



Consultation on new applications regulations and application guidance document

Executive Summary

E.ON welcomes Ofgem's proposals to strengthen its approach to the assessment of applications for a supply licence. However, we do not think the proposals as stated in this consultation go far enough. Suppliers are held to a high standard of operation and regulatory oversight by means of the standard licence conditions; the standard Ofgem is proposing for new supply licence applicants does not appear to be anywhere near as rigorous. In our responses to the consultation, we discuss our concerns about the terminology used in the Guidance, which suggests Ofgem could grant a supply licence on the basis of very little information from an applicant, and minimal evidence that they are prepared for the regulated environment they are entering into.

It is vital that new entrants to the energy supply market are well-prepared and fully understand the standards to which they will be held as a licensee. Once they have entered the market and started to supply customers, there may be a limit to how they can rectify poor planning. If there is customer detriment, Ofgem can apply sanctions such as preventing them from acquiring new customers, or requiring them to improve within a certain timescale; on at least two occasions in the past we have seen this result in companies being forced into insolvency (Iresa and Economy Energy) and customers being put through the Supplier of Last Resort (SoLR) process, resulting in additional costs for other suppliers which is passed on to their customers. The purpose of this review of the application process should be to avoid the need for so many SoLR events – there have been nine since 1 January 2018, in addition to supplier exits via other means. We trust that Ofgem has used its learnings from these failures in putting together its proposals for this consultation.

Prevention is always better than the cure, therefore we urge Ofgem to tighten up its assessment process even further than it is proposing. In the past, some unscrupulous new entrants have funded their operations on the back of customer credits and failure to pay industry costs; these businesses have subsequently gone into administration, leaving remaining suppliers to pick up the pieces and their customers to bear the costs.

Question 1

Do you agree we should extend our enhanced 'fit and proper' assessment questions to all licence application types, not just supply licence applications?

1. We have no comments on Ofgem's proposals to extend certain questions to all licence application types.

Question 2

Do you agree that the proposed questions in section 12 will enable applicants for a gas or electricity supply licence to demonstrate that they meet the new supply licence application criteria?

2. Proof of funding should be provided for the first two years of operating; this should be reflected in Question 12.4.

Question 3

Do you have any other comments on the proposed new regulations/application forms, including the updated tiered process or fees? Or, is there anything we have not included that you believe should be?

3. We have significant concerns about Ofgem's approach to assessment as summarised in Appendix 1 of the Guidance.
4. There appears to be a lack of rigour in the approach to the assessment process, which does not prepare new applicants for the stringent requirements of supply licence obligations. Decisions on whether or not to grant a supply licence should be on the basis of a full set of information that fully complies with the criteria Ofgem has set. The wording in the Guidance currently suggests, by use of the words 'may' and 'should', that Ofgem might grant a licence on the basis of scant and high-level information. We do not believe this is satisfactory and urge Ofgem to tighten up the wording in the Guidance with words such as 'will' and 'must' – we have suggested a number of places where we believe this is appropriate in the Appendix to this response. This should, in turn, translate into a tougher assessment of licence applications.
5. While Appendix 1 of the Guidance provides a score sheet for risk assessment, there is scant detail on how Ofgem will assess each applicant and apply the scoring. This is not helpful for new applicants and could lead to more applications being rejected than necessary. Ofgem's Guidance should provide clear and unambiguous information to enable new entrants to understand how to achieve a Low score in all categories.
6. While we welcome the consolidation of Tier 2 and Tier 3, we do not believe that any tiering is required at all; the information required for Tier 2 should be a standard part of the application process. One of Ofgem's overarching principles is that suppliers should "*foster an open and constructive dialogue with Ofgem*". Ofgem has an opportunity to instigate this from the application stage by holding face to face interviews with *all* applicants. This would have the added benefit of allowing Ofgem to judge whether an applicant really does understand what is expected of an energy supplier and has not relied on a third party to complete this part of the application form on their behalf. Other elements of Tier 2 would not be unduly onerous for any serious applicant. We therefore propose that Ofgem should operate a single tier process for applications, with rejection of applications with a risk score equivalent or greater than a single High risk. Those who fail by a small margin could be given the opportunity to re-apply within, say, three months; such applications could be assessed in a shorter timescale than for a first application.
7. Should Ofgem decide to maintain a second Tier, it is essential that the Ofgem interview be moved to Tier 1 to start the process of open and constructive dialogue and ensure that application responses are not a mere replication of stock answers.
8. Ofgem proposes risk ratings of Low, Medium and High in each category of the assessment, with scores of 0 for Low, 1 for Medium and 3 for High. We challenge whether there is a value in a Medium assessment; any risk at all that a new entrant cannot, for example, finance its activities or meet the licence specific criteria is unacceptable. Should a Medium score be retained it

