Financial Resilience and Controls

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Dear Ofgem,

Re: Consultation on changes to Ofgem's guidance on applying for a gas or electricity licence.

We welcome the opportunity to respond to Ofgem's consultation on changes to the current guidance on applying for a gas or electricity licence. This response represents the views of SSE Energy Solutions (SSE Energy Supply Limited).

We support Ofgem's aim to strengthen financial resilience in the retail market and are largely in agreement with the suggested changes to the licence application guidance. We consider that Ofgem's ambition to get it 'right first time' is the correct approach to ensuring only robust and stable market entrants are granted a licence.

We agree with Ofgem that those with overall financial responsibility for an energy company should have the necessary experience and capability to manage financial risks in the energy market and that excessive reliance on consultants or advisors would not be considered a reliable or appropriate method of obtaining a licence. We note that Ofgem has clarified the guidance regarding submission of business plans, acceptable evidence for proof of funds and financial projections. Whilst the guidance does mention that applicants will need to demonstrate adequate funding and preparedness to meet regulatory obligations, we would urge Ofgem to ensure the guidance carefully considers supplier obligations under the Renewables Obligation (RO) scheme in particular given that this remains a key trigger for supplier failure. We would expect Ofgem to pro-actively assess an applicant's ability to meet their RO obligation at point of entry through close examination of financial plans, rather than rely on a supplier's commitment to comply with the Financial Responsibility Principle. For example, this may include ensuring the applicant in question has an external relationship with a bank/investor to ensure they have adequate access to working capital at times when the RO payment falls due. This would minimise the risk of suppliers utilising consumers' money to cover cashflow shortfalls arising from poor business models or promotion of loss-leading products and, ultimately, we continue to agree with Ofgem's view that "a supplier may choose to risk their own or their investor's money to adopt such a strategy, but we do not think they should risk their customers' money to do so".[1]

[1] Ofgem Supplier Licensing Review: reducing credit balance mutualisation consultation, page 5.

We support Ofgem's intention to apply further scrutiny to new entrants at this time, particularly with a financial risk lens, however, we would highlight that this should not unduly hinder applications unless there is reasonable cause for concern. As mentioned in our response to Ofgem's consultation on the Operational Capability and Financial Responsibility Principles guidance[2], and in our submission in response to Ofgem's action plan on financial resilience[3], we would urge Ofgem to move to a more targeted and risk-based approach to monitoring. We consider this should extend to the licence application process, meaning that Ofgem should retain flexibility when considering some applications, for example from those likely to present limited risk.

Finally, we welcome Ofgem continuing to monitor trends amongst market entrants and committing to regularly reviewing this guidance to ensure it remains fit for purpose and does not act as a barrier to effective competition.

We continue to appreciate the opportunity to engage with Ofgem as it progresses next steps on market resilience activities, and we would be happy to discuss our views further should this be helpful.

Yours sincerely,

Christie Thomson
Senior Regulation Analyst – SSE Energy Solutions GB

[2] SSE Response to Ofgem Consultation on Financial Responsibility and Operational Capability Principles Guidance – Submitted 16 February 2022.
[3] SSE Response to Ofgem's Action Plan on Financial Resilience – Submitted 17 January 2022.