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Dear Sir/Madam,

Supplier Licensing Review

Thank you for the invitation to respond to the Ofgem's consultation on their Supplier Licensing Review. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. Good Energy is working towards a 100% renewable future, helping to support technologies including wind, solar, biofuel, hydro and tidal. Our purpose is to power the choice of a cleaner, greener future together.

Rapid change in the energy retail space has meant hugely increased competition from many new, smaller suppliers, and a consequent decrease in the market share of the 'big six.' Theoretically, this should place pressure on incumbent suppliers to reduce prices and increase service offerings. However, after a 2018 which saw nine suppliers exit the market, something needs to be done to ensure consumer confidence is protected. Otherwise, competition in the retail market could be undermined.

Overview

- Ofgem should increase the requirements for obtaining a license in a way that focusses on delivering improved outcomes for consumers and creating a market environment of responsible suppliers.
- Any ongoing requirements should be fit for purpose in supporting a strategic approach to supplier investigation taken by Ofgem, without being unduly onerous.
- Market exit arrangements should be improved; we would welcome more detail and further consultation.

Market Entry

The three criteria proposed against which Ofgem would assess an application for a supply licence are sound. It is vital that applicants can provide evidence of **sufficient resources**, knowledge and understanding of their **regulatory obligations**, and evidence they are **'fit and proper'** to hold a licence.

A qualitative approach - Ofgem's preferred option - has the potential to mitigate risk; under prepared and unfit applicants may be prevented from gaining a licence. However, a higher level of detail is required – the onus should not be on the applicant to provide information *they* deem to demonstrate their meeting of the assessment criteria. Instead, we would favour a more detailed information requirement, with financial scrutiny. This would



allow Ofgem to assess - based both on this information and their experience of other suppliers' successes and failures - whether the applicant has a sound case for market entry.

Ofgem have proposed that prospective applicants provide evidence of their ability to fund their activities in the supply market for 12 months. Whilst most failed suppliers have indeed been younger organisations, they have generally been active in the supply market for longer than 12 months before they became unable to finance their operations. On the other hand, one proposed alternative of requiring applicants to demonstrate funds adequate for five years of activity would be disproportionate; innovation within the market place could easily render a five-year business plan irrelevant. A practical solution would be to require applicants to provide evidence of 12 months' worth of funds upon market entry, supported by a viable business plan illustrating how the new entrant expects to sustain its financial and operational delivery for at least a further 12 months. Rigorous stress-testing of these business plans should be undertaken at the outset to verify that the new entrant's plans demonstrate:

a clear understanding of the financial, operational and regulatory requirements for successful operation of a supply business; and

an ability to absorb a reasonable degree of under- or overperformance against the expectations and assumptions in its plan.

This would provide confidence to consumers, Ofgem and other market participants that new entrants are both financially viable and likely to deliver good outcomes for consumers.

Regular reporting against the performance expectations set in the original business plan would enable Ofgem to monitor a new entrant's progress, and if necessary, take pro-active steps to intervene where material deviations put customer outcomes at risk.

It is vital that energy suppliers are knowledgeable of their regulatory obligations prior to market entry, and we agree that demonstrating this should be part of any application process. However, we have concerns that the suggested route of asking suppliers to provide a narrative is insufficient evidence of awareness and consideration for obligation. Applicants should provide specific assurances that Directors are aware of financial and regulatory obligations, and that these are priced into business plans.

Ongoing Requirements

We agree that a proportional increase in ongoing requirements could also mitigate the risks of poor outcomes for consumers. However, these should not be unduly onerous and Ofgem's proposal to consult further in this area is very welcome. In developing proposals, Ofgem should prioritise consistency and efficiency. For example, where suppliers have been operating in a stable fashion for some time, deploying resources to additional reporting risks diverting investment away from innovation in consumers' interests.

The cyclical requirements, and certification regime discussed in the consultation document, could result in a disproportionate increase in bureaucratic requirement for both Ofgem and suppliers to the ultimate detriment of consumers. Instead, a level of financial scrutiny, deployed alongside a targeted or strategic approach, would be appropriate.

Rather than creating a new, separate financial reporting obligation for existing suppliers, it may be more appropriate to utilise an existing format. For example, listed companies are presently required to publish a much more detailed set of accounts than their privately-owned counterparts with interim updates at regular intervals. Requiring all suppliers to provide similar levels of financial information at a similar frequency could be an



appropriate way forward. For clarity – we are not suggesting that all energy suppliers should be required to become publicly listed, simply that their financial reporting obligations should be broadly similar.

Exit Arrangements

Good Energy welcomes Ofgem investigating whether changes need to be made to existing supplier exit arrangements, including to the SOLR process, and look forward to the opportunity to respond to the forthcoming separate consultation on this issue. Setting a balanced expectation for consumers will be important in this context. Whilst it is correct that a supplier exit would not necessarily cause a disruption to supply and that credit balances should be protected, consumers should understand that a supplier exit can result in an increase in overall costs and ultimately higher prices in future. This would enable consumers to make more informed choices according to the priorities relevant to their circumstances.

Customer Credit Balances

Whilst we agree that it is necessary to consider how credit balances should be treated, this focuses on a symptom of recent events in the market rather than the root cause. The objective of appropriate and robust market entry assessments and effective ongoing monitoring (discussed above) should be to ensure that suppliers demonstrate and operate viable, sustainable business plans. This would materially reduce the risk of unplanned supplier exits and as a result reduce concerns about whether credit balances are being treated appropriately.

Although it is inappropriate for suppliers to rely on their customer credit balances as a source of long-term finance, seasonality and the cyclical nature of energy consumption mean that it is normal to expect credit balances to be developed at certain times of year.

It is important therefore to recognise that extensive changes to rules surrounding their use could have unintended consequences to the wider detriment of consumers; ultimately in the prospect of reduced competition. For example, requiring suppliers to ring-fence credit balances could result in additional costs to maintain additional sources of funding, diverting investment away from innovation in the consumer's interest. This is particularly noteworthy in the current environment where supplier exits and payment shortfalls in funding of regulatory schemes (eg RO and FiT) have created unforeseen working capital burdens on other market participants, even though those burdens are not of their making.

We welcome further consultation in this area so that it can be given the necessary consideration and a proportionate solution reached.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

Kit Dixon
Regulatory Affairs Officer