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By email: licensing@ofgem.gov.uk

Vattenfall response to Supplier Licensing Review

Dear Lisa and Jeremy,

Vattenfall welcomes the opportunity to respond to Ofgem's consultation on the Supplier Licensing Review. We believe that the Review is timely, and will help to ensure more stability and confidence for consumers. We welcome the opportunity to engage with Ofgem through this consultation.

We agree that it is necessary to strengthen the criteria used to assess supply licence applications by amending the process for applying for a licence. Having reviewed the proposed guide to the reform we are in full agreement and believe this is in broadly the right direction.

Increased scrutiny

In principle we welcome Ofgem's intentions to increase the scrutiny of new entrants, and we believe this is consistent with a market model which socialises the cost of failure across the wider industry. We accept that qualitative and quantitative assessment, and setting the relevant minimum standard, will be complex, and in particular with the development of new business models for which there may not be benchmarks to compare with. Nevertheless we believe it is an important step to take.

Proposed assessment criteria

We believe that the proposed assessment criteria for supply licensees' applications are appropriate and in addition to those listed we would also expect to see a review of the new entrant's IT strategy covering industry mechanics, billing and customer relationship.

Evidence of ability to fund activities

We agree that applicants should provide evidence of their ability to fund their activities for the first 12 months and provide a declaration of adequacy. In addition to demonstrating a firm funding commitment for year 1, the new entrant should also demonstrate an overall funding plan showing a realistic chance of obtaining ongoing funding assuming the business plan objectives are met.

In regard to the information that you would generally expect applicants to provide, we agree with the proposals in the Review, and would suggest the following information would give more evidence of financial robustness:

- Acquisition strategy and acquisition costs
- Cost of bad debt
- 3rd party supplier strategy
- Recruitment strategy

We also agree that applicants should provide a narrative in respect of their key customer related obligations under the licence.

We believe that prospective suppliers should also demonstrate their ability to deliver against the ongoing requirements of suppliers including:

- Compliance reporting
- Billing and credit balances
- Treating customers fairly
- Complaints approach
- Working with Citizens Advice and Ombudsman
- Managing customers in payment difficulty
- Identification and treatment of vulnerable customers
- Retail price protections
- Implementing the Safeguard tariff and Default tariff cap
- Smart metering
- PPM
- Government schemes

Fit and Proper questions

We agree that Ofgem should ask 'fit and proper' questions as part of the application process and believe this should be consistent with the rules applied in other industries. The inclusion of SOLR event has some merit, however it should not prevent someone with significant control at an SOLR supplier from obtaining a role at another supplier and thereby taking potential knowledge out of the industry.

Financial and operational resilience

We believe that suppliers should report on their financial and operational resilience on an ongoing basis and we believe that more transparency of a suppliers financial position would be helpful. However we do not foresee how Ofgem could take earlier action against a supplier in financial distress than today. Improved metrics used in reporting such as the CAB report should be sufficient with customer service resilience.

The proposals to introduce targeted or strategic monitoring requirements, and prudential/ financial requirements on active suppliers might deter less committed market entrants, but it is not clear that Ofgem could or should take action (and potentially push a supplier into default) if certain key metrics are not met.

“Fit and Proper” requirement

We believe that serious consideration should be given to introducing a new and ongoing “fit and proper” requirement on suppliers. We suggest this should also cover customer service levels. There must, however, be sufficient time given for companies to respond to negative feedback if Ofgem is to avoid being the primary actor in market failure.

We declare that the information we have provided is non-confidential.

Yours sincerely,

Andrew Edoja
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