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Lisa Charlesworth & Jeremy Adams-Strump
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Our ref

Your ref

Date

08 January 2019

Dear Lisa & Jeremy

Supplier Licensing Review

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to Ofgem's Supplier Licensing Review.

Please see below responses to the questions raised in the consultation. In the light of recent supplier failures, and the impact that this has on customers and market participants, we agree that there should be more regulatory oversight of suppliers during the application process and on an ongoing basis, particularly where the ownership of the licence holder changes as the supplier grows in size.

Questions:

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

Yes we agree with the four key principles outlined by Ofgem.

We agree that a new supplier should be required to demonstrate that they plan to enter the market with an understanding of the costs and risks involved, adequate operational and financial resources to manage these, and a plan to comply with their customer-service related obligations. We also agree that Ofgem should monitor supplier's resilience in these areas on an ongoing basis, especially as a supplier grows in size.

Do you agree with our proposal to introduce new tougher entry requirements and increase scrutiny of supply licence applicants?

Yes. We agree with Option 2. Beyond the initial 12 months scrutiny Ofgem should undertake ongoing monitoring particularly where the ownership of the licence holder changes as the supplier grows in size for example where an "Off the shelf" company obtains the initial licence. There should be a continued requirement to ensure that licence holders meet the fit and proper person test.

Do you agree this can be achieved with increased information requirements and qualitative assessment criteria?

Yes. We agree with Option 2. This should include a reasonable degree of financial scrutiny. However information on activities during the initial 12 months of activity only gives a snapshot. We support the continual monitoring of suppliers.

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

Yes.

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?

Yes.

Do you agree with the specific information we would generally expect applicants to provide (in Appendix 1)? If not, why/what would you add or change?

Yes.

Do you agree that applicants should provide a narrative in respect of their key customer-related obligations under the licence?

Yes. In addition new suppliers should be required to produce the Customer Codes of Practice, internal policies and minimum service standards, so they think about how these services will be provided. Ofgem should consider reinstating this as a licence requirement.

Do you agree with the areas we would generally expect applicants to cover (in Appendix 1)? If not, why/what would you add?

Yes.

Do you agree that we should ask additional 'fit and proper' questions as part of the application process (as set out in Appendix 1)?

Yes.

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?

Yes. We agree that Ofgem should assess the people who will run the final entity rather than a managed service provider who only takes the new supplier through market entry testing. We agree that the licensing stage should be after BSC and MRA entry assessment and before controlled market entry. We agree that the timeframe for licence assessment needs to be longer than the current 45 working days.

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?

Yes, particularly if Option 2 is the preferred option.

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

This is a good idea as recent supplier defaults have included well established suppliers. This implies additional licence requirements.

Do you have any initial views on the potential introduction of prudential/financial requirements on active suppliers?

No.

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

Yes - particularly if Ofgem is wishing to encourage innovative or untested business models.

I hope these comments are helpful. To discuss this response further please contact Natasha Richardson at nrichardson@westernpower.co.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'P Branston', with a vertical line extending downwards from the right side of the signature.

PAUL BRANSTON
Regulatory & Government Affairs Manager