as Insolvency Practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>

The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Joint Administrators.

Appendix A: Receipts and payments

EESL

Company balance sheet at 4 December 2018 (£)		4 December 2018 to 3 June 2019 (£)
	Floating charge	
	Receipts	
68,779,000	Book debts	3,488,334.21
4,389,047	Balance at bank	3,347,514.07
	Third party funds (due to UPBOL)	58,286.03
2,038,000	Credit cover refunds	570,839.15
	Sundry debts and refunds	50,814.98
	Bank interest gross	9,536.68
1,549,000	Fixed assets / fixtures and fittings	5,174.80
4,124,920	Software / investments	-
	Total receipts	7,530,499.92
	Payments	
	Wages and salaries	(982,260.74)
	Customer services agent	(661,015.83)
	PAYE/NIC and pension deductions	(318,190.47)
	Rents and service charge	(252,076.41)
	Billing fees and expenses	(209,146.49)
	Debt collection fees	(168,334.70)
	Legal fees and expenses	(77,692.10)
	Utilities and rates	(38,898.77)
	Subcontractors' fees	(33,045.00)
	Telephone	(31,541.86)
	Network system fees	(18,125.58)
	Employee/subcontractor expenses	(11,699.09)
	Office costs, stationery and postage	(9,828.87)
	Direct expenses	(6,669.99)
	Payroll bureau fees and expenses	(3,468.68)
	Sundry expenses	(2,778.02)
	Lease, hire and HP payments	(1,474.94)
	Overdraft, loans interest, bank charges	(702.91)
	Storage costs	(351.40)
	Professional fees	(60.00)
	Total payments	(2,827,361.85)
	Net floating charge realisations	4,703,138.07
	VAT control account	(278,022.92)
	Balance held in interest bearing current account	4,425,115.15

As mentioned earlier in this report, the value collected from customers between 4 June 2019 and 28 June 2019 totals an additional c.£2.6m as a result of final billing.

Funds held by third parties

Pre-appointment bank balances

A total of c.£0.9m is still being held in the Companies' pre-appointment bank account with Lloyds Bank Plc at 3 June 2019. This cash balance is subject to contingent claims, the value of which are as yet unconfirmed. We are not currently assuming any recovery from this balance.

Book debt collections

At 3 June 2019 a total of c.£50k collected book debts was held by the DCA's, which includes £31,672.51 held by Credit Style and £16,865.03 held by CRS, both net of agents' commissions. A small amount was held by other DCAs. These funds will be remitted into the administration estate in due course.

UPBOL

Company balance sheet at 4 December 2018 (£)		4 December 2018 to 3 June 2019 (£)
	Floating charge	
	Receipts	
3,069,597	Credit cover refunds	7 24,293.82
	Bank interest gross	1,116.91
138,000	Cash in hand	79,047.00
2,263,800	Intercompany realisations	-
36,061	Intangible assets	-
	Total receipts	804,457.73
	Payments	
	-	-
	Total payments	-
	Net floating charge realisations	804,457.73
	Balance held in interest bearing current account	804,457.73

Appendix B: Expenses

The following table provides details of our expenses. Expenses are amounts properly payable by us as Administrators from the estate and includes our fees, but excludes distributions to creditors. The table also excludes any potential tax liabilities that we may need to pay as an administration expense because amounts becoming due will depend on the position at the end of the tax accounting period. The table should be read in conjunction with the receipts and payments account at Appendix A, which shows expenses actually paid during the period and the total paid to date.