should not be closer to Low than to High; the scores should reflect the fact that any risk is undesirable, therefore scores should be Low: 0, Medium: 2 and High: 3.

9. In Appendix 1 to the Guidance, there is only one category of risk assessment for all of the new licence specific criteria/information. We do not believe this is sufficient. There should be separate categories for assessment of financial resources; risk management; operational and system capabilities; and understanding of regulatory obligations alongside the plans they are putting in place to comply.
10. Ofgem proposes to process applications within 55 days; we do not think this is sufficient to undertake a thorough assessment. Indeed, under statute Ofgem is required to consult for a period of two months for licence transfers; further time would be needed to take account of representations, meaning that Ofgem is likely to have around three months to make an assessment on whether to grant a licence transfer. Also, when considering a derogation from Retail Market Review licence conditions, Ofgem allows itself 60 days¹. An assessment period of 55 days suggests that Ofgem's assessment will be less robust than necessary and will not address the issues that this licence review purports to address: new entrants who are ill-prepared to act as energy suppliers and not only do not provide the level of service expected under licence, but also fail within a few years, leaving more prudent suppliers and, ultimately, their customers, to pick up the costs of their failure.
11. If Ofgem adopts our proposals above, it will be necessary to factor in additional costs to the application fee to cater for more rigorous assessment and a face to face interview. A higher licence fee would be an indication to applicants that there will be a robust assessment of an application and deter applications from those who have not yet fully committed to acting as an energy supplier.

Question 4

Do you have any comments or would you suggest any changes to the section on 'Suitability to hold a licence) (Chapter 3 of the draft guidance)?

12. As we have stated above, throughout the Guidance, Ofgem uses words such as 'may' or 'should'; This type of wording suggests a less rigorous assessment process than is desirable. We believe these words should be replaced with words such as 'will' and 'must'. We have provided a list of changes we propose in the Appendix to this response.
13. We appreciate that Ofgem will carry out checks on all persons named in an application. There is a risk that a new entrant could make changes subsequent to being granted a licence, which could result in unfit person(s) becoming a Director or being in effective control, or a person named in the application could become unfit. This should be taken into account as Ofgem develops its processes for ongoing requirements.

¹ Guidance for derogation requests from domestic Retail Market Review (RMR) licence conditions, Ofgem, 22 June 2015

Question 5

Do you have any comments or would you suggest any changes to Chapter 4 of the draft licence application guidance, relating to the new criteria and process for supply licence applications?

