

Lisa Charlesworth and Jeremy Adams-Strump
Ofgem
10 South Colonnade
Canary Wharf
E14 4PU

23rd January 2019

ICoSS response to the Ofgem Supplier Licence Review consultation

Due: 23 January 2019

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

We agree with Ofgem that action needs to be taken to avoid unsustainable business models which ultimately lead to the mutualisation of costs back to all consumers

Market Entry

We do not believe that the proposals to enhance the scrutiny of potential market entrants go far enough and would argue that a more stringent approach should be taken. In particular any new entrants should be able to demonstrate clearly to the regulator that they have sufficient capital, resources and understanding to ensure that they can operate in a sustainable manner for a period of 3-5 years, in line with their expected growth rates. This assessment should also include, where relevant, other industry scheme costs e.g. Renewable Obligation, FiTs etc.



We do not believe this will act as a barrier to market entrance, rather it will ensure that only the businesses capable of operating in the UK energy retail market without creating undue risk can enter the market.

Targeting Mutualisation

In consideration of the Suppliers that have failed in the past year, we note that the sector that the failed suppliers operated in was almost consistently the domestic sector. Only National Gas & Power had an exclusively non-domestic portfolio that was comprised of 80 small business customers.

Putting this into further context, credit balances have historically represented the biggest level of cost (over 80% of the recent Octopus Energy claims). Non-domestic customers do not have the same protections as domestic customers and any credit balances are not necessarily safeguarded and so there are fewer costs to be recovered from a failed non-domestic supplier. It therefore stands to reason that the recovery of costs should be targeted to the relevant sector with separate liabilities for the domestic and non-domestic sectors

Relevant third party schemes

With respect to failed suppliers not meeting obligations under the Renewable Obligation and other Government schemes, we believe changes should be made to minimise the exposure to the rest of the market. To that end the frequency of recovery and increased credit cover requirements should also be put in place.

Conclusions

- We broadly welcome Ofgem's timely action in addressing concerns over Supplier Licencing and believe that unsustainable business models need to be identified as early as possible. Targeted remedies should be pursued to address particular weaknesses in the market e.g. the use of customers credit balances to fund the day to day running of the business
- We believe that any recovery of costs incurred should be targeted at the relevant market sector. There are a number of mechanisms in which this change can be realised. We note that there have been a number of changes raised to the DCUSA to that suggest that these costs are split by market sector. The most effective route to ensure that costs are split by market sector is to make provision for recovery by market sector in the respective electricity distribution and gas transporter licences.
- Any assessment should take into account relevant third party schemes



A handwritten signature in grey ink, appearing to read 'G. Evans'.

Gareth Evans
ICoSS
01473 822503
gareth@icoss.org