EESL

<i>Nature of expense</i>	<i>Incurring in the period under review</i> (£)	<i>Estimated future</i> (£)	<i>Anticipated total</i> (£)
Wages and salaries	982,260.74	1,707,681.85	2,689,942.59
Customer services agents	661,015.83	1,087,200.00	1,748,215.83
PA YE/NIC and pension deductions	318,190.47	553,118.15	871,308.62
Rents and service charge	252,076.41	474,423.60	726,500.01
Billing fees and expenses	209,146.49	720,000.00	929,146.49
Debt collection fees	168,334.70	540,000.00	708,334.70
Legal fees and expenses	170,750.30	90,000.00	260,750.30
Utilities and rates	38,898.77	89,402.40	128,301.17
Subcontractors' fees	33,045.00	119,519.40	152,564.40
Telephone	31,541.86	17,830.68	49,372.54
Network system fees	18,125.58	122,304.00	140,429.58
Employee / subcontractor expenses	11,703.46	10,000.00	21,703.46
Office costs, stationery and postage	9,828.87	14,053.20	23,882.07
Direct expenses	6,669.99	5,000.00	11,669.99
Payroll bureau fees and expenses	3,468.68	3,500.00	6,968.68
Sundry expenses / contingency	2,838.02	21,000.00	23,838.02
Lease/Hire/HP payments	1,474.94	1,500.00	2,974.94
Overdraft / loans interest/bank charges	702.91	2,108.73	2,811.64
Storage costs	351.40	400.00	751.40
Professional fees	60.00	120.00	180.00
Office holders' fees (*)	1,808,540.00	Uncertain	Uncertain
Insurance	2,383.62	7,150.86	9,534.48
Administrators Category 1 disbursements	20,467.33	18,294.14	38,761.47
Administrators Category 2 disbursements	1,564.59	1,600.00	3,164.59
Total expenses	4,753,439.96	5,606,207.01	8,551,106.97

UPBOL

<i>Nature of expense</i>	<i>Incurring in the period under review</i> (£)	<i>Estimated future</i> (£)	<i>Anticipated total</i> (£)
Insurance	1,731.86	5,195.58	6,927.44
Office holders' fees (*)	132,269.00	Uncertain	Uncertain
Administrators Category 1 disbursements	475.00	500	975.00
Administrators Category 2 disbursements	-	-	-
Total expenses	134,475.86	5,695.58	7,902.44

(*) Fees incurred up to 3 June 2019 are calculated by reference to our time costs at our standard charge out rates. However, the basis of our fees is yet to be agreed by creditors.

Appendix C: Remuneration update

Our fees

The basis of our fees has not yet been agreed. Prior to requesting approval for the basis of our fees, we will circulate a remuneration report to the creditors setting out further information on the work we expect to carry out during the administrations, the estimated costs of this work and an estimate of expenses to be incurred, as well as giving details of our time charging and disbursements policies.

We are currently finalising our remuneration report in which we are proposing that our fees be based on the time we and our staff spend on the case at our normal charge out rates for this type of work. We are also proposing that disbursements for services provided by our firm (defined as “Category 2” disbursements in SIP 9) are charged as per our firm’s policy.

We anticipate that the remuneration report will be uploaded to the administrations website at www.pwc.co.uk/extraenergy no later than 9 July 2019.

In the circumstances of these cases, it will be for the general body of creditors to agree the basis of our fees and expenses. Following the publication of our remuneration report we will circulate to all creditors notice of a decision by correspondence to approve the basis of our fees and expenses.

Our work in the period

We have set out earlier in this progress report details regarding our strategy and work we have done in the period covered by this report. As stated above, further details regarding this and our future work will be provided in our remuneration report, which will be made available on our website no later than 9 July 2019.

Disbursements

We don’t need to get approval to draw expenses or disbursements unless they are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying, communication facilities. These types of expenses are called “Category 2” disbursements and they must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves our fees.

Our expenses policy allows for all properly incurred expenses to be recharged to the administration but has not yet been approved by creditors where required.

The following disbursements arose in the period of this report.

EESL

Category	Policy	Costs incurred £
2	Photocopying - at 10 pence per sheet copied, only charged for circulars to creditors and other bulk copying	55.00
2	Mileage - At a maximum of 71 pence per mile (up to 2,000cc) or 93 pence per mile (over 2,000cc)	1,509.59
1	Advertising	75.00
1	Postage	219.14
1	Travel and subsistence	20,173.19
	Total	22,031.92

UPBOL

Category	Policy	Costs incurred £
1	Advertising	75.00
1	Travel and subsistence	400.00
	Total	475.00

Our relationships

We have no business or personal relationships with the parties who approve our fees or who provide services to the administrations where the relationship could give rise to a conflict of interest.