14. In Ofgem's Decision on the Supplier Licensing Review: Final proposals on new entry requirements published on 11 April 2019, Ofgem confirms that it is adopting four principles. However, in the Guidance at paragraph 4.9, only three of these are stated. We assume this is an error.
15. We welcome the update to the first overarching principle in response to stakeholder feedback; new entrants should indeed bear an appropriate share of their risk. It is not clear, however, how Ofgem intends to achieve this. We recommend that new entrants should be required to provide credit cover for the various mutualisation schemes and to mitigate against business failure. It may be that Ofgem intends to propose this as part of the ongoing requirements it will consult on later in 2019; however, for a new entrant this is an important additional cost that will need to be taken into account, and that Ofgem will want to ensure has been accounted for as part of the application process. We therefore recommend that Ofgem considers including this within the Guidance document, either now or in a revised version once a decision is made on the ongoing requirements.
16. Ofgem's assessment process must be robust and rigorous; as we have stated in our response to Question 4, words such as 'may' and 'should' need to be replaced with 'will' and 'must' in order to reflect this. It is important for new applicants to appreciate the high standards that are expected of energy suppliers from the beginning: licence obligations usually state that suppliers 'must' comply, or at least must take all reasonable steps to do so. This is a higher bar than Ofgem appears to be proposing for new applicants.
17. Applicants must be measured against the requirements of the standard licence conditions; Ofgem's "proportionate, risk-based approach" (paragraph 4.9, the third overarching principle) must be within the limits of those requirements. We acknowledge the need to encourage innovative business propositions; however, this does not mean Ofgem should accept applications from those who cannot meet its criteria as stated in paragraph 4.7. If Ofgem believes a new applicant's business model is worthy of being given a chance, it could grant a short-term derogation from one or more licence conditions to test it. If multiple applicants make use of the same derogations, it should be an indication to Ofgem that the licence conditions are too onerous and they should make appropriate changes. All suppliers should have the opportunity to compete on a level playing field. We have proposed alternative wording for the third overarching principle in the Appendix to this response.
18. It is vital that Ofgem makes a thorough assessment of all applications to minimise the risks of supplier failure, which results in additional costs for other customers. Ofgem is proposing to introduce ongoing reporting to enable it to monitor new entrants; whilst this is laudable, it should not be seen as mitigation against licence applications having been accepted without due diligence being fully and thoroughly exercised, or where there is any risk whatsoever evident from the assessment.

19. We firmly believe that Ofgem must carry out a face to face interview with applicants prior to granting a licence in order to promote open engagement from the very start, and establish that applicants have a full understanding of what is required; there are risks that third parties may complete applications on behalf of new entrants, thus the applicants themselves may not have the required understanding of regulatory obligations.
20. Including an interview and using a more robust assessment process may take more than the 55 days proposed by Ofgem; however, entry testing processes required under industry codes typically take 6-12 months to complete, and a licence application could be made in the early stages of that process; therefore increasing the timescales beyond 55 days would not be disadvantageous to new applicants.
21. While we agree that applicants should not be held to the precise details in their applications, for ongoing reporting they should be required to explain how revised plans are at least as stringent as those proposed in their application.
22. The first bullet point of paragraph 4.51 requires applicants to have knowledge and understanding of their licence obligations: it should also require applicants to apply those standards in all cases. The second bullet point should indicate the timescales in which relevant systems, policies and procedures will be put in place.
23. Guidance should make it clear that, as part of their evidence that they meet Criteria 2, they should explain how they will meet their smart meter rollout obligations.

Question 6

Do you have any other comments or would you suggest any other changes to any part of the draft guidance?

24. We do not have any other comments or suggested changes.

Appendix

Suggested changes to the Guidance

Proposals for amendment are indicated with underlining.

Ofgem's proposed wording	E.ON's proposed wording
<p>3.8. If in our view the applicant knowingly or recklessly provides incorrect information (whether or not by omission), the application <u>may</u> be refused (or revoked, if this only comes to light after the licence has been granted). Refusal or revocation on these grounds will be taken into account in any future licence applications made by the applicant or a related party.</p>	<p>3.8. If in our view the applicant knowingly or recklessly provides incorrect information (whether or not by omission), the application <u>will</u> be refused (or revoked, if this only comes to light after the licence has been granted). Refusal or revocation on these grounds will be taken into account in any future licence applications made by the applicant or a related party.</p>
<p>3.15. Applicants are asked to provide directors home addresses. If we have reason to believe that the details provided do not relate to a domestic address, this <u>may</u> result in a higher risk rating.</p>	<p>3.15. Applicants are asked to provide directors home addresses. If we have reason to believe that the details provided do not relate to a domestic address, this <u>will</u> result in a higher risk rating.</p>
<p>4.9. We set out overarching principles to guide our Supplier Licensing Review reforms, and these remain key considerations for our assessment of supply licence applications, specifically:</p> <p><input type="checkbox"/> <u>Suppliers should</u> adopt effective risk management, be adequately prepared and resourced for growth, and bear an appropriate share of their risk. Significant problems can occur when new entrants grow too quickly/beyond their capabilities. Overreliance on customer credit balances as a source of working capital can be unsustainable and shifts the costs of failure to the market and consumers. Suppliers <u>should</u> take a responsible approach to growth and bear an appropriate share of the risk in order to reduce consumers' exposure to failure.</p> <p><input type="checkbox"/> <u>Suppliers should</u> maintain the capacity and capability to deliver a quality service to all of their customers, and foster an open and constructive dialogue with Ofgem. Suppliers</p>	<p>4.9. We set out overarching principles to guide our Supplier Licensing Review reforms, and these remain key considerations for our assessment of supply licence applications, specifically:</p> <p><input type="checkbox"/> <u>Suppliers must</u> adopt effective risk management, be adequately prepared and resourced for growth, and bear an appropriate share of their risk. Significant problems can occur when new entrants grow too quickly/beyond their capabilities. Overreliance on customer credit balances as a source of working capital can be unsustainable and shifts the costs of failure to the market and consumers. Suppliers <u>must</u> take a responsible approach to growth and bear an appropriate share of the risk in order to reduce consumers' exposure to failure.</p> <p><input type="checkbox"/> <u>Suppliers must</u> maintain the capacity and capability to deliver a quality service to all of their customers, and foster an open and constructive dialogue with Ofgem. Suppliers</p>

