

Monday 17 January 2022

Statutory consultation on strengthening milestone assessments and additional reporting requirements

Retail Financial Resilience Team -

As members of Energy UK, we note a useful summary of the objectives being pursued by this statutory consultation in the response the organisation submitted today:

“Overall, we recognise and welcome Ofgem’s intention to learn from the ongoing crisis and take urgent action to address any deficiencies in the regulation of the retail market that may have exacerbated the impacts of the crisis on the stability of the market.”

We agree with the sentiment of this statement but speaking as an individual supplier would then strengthen it. Deficiencies in the regulation of the retail market have exacerbated the impacts of the crisis on the stability of the market, and greatly so. The energy supply to millions of customers has had to be rescued by Suppliers of Last Resort, and in one case a Special Administrator, requiring that the completely unhedged wholesale procurement for these customers has had to be covered at exceptional prices and at a cost to all consumers.

Ofgem is right to be mindful of the risk for the next few years that without urgent additional safeguards to close the door, the unsustainable business practices that caused this problem could creep back into the retail energy market, having only just been so expensively expunged.

Strengthening Ofgem’s ability to assess rapidly growing young suppliers is therefore a crucial component of the policy response to the crisis. The main benefit of the overall solution designed in the consultation will be to ensure that future new entrants are robust operations at the key points where they first achieve significant scale, noting that there are few existing suppliers remaining in the market who are yet to reach these stages. Hence we support Ofgem’s aims as being proportionate and originating from clear assessment of a current market risk. We also support the urgency provided by a statutory consultation.

We note that the milestones assessment proposal is one of several related policy initiatives which aim to protect consumers from inefficient supplier failure costs and poor customer experiences in the future, which are collected under the broader title of the ‘action plan’.

We would add one further policy initiative to the action plan, and mention it here for context. Ofgem should also implement a ban on suppliers taking advance payments from customers, as a simple and yet comprehensive overarching consumer safeguard.

The common denominator seen across the unsustainable suppliers that have exited the market was taking advance payments from customers, before a single unit of energy had been supplied, as a means of forcing new customers into a credit position, and in order to fund working capital. Had a ban been in place earlier, much of the market instability and consumer detriment we are witnessing presently would likely have been avoided.