

Guidance

Milestone Assessment

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This document is intended to help supply licensees understand the milestone assessment process and their obligations in relation to milestone assessments. It explains who is required to notify Ofgem to begin the assessment process, as well as when and how to notify Ofgem. It also gives an overview of what information will be required and the criteria we will use as part of our assessment.

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1. Introduction

- 1.1 Our Milestone Assessment process is designed to ensure that supply licensees are adequately resourced and prepared for growth at appropriate points after they enter the market. The Milestone Assessment process also ensures that supply licensees are able to maintain the capacity and capability to deliver a quality service to their customers as they grow.
- 1.2 We introduced Milestone Assessments as part of the *Supplier Licensing Review: Ongoing requirements and exit arrangements* decision, published on 26 November 2020¹. The Milestone Assessment requirements (Standard Licence Condition (SLC) 28C of the electricity and gas supply licences) initially took effect on 22 January 2021.
- 1.3 In our 29 October 2021 Open Letter², we announced that we would conduct more regular assessments and take a more robust approach to assessing supply licensees' operational capacity and strategies as they reach the 50,000 and 200,000 domestic customer milestones. Therefore, following statutory consultation³, we decided to modify SLC 28C to require supply licensees to pause domestic customer onboarding once they reach the 50,000 and 200,000 Domestic Customer milestones while we conduct any necessary Milestone Assessment. The new requirements took effect on 1 April 2022.
- 1.4 Any capitalised terms within this Guidance refer to the terms as defined in the Gas and Electricity supply licences, unless otherwise stated.

¹ Ofgem (2020) [Decision on the Supplier Licensing Review: Ongoing requirements and exit arrangements | Ofgem](#)

² Ofgem (2021) [Rising wholesale energy prices and implications for the regulatory framework | Ofgem](#)

³ Ofgem (2021) [Statutory consultation on strengthening milestone assessments and additional reporting requirements | Ofgem](#)

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2. Notification requirements: Coverage, timing and format

Coverage

- 2.1 A supply licensee is required to notify the Gas and Electricity Markets Authority (the Authority⁴) when there is a reasonable prospect that it will imminently reach, or at the latest, when it reaches its first 50,000 and 200,000 Domestic Customers for each fuel. In this Guidance, these are referred to as a / the “Threshold(s)”.
- 2.2 The requirement to notify the Authority applies to all licensees holding a gas or electricity supply licence, whether the licensee has reached (or there is a reasonable prospect that it imminently will reach) a Threshold through organic growth, mergers and acquisitions, customer book purchases or other circumstances.

Retrospective, dynamic and repeat assessments

- 2.3 Any supply licensee that reached a Threshold prior to 1 April 2022 is not required to retrospectively notify the Authority that it has reached that Threshold and is not required to pause Domestic Customer onboarding.
- 2.4 The Authority may conduct a dynamic assessment of any licensee at any time where we have concerns about its financial sustainability or operational capability.
- 2.5 If a supply licensee is above a Threshold and subsequently falls below that Threshold, it will not be required to notify the Authority when it exceeds the threshold again.

Waiving Milestone Assessment requirements

- 2.6 SLC 28C.4 requires licensees to pause Domestic Customer onboarding until such time as the Authority has carried out a Milestone Assessment, unless the Authority directs otherwise. The Authority may issue such a Direction in a variety of circumstances, such as, but not limited to, where a supply licensee has recently undergone a dynamic assessment.

Timing

- 2.7 The Milestone Assessment process will require supply licensee to be proactive, engage with the Authority constructively, plan in advance and have sound

⁴ The terms “we”, “us”, “our”, “Ofgem” and “the “Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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financial and operational capability. We therefore strongly encourage supply licensee to engage regularly with their supply licensee account manager⁵ especially where the supply licensee is developing growth plans that are likely to result in a significant volume of customer onboarding in future months which may take the supply licensee past a Threshold.

Assessments ahead of the 50,000 and 200,000 customer thresholds

- 2.8 Supply licensees must notify the Authority when there is a reasonable prospect that they will imminently reach or, at the latest, when they reach a Threshold. Once we receive a formal notification from the supply licensee (in the form of a fully completed Milestone Assessment template submitted to supplier@ofgem.gov.uk) we will begin the assessment.
- 2.9 Provided the supply licensee fully and accurately completes the Milestone Assessment template, and provides any additional information that the Authority requests, in a timely manner, the assessment will take up to 40 working days.
- 2.10 In some cases, it may be appropriate for Ofgem to issue a Direction under SLC 28C.4⁶ stipulating that the supply licensee does not need to undergo a Milestone Assessment and does not need to pause Domestic Customer onboarding. This may be possible, for example, where the supply licensee has engaged with us and provided suitably detailed information well in advance of the Threshold being met such that a formal milestone assessment is not required.

Assessments at other times

- 2.11 We may conduct a Milestone Assessment at any other point in time. This will allow us to prioritise assessments where necessary regardless of whether the supply licensee has or will shortly reach a prescribed customer threshold.

Format

- 2.12 A supply licensee is required to notify Ofgem when there is a reasonable prospect that it will imminently reach, or at the latest, when it reaches its first 50,000 and 200,000 domestic customer accounts.