<p><u>should</u> understand, and be prepared to comply with, their obligations from the outset and as they grow. Suppliers <u>should</u> be prepared to maintain a constructive relationship with Ofgem as the regulator.</p> <p><input type="checkbox"/> Our licensing regime facilitates effective competition and enables innovation. Our regime should not deter innovative and untested business models, provided the new entrant is well prepared. We will adopt a proportionate, risk-based approach, that is also in line with <u>our commitment to principles-based regulation.</u></p>	<p><u>must</u> understand, and be prepared to comply with, their obligations from the outset and as they grow. Suppliers <u>must</u> be prepared to maintain a constructive relationship with Ofgem as the regulator.</p> <p><input type="checkbox"/> Our licensing regime facilitates effective competition and enables innovation. Our regime should not deter innovative and untested business models, provided the new entrant is well prepared. We will adopt a proportionate, risk-based approach, that is also in line with <u>the requirements of supply licence obligations.</u></p>
<p>4.14. We adopt a proportionate and flexible approach, recognising that all businesses are different. The application criteria do not prohibit innovative and new business propositions.</p>	<p>4.14. We adopt a proportionate and flexible approach, recognising that all businesses are different. The application criteria do not prohibit innovative and new business propositions, <u>but do require new applicants to fully abide by the standard licence conditions of the supply licence.</u></p>
<p>4.15. Where our risk assessment identifies potential concerns, applicants may need to provide us with additional information or evidence to satisfy us that they meet the application criteria. We will work with applicants to the extent possible to ensure that we provide clear guidance on the application requirements, however, it is not our role to provide consultative support to entrants. If further information we request is not provided or the information returned remains unsatisfactory, the application <u>may</u> be refused. It should also be noted that we are not obliged to contact applicants. Unclear or missing information may adversely impact the decision to grant a licence. Applicants are therefore advised <u>to try</u> to ‘get it right first time’.</p>	<p>4.15. Where our risk assessment identifies potential concerns, applicants may need to provide us with additional information or evidence to satisfy us that they meet the application criteria. We will work with applicants to the extent possible to ensure that we provide clear guidance on the application requirements, however, it is not our role to provide consultative support to entrants. If further information we request is not provided or the information returned remains unsatisfactory, the application <u>will</u> be refused. It should also be noted that we are not obliged to contact applicants. Unclear or missing information may adversely impact the decision to grant a licence. Applicants are therefore advised <u>to try</u> to ‘get it right first time’.</p>
<p>4.24. We will consider whether an applicant has made appropriate preparations for operating in the supply market, and that their plans are based on relevant and reasonable assumptions. Our expectation of all entrants is that they can</p>	<p>4.24. We will consider whether an applicant has made appropriate preparations for operating in the supply market, and that their plans are based on relevant and reasonable assumptions. Our expectation of all entrants is that they can</p>