Details of subcontracted work

The following work, which we or our staff would normally do, has been subcontracted out.

Service provided	Name of organisation	Reason selected	Basis of fees
Payroll processing	• Sage UK Ltd Outsource Services	• Industry knowledge	• Time costs and disbursements
Customer services	• Clanchatton Birmingham Ltd	• Industry knowledge	• Time costs and disbursements
Billing services	• Ensek Ltd	• Industry knowledge	• Time costs and disbursements
Technical support	• Electro Comm Digital Services Limited	• Industry knowledge	• Time costs and disbursements
Processing debt collection communications	• Teleperformance	• Industry knowledge	• Time costs and disbursements
Tracing customers	• UK Search Ltd	• Industry knowledge	• Time costs and disbursements
IT support	• Spring Technology	• Industry knowledge	• Time costs and disbursements
Document production	• Mitie Group Plc	• Regular supplier to Administrators' firm	• Fixed fee per sheet printed/copied
Document collection and storage	• Iron Mountain Ltd	• Industry knowledge	• Fixed fee per box collected / stored

Legal and other professional firms

We've instructed the following professionals on this case:

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services	• Gateley Plc	• Industry knowledge	• Time costs and disbursements
Legal services	• Eversheds Sutherland LLP	• Industry knowledge	• Time costs and disbursements
Insurance	• AUA Insolvency Risk Services Ltd	• Insolvency expertise	• Standard statistical calculations

We require all third party professionals to submit time costs analyses and narrative in support of invoices rendered. We undertake the following steps to review professional firms' costs:

- Review amounts charged against the description of work undertaken and the circumstances of the case;
- Seek further breakdown of costs and detail of work undertaken where necessary; and
- Review invoices against any fee agreements with the suppliers.

We are satisfied that the amounts incurred to date are reasonable in the circumstances of the case.

Appendix D: Pre-administration costs

As disclosed in our proposals, we will be seeking approval for our unpaid pre-administration costs to be paid as expenses of the administrations. This approval will be sought as a decision by correspondence and the relevant voting forms will be issued by 9 July 2019.

The pre-administration costs represent time spent in anticipation of and in conjunction with the administration appointments and contributed to the achievement of the purpose of the administrations.

These costs are reproduced below for reference, together with a summary of the work we undertook as Administrators-in-waiting.

	Details of agreement including date and parties to it	Nature of unpaid costs / services	Unpaid amount (£)
Our fees as Administrators-in-waiting	Engaged by EESL and EEG on 29 October 2018	Business combination analysis, cash flow review, insolvency planning and consultation on SoLR process.	252,796.10
Expenses incurred by us as Administrators-in-waiting	Engaged by EESL and EEG on 29 October 2018	Accommodation and travel costs	470.67
		Legal fees and expenses	11,025.50
Total			264,292.27

EESL was the trading entity and UPBOL recharged the majority of expenses to EESL. The pre-administration costs and expenses have also been assigned as per the existing recharge agreements.

Breakdown by company

	EESL	UPBOL	Total
Time costs	240,156.30	12,639.80	252,796.10
Accommodation and travel costs	447.14	23.53	470.67
Legal fees and expenses	8,987.70	2,037.80	11,025.50
Total	249,591.14	14,701.13	264,292.27

Detail of our work as Administrators-in-waiting

As detailed in our proposals, PwC were engaged by EESL and EEG on 29 October 2018. PwC's role was to assist management with their discussions with OFGEM in light of the ROCs liability, to review the Companies' short term cash flow position, to review the potential business combination opportunities and to assist with contingency planning.

Given the level of funding required and uncertainties facing the energy market it was deemed by the Director that a business combination was not a viable option going forwards.

In light of the lack of viability for the business in its current form, together with an immediate cash funding requirement, further contingency planning work was completed for an insolvency process. At all times, management decisions and control of the Companies remained with the Director.

