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Supplier Licensing Review
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Supplier Licensing Review – consultation response from National Grid Metering

We welcome the opportunity to respond to Ofgem's consultation document of 21st November 2018.

National Grid Metering (NGM) is a subsidiary of National Grid Gas (NGG), providing metering services to around 10.3 million Domestic and Industrial and Commercial traditional gas meters owned by NGG. NGM is therefore the largest meter asset manager (MAM) of traditional meters. NGG also carries the National Meter Manager (NMM) obligation for traditional meters in the transition to smart metering, so both NGG and NGM are significantly impacted by gas supply market activity. This is particularly felt in respect of new entrants to market and in the event of supplier failure/market exit.

For clarity, we have set out the consultation questions below, along with our response to each, where we believe it is appropriate for us to comment.

Do you agree with the principles we have set out to guide our reforms?

We support the principles set out and Ofgem's aim to improve new entrants' readiness to enter the energy supply market and both compliance with licence obligations and customer service delivery for existing market participants. We agree that this will, in turn, benefit both consumers and other participants in the market and also believe it will assist third parties (such as asset providers and operators) who provide the infrastructure which links the supplier with the consumer.

The marked growth of the number of new entrants entering the energy supply market in recent years has created competition, innovation and a range of business models. However, we believe that many new market entrants are not sufficiently aware of the existing processes and protocols that underpin meter asset providers (MAPs) and operators/managers (MOPs), nor indeed the licence obligations relating to the metering asset they themselves are bound by. We support the view that greater clarity of these obligations and the role they play in maintaining safe and robust services to the consumer may help to minimise unsustainable growth. In addition, it may also reduce the costs and potential lost revenues MAPs and MOPs are subject to in the event of a supplier exiting the market.

Do you agree with our proposal to introduce new tougher entry requirements and increase scrutiny of supply licence arrangements? Do you agree this can be achieved with increased information requirements and qualitative assessment criteria?

Current entry requirements offer a rapid means of entry to the market but resulting issues have been seen regarding new applicants' readiness – Option 1 (retain the status quo) would not therefore seem

appropriate. Requiring full business proposals and projections for up to five years as set out in Option 3 would also appear unrealistic – not only would this create a barrier to market entry but we believe the market is too volatile to enable anything other than short to mid-term projections. We can therefore see how Option 2 in the consultation document provides a sensible approach to ensure applicants are appropriately prepared to enter the market and adequately resourced. However, we would ask for greater clarity regarding the “key customer-related obligations” referred to and that such scrutiny extended to operational arrangements also. We believe that any new entrant should be aware of and prepared for any obligations that relate to the safe delivery of service to the consumer, including metering asset provision, safety and operation.

Do you agree that our proposed assessment criteria for supply licence applications are appropriate?

- **Do you agree that applicants should provide evidence of their ability to fund their activities for the first 12 months, and provide a declaration of adequacy?**
- **Do you agree with the specific information we would generally expect applicants to provide? If not, why/what would you add or change?**
- **Do you agree that applicants should provide a narrative in respect of their key customer-related obligations under the licence?**
- **Do you agree with the areas we would generally expect applicants to cover? If not, why/what would you add?**
- **Do you agree that we should ask additional “fit and proper” questions as part of the application process?**

Ofgem’s proposals regarding the provision of specific information and resourcing by new applicants prior to market entry seems reasonable. The strengthened arrangements should more robustly test an applicant’s readiness and awareness of the market, together with their understanding of the regulatory obligations they will bear. We strongly support Ofgem’s stated intention to seek demonstration of not just an awareness of the key obligations the applicant will bear but also how they intend to comply with these. However, Criteria 2 (Regulatory Obligations) only specifically refers to a statement of intent in respect of smart metering – we believe that traditional metering should also be referenced, given the number of these meters still in situ. We have experienced several situations recently whereby a new market entrant did not appreciate the need for relevant asset rental and maintenance contractual agreement where their business model seeks prompt displacement of a traditional meter for a smart meter.

Do you agree that Ofgem’s licensing process should be undertaken closer to proposed market entry? Do you identify any barriers to this approach or any adverse impacts of this change?

We can understand how undertaking licence application closer to market entry would be sensible and could help to improve new suppliers’ understanding of licence obligations, operational arrangement and industry requirements relevant to their chosen business model prior to commencement of trading. However, we can also see that compressing the time allocated to the licensing process could create undue pressure for very small organisations with limited resources. We generally support Ofgem’s intention to limit speculative licence applications and ensure new entrants have properly investigated and considered other relevant industry requirements. However, we believe closer scrutiny of new entrants’ behaviours after trading commencement may better serve these aims.

Do you consider that suppliers should report on their financial and operational resilience on an ongoing basis? If so, do you have any initial views on the content of these reports/statements?

- **Do you have any initial views on the potential introduction of targeted or strategic monitoring/requirements on active suppliers?**
- **Do you have any initial views on the potential introduction of prudential/financial requirements on active suppliers?**

- **Do you consider that Ofgem should introduce a new ongoing requirement on suppliers to be “fit and proper” to hold a licence?**

We can see the benefit of a requirement for suppliers to report on their financial and operational resilience on an ongoing basis, rather than a targeted basis, but can see that some degree of targeting could make this less onerous. A risk-based approach required by suppliers over a certain size does not seem appropriate, given that the recent instances of suppliers exiting the market have predominantly occurred with smaller organisations. We therefore support the Certificate of Adequacy/Annual Viability Statement that Ofgem propose, and should include growth projections/business activities, financial and operational resources and risk management. We also strongly believe that the reporting requirements should include confirmation of commercial arrangements in place with MAP/MOP providers as we have seen an increasing number of new market participants active in the market without appropriate contracts in place. Not only does this represent a breach of supplier license obligations requiring an accredited MOP to be in place for assets used to convey chargeable gas, but presents potential safety concerns where ongoing maintenance or exchange is necessary to protect the consumer. Where these rental and transactional costs are also not being factored in to suppliers' financial resources, it could also be argued that the MAP/MOP is effectively subsidising the market.

We support Ofgem's focus on driving improvements in supplier conduct, particularly in respect of asset rental and maintenance arrangements, and would welcome additional focus by Ofgem “account managers” to ensure appropriate commercial agreements are in place. We believe this would aid visibility of early compliance matters and help to develop confidence in new market entrants' understanding of obligations and market requirements as a precursor for future growth.

Conclusion

Recent years have seen much larger numbers of new entrants to the energy supply market but, unfortunately, recent months have seen a greatly increased number of suppliers failing or exiting the market. We therefore believe that additional scrutiny of new supplier license applications and ongoing assurance post-award will benefit market participants and consumers alike. The other costs of supplier failure are not merely passed on to other suppliers and consumers (such as mutualising shortfalls in the Renewables Obligations and other government schemes) but are seen in debts being unrecoverable for asset and infrastructure usage or service provision.

We believe such additional scrutiny need not be onerous but should be applicable to all – both at the application stage and on an enduring basis, regardless of participant size. We would welcome further detail from Ofgem regarding the exact nature and content of the specific information sought, particularly in relation to traditional metering arrangements.

If you have any further questions regarding this response, please contact me on 0121 424 8397 or 07866 840703.

Yours faithfully,

By email

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