⁵ The supply licensee account manager is the Ofgem member of staff who is the supply licensee's first point of contact for regulatory matters. If a supply licensee does not have an assigned account manager, it can engage by emailing Retail.Conduct@ofgem.gov.uk.

⁶ SLC 28C.4 defines the circumstances when a supply licensee can still onboard new customers while the Milestone Assessment is being conducted.

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- 2.13 Notifications must be sent via email to supplier@ofgem.gov.uk. Notifications must be accompanied by a fully completed Milestone Assessment template. Supply licensees can request a copy of this template by emailing supplier@ofgem.gov.uk.

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3. Assessment content outcomes

Content of Milestone Assessments

- 3.1 The Milestone Assessment template contains questions requesting information on:
 - 3.1.1. operational performance in relation to customer service, billing, switching, debt management and vulnerability;
 - 3.1.2. scaling of customer service functions against projected growth and how the supply licensee has given due regard to maintaining customer service standards, including in relation to customers in vulnerable circumstances and debt management processes;
 - 3.1.3. how supply licensees have assured themselves that IT systems, billing systems and Customer Relationship Management (CRM) are fit for purpose and integrated into their growth strategies;
 - 3.1.4. how the supply licensee's governance arrangements will evolve to remain effective
 - 3.1.5. oversight and controls over outsourced functions;
 - 3.1.6. plans in relation to pricing strategy, tariffs and products, projected volume of energy and purchasing strategy;
 - 3.1.7. how the supply licensee budgets for energy-specific charges and collateral requirements;
 - 3.1.8. how the supply licensee budgets for costs resulting from obligations under the government's renewable energy, energy efficiency and social schemes, and plans for changing costs associated with business scaling;
 - 3.1.9. plans the supply licensee has to seek further investment;
 - 3.1.10. how the supply licensee is meeting (or planning to meet) obligations that begin at certain thresholds; and
 - 3.1.11. the supply licensee's Customer Supply Continuity Plan.
- 3.2 This list is non-exhaustive, and we may ask other questions on a case-by-case basis.
- 3.3 Alongside the specific information described in this Guidance, we will also draw on other information we already hold to help inform our assessment. This may include, but not be limited to, information we have gathered during the course of compliance or enforcement activity concerning the supply licensee.
- 3.4 A completed assessment, or the findings we notify to the supply licensee, should not be viewed as providing an endorsement of the supply licensee nor will it preclude any future compliance or enforcement action being taken, regardless of the findings of the assessment.

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Our approach to assessment

- 3.5 In responding to the Milestone Assessment questions, supply licensees must provide us with sufficient information to enable us to make a qualitative risk-based assessment against the following criteria.

Criterion one: the supply licensee has the appropriate resources (both financial and operational) to manage its current customer base and for its growth plans, including but not limited to:

- 3.5.1. how it will manage and resource core operational processes and functions including IT systems, to maintain customer service standards, giving due regard to customers in vulnerable circumstances;
- 3.5.2. reasonable assumptions about the impacts of growth on its financial and operational resources;
- 3.5.3. overview of its governance arrangements and how they will evolve to continue to remain effective as the supply licensee grows
- 3.5.4. awareness of key risks and a plan to manage/mitigate these; and
- 3.5.5. expenditures associated with government schemes and regulatory obligations.

Criterion two: the supply licensee understands and has sufficient plans to meet / is meeting regulatory obligations linked to customer thresholds (both those that currently apply and those that will apply once the supply licensee reaches the Threshold).

- 3.6 Further detail on these criteria is provided below. We expect supply licensees to be able to demonstrate that they are meeting these criteria. Where they cannot do so, this could lead to compliance and enforcement action where it appears to the Authority that the supply licensee is contravening or is likely to contravene its obligations.

Detailed information requirements

- 3.7 Below we provide details of the information we expect supply licensee to provide in response to some of the Milestone Assessment questions.

Criterion one: the supply licensee has the appropriate resources (both financial and operational) to manage their customer base and for their growth plans.

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Core operational functions and processes

- 3.8 Supply licensees will need to explain their business functions and how they are resourced, including details of any outsourced functions. Supply licensees will need to explain how they identify and serve customers in vulnerable circumstances and provide details of their debt management processes. Supply licensees will also need to make clear how they intend to scale their customer service function against their projected growth and show that they have given due regard to maintaining customer service standards, particularly with reference to how they identify and serve customers in vulnerable circumstances.
- 3.9 Supply licensees will need to include details of any outsourced functions and what oversight/controls are in place to ensure that those third parties deliver the required service to the required standard.
- 3.10 For all core functions, suppliers will need to provide high level details of the main responsibilities of each function and how the number of staff in each business function aligns to growth plans.

IT systems

- 3.11 Supply licensees will need to provide information on their IT systems and integration testing, including switching, billing, and Customer Relationship Management (CRM), and how IT is integrated into their business and the growth strategies. Supply licensees should be aware of the impact their growth plans could have on their systems and customer service capability, including how they identify, record, and manage customers who are in a vulnerable situation to ensure that they treat these customers fairly.