<p>demonstrate they have given due regard to managing their risks. Applicants must provide details of their operational capabilities, and provide proof of their initial funding to at least the end of their <u>first</u> year operating as a supplier.</p>	<p>demonstrate they have given due regard to managing their risks. Applicants must provide details of their operational capabilities, and provide proof of their initial funding to at least the end of their <u>second</u> year operating as a supplier.</p>
<p>4.26. Applicants must also provide a signed declaration of adequacy as part of their application, which has been approved by a resolution of the board of directors, affirming that they have a reasonable expectation that they have sufficient financial and operational resources, and financial facilities available to it, to operate their proposed supply business for their first years' operation.</p>	<p>4.26. Applicants must also provide a signed declaration of adequacy as part of their application, which has been approved by a resolution of the board of directors, affirming that they have a reasonable expectation that they have sufficient financial and operational resources, and financial facilities available to it, to operate their proposed supply business for their first <u>two</u> years' operation.</p>
<p>4.28. Applicants <u>should</u> explain their business functions and how they will be resourced, including details of any outsourced functions. Applicants <u>should</u> make clear how they intend to scale their customer service function against their projected growth. <u>We expect to see that the applicant has given</u> due regard to maintaining customer service standards, particularly with reference to how they will identify and serve customers in vulnerable circumstances.</p>	<p>4.28. Applicants <u>must</u> explain their business functions and how they will be resourced, including details of any outsourced functions. Applicants <u>must</u> make clear how they intend to scale their customer service function against their projected growth. We expect to see that <u>The applicant must have</u> given due regard to maintaining customer service standards, particularly with reference to how they will identify and serve customers in vulnerable circumstances.</p>
<p>4.29. Applicants <u>should</u> include details of any outsourced functions and what oversight / controls are being put in place to ensure that those third parties deliver the required service to the required standard.</p>	<p>4.29. Applicants <u>must</u> include details of any outsourced functions and what oversight / controls are being put in place to ensure that those third parties deliver the required service to the required standard.</p>
<p>4.30. For all core functions, applicants <u>should</u> provide: high level details of the main responsibilities of each function, the names/capacity of key personnel already in place, and the number of staff forecast in each business function as at market entry, and during their initial two-year period of growth.</p>	<p>4.30. For all core functions, applicants <u>must</u> provide: high level details of the main responsibilities of each function, the names/capacity of key personnel already in place, and the number of staff forecast in each business function as at market entry, and during their initial two-year period of growth.</p>
<p>4.31. Applicants <u>should</u> provide details of their target customer base and expected rate of growth, and whether they have a unique selling</p>	<p>4.31. Applicants <u>must</u> provide details of their target customer base and expected rate of growth, and whether they have a unique selling</p>

<p>point (USP) or are targeting a specific group of customers or niche segment. This information helps us understand the nature of the proposed supply business and which licence conditions will be of particular relevance (for example, if a non-domestic only applicant intends to supply microbusinesses).</p>	<p>point (USP) or are targeting a specific group of customers or niche segment. This information helps us understand the nature of the proposed supply business and which licence conditions will be of particular relevance (for example, if a non-domestic only applicant intends to supply microbusinesses).</p>
<p>4.33. Applicants must provide information on their IT systems and integration testing, including switching, billing and Customer Relationship Management (CRM), and how IT is integrated into the business and the growth strategy. Applicants should be aware of the impact their growth plans could have on their systems and customer service capability, including how they will identify, record and manage customers who are in a vulnerable situation to ensure that they treat these customers fairly. This <u>should</u> also include how they will set up and maintain a Priority Services Register.</p>	<p>4.33. Applicants must provide information on their IT systems and integration testing, including switching, billing and Customer Relationship Management (CRM), and how IT is integrated into the business and the growth strategy. Applicants should be aware of the impact their growth plans could have on their systems and customer service capability, including how they will identify, record and manage customers who are in a vulnerable situation to ensure that they treat these customers fairly. This <u>must</u> also include how they will set up and maintain a Priority Services Register.</p>
<p>4.35. Applicants <u>should</u> provide an indication of the amount of energy to be supplied and their strategy to buy this energy. This <u>should</u> include details of who will be trading on their behalf (if applicable), their understanding of the market and costs/risks of their strategy, and what plans will be in place to mitigate their wholesale and imbalance risk.</p>	<p>4.35. Applicants <u>must</u> provide an indication of the amount of energy to be supplied and their strategy to buy this energy. This <u>must</u> include details of who will be trading on their behalf (if applicable), their understanding of the market and costs/risks of their strategy, and what plans will be in place to mitigate their wholesale and imbalance risk.</p>
<p>4.36. We <u>expect</u> to see specific detail on: if/how you plan to hedge, and any reliance on the balancing market for an extended period of time; any intention to put in place purchasing agreements (and plans to deal with potential collateral requirements); if/how your approach differs by tariff type; and, how often you plan to review your strategy.</p>	<p>4.36. We <u>need</u> to see specific detail on: if/how you plan to hedge, and any reliance on the balancing market for an extended period of time; any intention to put in place purchasing agreements (and plans to deal with potential collateral requirements); if/how your approach differs by tariff type; and, how often you plan to review your strategy.</p>
<p>4.37. Applicants <u>should</u> understand the demand profile of their future customers, and what wholesale market contracts they plan to use for their hedging as well as what percentage of their demand this covers. If there</p>	<p>4.37. Applicants <u>must show they</u> understand the demand profile of their future customers, and what wholesale market contracts they plan to use for their hedging as well as what percentage of their demand this covers. If there</p>

