



## Consultation on changes to Ofgem's licence application guidance

### ***Executive summary***

We strongly support Ofgem's proposals to strengthen financial resilience for new and existing suppliers and welcome the proposed additions to the licence application guidance. Whilst current wholesale market conditions may discourage new suppliers from entering the market currently, it is certainly the right time to consult on and implement changes that will allow only well capitalised and robust business models from entering the industry in future.

Whilst the financial resilience review continues, Ofgem should ensure that the licence application guidance remains under review so that any changes to licence requirements flow through to the guidance where necessary.

For suppliers already operating in the market, we urge Ofgem to ensure it focuses on implementing measures that will have the most significant impact on reducing the level of costs that could be mutualised in the event of an SoLR and can be introduced at pace. We believe that protecting customer credit balances is key to supporting this aim and recent Ofgem workshops have again discussed the best way of implementing a solution. Ofgem should take action now and introduce short-term protection, based on last year's consultation on autorefunds and threshold balances, whilst re-consulting as currently planned on credit balances and RO payments to ensure even more robust requirements are implemented longer-term. Without this protection in place, we remain concerned that other financial resilience measures will have limited effectiveness.

### ***Financial risk controls***

We broadly agree with the additions Ofgem has made to the licence application guidance which demand a higher level of due diligence for financial risks. Given the extent of supplier exits observed over recent months, Ofgem has the opportunity to take the learnings from this experience and protect consumers by strengthening licence application requirements so that only those suppliers with financially viable business models are able to enter the market.

We note that, in addition to prospective suppliers providing evidence of their risk management strategy, the amended guidance asks suppliers to provide evidence of stress testing on their financial projections. While this is a useful inclusion in the guidance, there is little detail explaining the methodology that should be applied, other than stating it should be provided in an Excel compatible format. When Ofgem issues its first stress testing RFI to existing suppliers imminently, all suppliers will be required to complete the same template. Ofgem should consider how the template can be adapted to evaluate the financial robustness of new entrants to the market.

In addition, to help ensure new entrants are suitably financed, Ofgem should look to implement reverse stress testing alongside its proposals. Reverse stress testing forms part of the prudential regulation framework in the financial sector and is used to determine the point at which a business would fail. Such testing prior to market entry would ensure that suppliers are well capitalised, able to compete with existing suppliers and able to manage all of the costs that form part of their regulatory obligations.



Besides stress testing, we note the addition in the guidance which highlights the proposed changes to the Operational Capability and Financial Responsibility principles and, in particular, the need for suppliers to have significant control of their material assets. Although we understand Ofgem's rationale for these proposed changes, as highlighted in our response to the updated action plan in relation to financial resilience, there are potential loopholes which could lead to costs being mutualised in the same way they are now.

Finally, we welcome the addition to the application guidance which highlights the requirement to temporarily pause the onboarding of customers while a milestone assessment is conducted. In line with the new licence conditions a further sentence to highlight that milestone assessments can be carried out at any other point in time would be useful.

### ***Scope of relevant persons and information to be disclosed***

We agree that the amendments to the licence application guidance, which call for information to be disclosed about persons holding positions of managerial responsibility or influence over key business areas, are sensible and in line with recent changes to the fit and proper requirements in licence.

### ***Treatment of applications as Tier 2 applications***

We are reassured by Ofgem's acknowledgement that, due to current market conditions, it's likely that more supply and shipper applications will be assessed as Tier 2. We urge Ofgem to take the view on supply applications a step further and consider either assessing all supply applications as Tier 2 or, at the very least, ensure face-to-face interviews are conducted in all cases. The value of face-to-face meetings should not be taken lightly and can encourage effective dialogue between the supplier and the regulator. This can only support improved relationships and a better understanding of a new suppliers' responsibilities and regulatory obligations.