Pricing strategy, tariffs, and products

- 3.12 We want to understand how supply licensees have positioned themselves in the market, including if they intend to grow the business and how they propose to manage the associated risks. Supply licensees will need to provide details of their pricing strategy (both current and future) and highlight if these are considered reflective of costs. If not, supply licensees must make clear how the risks associated with a loss-leading tariff are to be mitigated, and demonstrate that they have sufficient funding to cover the costs of this strategy.

Projected volume of energy and purchasing strategy

- 3.13 Supply licensees will need to provide an indication of the amount of energy they supply and their strategy to buy energy in line with their growth plans. This will need to include details of who is trading on their behalf (if applicable), their understanding of the market, the costs, and risks of their strategy, and how they will mitigate their wholesale and imbalance risk.
- 3.14 Supply licensees will need to provide specific detail on: their hedging strategy and any reliance on the balancing market for an extended period of time; whether

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there are any purchasing agreements in place (or any intention to put in place purchasing agreements) and plans to deal with potential collateral requirements; how their approach differs by tariff type; and how often they plan to review their strategy.

- 3.15 Supply licensees should understand the demand profile of their customers, the wholesale market contracts they plan to use for their hedging, and the percentage of their demand this covers. If there is no hedging strategy, the supply licensee must demonstrate an awareness of the associated risks and how the downside risks would be addressed (and funded if applicable). This is particularly important if the supply licensee is offering fixed-term tariffs without having hedged forecast volumes.

Financial costs

- 3.16 Supply licensees will need to provide details of how they budget and plan for:

- 3.16.1. energy-specific charges and collateral requirements (including wholesale costs, Capacity Market charging, imbalance charging, network charging, smart metering and DCC costs, Ombudsman scheme);
- 3.16.2. costs resulting from the obligations under the government's renewable energy,
- 3.16.3. energy efficiency and social schemes; and
- 3.16.4. changing costs associated with business scaling and how they plan to manage this (including additional costs from government schemes and other regulatory obligations that apply once a supply licensee exceeds a certain number of customers).

Governance arrangements

- 3.17 We want to understand the governance arrangements supply licensees have in place and how the arrangements will evolve to continue to be appropriate as the licensee grows. Supply licensees should provide appropriate details of its board of directors⁷ including how it has satisfied itself that the board is and will continue to be effective⁸. This may include how it establishes that there is sufficient oversight and challenge in its decision making, maintains the necessary skills, knowledge and experience across the board of directors and senior leadership, and fosters an organisational culture that aligns with the licensee's vision, values and risk appetite. Supply licensees should explain how their governance arrangements are expected to evolve as part of their growth plans.

⁷ We use the term 'board of directors' in this document to refer to the governing body or equivalent of the licensee

⁸ For more details on governance guidance, licensees should consult Ofgem's Guidance on the Operational Capability and Financial Responsibility Principles.

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Criterion two: the supply licensee understands and has sufficient plans to meet regulatory obligations that link to customer thresholds (both upcoming and those that currently apply).

- 3.18 We will consider whether the supply licensee appears to have a good awareness of the relevant obligations that currently apply to them, and that will apply in future where they reach a Threshold, and whether they can show what practical steps they have taken (or will take) to ensure they can comply with them.
- 3.19 For the assessment at 50,000 Domestic Customers, supply licensees will need to provide details of how they are compliant with SLC 27.1, which requires supply licensees to offer a wide choice of payment methods, including cash and payment in advance through a prepayment meter. A supply licensee will need to provide supporting evidence to demonstrate this.
- 3.20 For the assessment at 200,000 Domestic Customers, supply licensee will need to provide details of how they are meeting obligations that they require to comply with when they reach at 150,000 Domestic Customers. This currently includes the Warm Home Discount (WHD) and Energy Company Obligation (ECO).
- 3.21 For the assessment at 200,000 Domestic Customers, supply licensees will also need to provide details of the plans they have in place to meet obligations that begin at 250,000 domestic customers, including the Feed-in Tariff (FIT) scheme. Where a supply licensee has not made plans to comply with obligations that begin at 250,000 Domestic Customers, we expect them to provide an explanation of this and the expected timescales.
- 3.22 Depending on the content of the supply licensee's initial Milestone Assessment template, we may require further details or clarification from the supply licensee to enable us to complete the milestone assessment.
- 3.23 On completion of a Milestone Assessment we will notify the supply licensee of our findings. A supply licensee must have regard to these findings. For example, we may highlight particular areas where we consider the supply licensee will be in breach of a relevant condition or requirement if it does not improve its systems or processes. We may also make recommendations where the supply licensee could improve its conduct, systems and / or processes to prevent or minimise consumer harm even where there the supply licensee is not imminently at risk of contravening a relevant condition or requirement. These examples are not exhaustive and we may make other findings which the supplier supply licensee must have regard to.
- 3.24 We expect supply licensees to be able to demonstrate that they are meeting the Milestone Assessment criteria. Where they cannot do so, this could lead to compliance and enforcement action where it appears to the Authority that the supply licensee is contravening or is likely to contravene its obligations.

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We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.