<p>is no proposed hedging strategy, applicants must demonstrate an awareness of the associated risks and how the downside risks would be funded. This is particularly important if an applicant is proposing to offer fixed-term tariffs without hedging.</p>	<p>is no proposed hedging strategy, applicants must demonstrate an awareness of the associated risks and how the downside risks would be funded. This is particularly important if an applicant is proposing to offer fixed-term tariffs without hedging.</p>
<p>4.38. Applicants' financial projections <u>should</u> demonstrate that all relevant industry costs as well as overheads have been considered, and that impacts of growth have been included. Applicants must provide financial projections for the first two years trading operations (including monthly cashflow), and highlight the projected profitability and percentage gross and net profit margins.</p>	<p>4.38. Applicants' financial projections <u>must</u> demonstrate that all relevant industry costs as well as overheads have been considered, and that impacts of growth have been included. Applicants must provide financial projections for the first two years trading operations (including monthly cashflow), and highlight the projected profitability and percentage gross and net profit margins.</p>
<p>4.40. <u>We expect applicants to</u> understand wholesale and other volatile costs that they will incur in the energy supply market, how these costs are affected by growth in customer numbers and trends in demands, and how they affect their cashflow and profit. Applicants <u>should also</u> understand how collecting payments from customers in debt and/or experiencing payment difficulty might affect their costs.</p>	<p>4.40. We expect applicants to Applicants <u>must show they</u> understand wholesale and other volatile costs that they will incur in the energy supply market, how these costs are affected by growth in customer numbers and trends in demands, and how they affect their cashflow and profit. Applicants <u>must also show they</u> understand how collecting payments from customers in debt and/or experiencing payment difficulty might affect their costs.</p>
<p>4.41. Applicants <u>should</u> show that they understand how their costs will differ across the calendar year and that they are aware of the cashflow issues this can cause and have a plan to cater for this. In particular, we are looking to see that applicants have taken into account seasonal variations in wholesale prices and energy demand. This <u>should</u> also include how these seasonal variations affect how and when payments are taken from customers, while complying with relevant supply licence conditions related to customer service and credit balances.</p>	<p>4.41. Applicants <u>must</u> show that they understand how their costs will differ across the calendar year and that they are aware of the cashflow issues this can cause and have a plan to cater for this. In particular, we are looking to see that applicants have taken into account seasonal variations in wholesale prices and energy demand. This <u>must</u> also include how these seasonal variations affect how and when payments are taken from customers, while complying with relevant supply licence conditions related to customer service and credit balances.</p>
<p>4.42. Applicants <u>should</u> plan to monitor the variables in their projections, and review their assumptions periodically, and foresee the</p>	<p>4.42. Applicants <u>must</u> plan to monitor the variables in their projections, and review their assumptions periodically, and foresee the</p>