During this pre-administration period we worked with the Companies' management to formulate an asset realisation strategy to implement upon appointment to maximise realisations for creditors, focusing on the strategy for the final billing process and debt collection.

We also worked with management to assess the employee considerations and operational requirements of the business to successfully effect the strategy, including structuring a workforce to be retained in the administration, and advising management on formal employee consultation requirements for those employees who regrettably had to be made redundant.

We worked with the Companies and our tax specialist team to investigate the complexities of VAT and CCL accounting for an energy supply company in insolvency.

We worked with management to review the daily cash flow forecast and monitor receipts and payments to ensure that the creditor position did not deteriorate in the immediate period leading up to insolvency.

We engaged with the Companies' bankers and with secured creditors regarding agreements required to enable us to take control on appointment of cash in the Companies' bank accounts.

Further to charges being registered at Companies House, we discussed with the management team and consulted with the secured creditors with regards to the SoLR process and the process for appointment of administrators.

During the SoLR process we worked with the Companies' director and legal advisors to prepare for administration.

In summary, the planning for the Companies' administration was a complex process and required us to consider the Energy Act, restrictions to insolvency procedures for an energy supply company and the complexities of the SoLR process.

Appendix E: Other information

EESL

Court details for the administration:	High Court of Justice Business and Property Courts in Birmingham Insolvency & Companies List (ChD) Case 8325 of 2018
Company's registered name:	Extra Energy Supply Limited
Trading name:	Extra Energy
Registered number:	08053154
Registered address:	54 Hagley Road, Birmingham, B16 8PE
Company directors:	Mordechay Ben-Moshe
Company secretary:	Neil Dodds
Shareholdings held by the directors and secretary:	None
Date of the Joint Administrators' appointment:	4 th December 2018
Joint Administrators' names, addresses and contact details:	Michael Denny – 19 Cornwall Street, Birmingham, B3 2DT Matthew Hammond – 19 Cornwall Street, Birmingham, B3 2DT Ian Green – 7 More London Riverside, SE1 2RT
Appointer's/ applicant's name and address:	Director: Mordechay Ben-Moshe – 54 Hagley Road, Birmingham, B16 8PE
Objective being pursued by the Administrators:	(B) Achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch 1 IA86, during the period for which the administration is in force, any function to be exercised by the persons appointed to act as Administrators may be done by any or all of the persons appointed or any of the persons for the time being holding that office
Regulation (EU) 2015/848 of the European Parliament and the Council of 20 May 2015 on Insolvency Proceedings (recast):	The Regulation applies to this administration and the proceedings are main proceedings

UPBOL

Court details for the administration:	High Court of Justice Business and Property Courts in Birmingham Insolvency & Companies List (ChD) Case 8340 of 2018
Company's registered name:	Utility Professional Business Operations Limited
Trading name:	Extra Energy
Registered number:	08656255
Registered address:	54 Hagley Road, Birmingham, B16 8PE
Company directors:	Mordechay Ben-Moshe
Company secretary:	Neil Dodds
Shareholdings held by the directors and secretary:	None
Date of the Joint Administrators' appointment:	4 th December 2018
Joint Administrators' names, addresses and contact details:	Michael Denny – 19 Cornwall Street, Birmingham, B3 2DT Matthew Hammond – 19 Cornwall Street, Birmingham, B3 2DT Ian Green – 7 More London Riverside, SE1 2RT
Appointer's/ applicant's name and address:	Director: Mordechay Ben-Moshe – 54 Hagley Road, Birmingham, B16 8PE
Objective being pursued by the Administrators:	(B) Achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in administration)
Division of the Administrators' responsibilities:	In relation to paragraph 100(2) Sch 1 IA86, during the period for which the administration is in force, any function to be exercised by the persons appointed to act as Administrators may be done by any or all of the persons appointed or any of the persons for the time being holding that office
Regulation (EU) 2015/848 of the European Parliament and the Council of 20 May 2015 on Insolvency Proceedings (recast):	The Regulation applies to this administration and the proceedings are main proceedings