<p>impact of changing regulations once thresholds are reached.</p>	<p>impact of changing regulations once thresholds are reached.</p>
<p>4.43. Applicants are also required to provide details on their risk management strategy. We <u>expect</u> to see the main risk factors affecting your business clearly listed and details of what stress testing has been undertaken in line with these risks.</p>	<p>4.43. Applicants are also required to provide details on their risk management strategy. We <u>need</u> to see the main risk factors affecting your business clearly listed and details of what stress testing has been undertaken in line with these risks.</p>
<p>4.44. We do not specify the parameters for the applicant’s stress test. It is the applicant’s responsibility to stress test their business. <u>We would typically expect an applicant to show</u> that they have considered how they expect to cope with market volatility, extreme winters, collateral/trading risks, and the impact of both slower or faster than anticipated growth. <u>We expect an applicant to show</u> that they have made reasonable assumptions based on potential levels of customer churn, and how they will manage potential downside risk. We will consider whether the stress-testing applied by the applicant appears to be within reasonable parameters.</p>	<p>4.44. We do not specify the parameters for the applicant’s stress test. It is the applicant’s responsibility to stress test their business. We would typically expect an applicant to show <u>Applicants must be able</u> to show that they have considered how they expect to cope with market volatility, extreme winters, collateral/trading risks, and the impact of both slower or faster than anticipated growth. We expect an applicant to <u>must</u> show that they have made reasonable assumptions based on potential levels of customer churn, and how they will manage potential downside risk. We will consider whether the stress-testing applied by the applicant appears to be within reasonable parameters.</p>
<p>4.46. Entrants <u>should</u> be able to clearly demonstrate how they propose to cover their early-year losses. We ask for information on the applicant’s proposed funding arrangements for the first two years and proof of funding for at least the first <u>one</u> years’ operation. We will consider whether this appears to match the applicant’s financial projections (including potential downside risks).</p>	<p>4.46. Entrants <u>must</u> be able to clearly demonstrate how they propose to cover their early-year losses. We ask for information on the applicant’s proposed funding arrangements for the first two years and proof of funding for at least the first <u>two</u> years’ operation. We will consider whether this appears to match the applicant’s financial projections (including potential downside risks).</p>
<p>4.50. <u>We expect suppliers to</u> put the needs of consumers at the heart of their business, including the needs of vulnerable consumers. Applicants <u>should</u> have given sufficient forethought to their licence obligations to be able to articulate how they expect to deliver good customer outcomes, and how they will manage issues responsibly. We will consider whether the applicant appears to have a good</p>	<p>4.50. We expect suppliers to <u>Suppliers must</u> put the needs of consumers at the heart of their business, including the needs of vulnerable consumers. Applicants <u>must</u> have given sufficient forethought to their licence obligations to be able to articulate how they expect to deliver good customer outcomes, and how they will manage issues responsibly. We will consider whether the applicant appears to have a good</p>

<p>awareness of the relevant customer service obligations that will apply to them as a licensed supplier, and whether they can show what practical steps they are taking (or will take) to ensure they can comply with them.</p>	<p>awareness of the relevant customer service obligations that will apply to them as a licensed supplier, and whether they can show what practical steps they are taking (or will take) to ensure they can comply with them.</p>
<p>4.51. We do not expect applicants to have everything in place before commencing supply, however we do expect an applicant to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> <u>have</u> knowledge and understanding of their duties under the licence, including the Standards of Conduct for domestic consumers (including the vulnerability principle) and microbusiness customers; and <input type="checkbox"/> <u>be planning, and taking steps,</u> to put relevant systems, policies and procedures in place to comply with those duties and deliver good customer outcomes. 	<p>4.51. We do not expect applicants to have everything in place before commencing supply, however we do expect an applicant to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> <u>demonstrate their</u> knowledge and understanding of their duties under the licence, including the Standards of Conduct for domestic consumers (including the vulnerability principle) and microbusiness customers; and <input type="checkbox"/> <u>provide details of their plans</u> to put relevant systems, policies and procedures in place to comply with those duties and deliver good customer outcomes, <u>and show what steps they have already taken.</u>
<p>4.52. To fulfil this criteria, applicants are therefore required to provide a ‘statement of intent’ in respect of compliance with their customer service-related regulations. Below we describe areas <u>we would typically expect</u> applicants to provide a narrative on alongside any other material factors that may be particularly relevant to delivering good customer service under their specific proposal. For the avoidance of doubt, applicants must understand and be ready to comply with their licence obligations in full. We consider that a proportionate approach to assessing licence applications is required, and to deliver the main aims of our Supplier Licensing Review we currently believe that customer service provision should be given particular emphasis.</p>	<p>4.52. To fulfil this criteria, applicants are therefore required to provide a ‘statement of intent’ in respect of compliance with their customer service-related regulations. Below we describe areas we would typically expect <u>applicants must</u> provide a narrative on alongside any other material factors that may be particularly relevant to delivering good customer service under their specific proposal. For the avoidance of doubt, applicants must understand and be ready to comply with their licence obligations in full. We consider that a proportionate approach to assessing licence applications is required, and to deliver the main aims of our Supplier Licensing Review we currently believe that customer service provision should be given particular emphasis.</p>
<p>4.54. Applicants <u>should</u> describe how they will treat customers fairly in line with the Standards of Conduct (including vulnerable customers, for domestic suppliers). We expect the Standards of Conduct to be embedded throughout the organisation, be driven by the Board and senior management, and understood by all staff.</p>	<p>4.54. Applicants <u>must</u> describe how they will treat customers fairly in line with the Standards of Conduct (including vulnerable customers, for domestic suppliers). We expect t<u>The Standards of Conduct must</u> be embedded throughout the organisation, be driven by the Board and senior management, and understood by all staff.</p>

<p>'Fairness' should also be embedded in the design, monitoring and revision of all relevant products and services and associated policies and processes. This is to help ensure suppliers are embodying the culture required to consistently deliver fair outcomes and better service for energy consumers. Applicants <u>should</u> set out how they will ensure that any third parties will meet these requirements, which the licensee is accountable for. Applicants <u>should be able to</u> outline how they will ensure that their products and services will meet the needs of their customer base.</p>	<p>'Fairness' should also be embedded in the design, monitoring and revision of all relevant products and services and associated policies and processes. This is to help ensure suppliers are embodying the culture required to consistently deliver fair outcomes and better service for energy consumers. Applicants <u>must</u> set out how they will ensure that any third parties will meet these requirements, which the licensee is accountable for. Applicants <u>must</u> outline how they will ensure that their products and services will meet the needs of their customer base.</p>
<p>4.55. <u>We expect</u> applicants to have planned the ratio of customer service staff to customer, considered what training will be in place for staff, and how they will maintain good standards of service as their business grows. Applicants <u>should</u> tell us how they expect to capture customer feedback and take this into account, and how they will respond to changing customer needs (eg if customers become vulnerable).</p>	<p>4.55. We expect Applicants <u>must</u> have planned the ratio of customer service staff to customer, considered what training will be in place for staff, and how they will maintain good standards of service as their business grows. Applicants <u>must</u> tell us how they expect to capture customer feedback and take this into account, and how they will respond to changing customer needs (eg if customers become vulnerable).</p>
<p>4.56. Applicants <u>should</u> explain their approach to complaints handling, demonstrate their awareness and understanding of the relevant Statutory Instrument, and have systems and resources allocated to complaint handling (including the ability for customer contact by a range of means).</p>	<p>4.56. Applicants <u>must</u> explain their approach to complaints handling, demonstrate their awareness and understanding of the relevant Statutory Instrument, and have systems and resources allocated to complaint handling (including the ability for customer contact by a range of means).</p>
<p>4.57. Domestic suppliers must work with Citizens Advice, Citizens Advice Scotland and the Energy Ombudsman and are required to signpost these services to their customers. <u>We expect applicants to</u> indicate how they will meet this requirement, and also acknowledge the costs and implications of complaint handling.</p>	<p>4.57. Domestic suppliers must work with Citizens Advice, Citizens Advice Scotland and the Energy Ombudsman and are required to signpost these services to their customers. We expect Applicants <u>must</u> indicate how they will meet this requirement, and also acknowledge the costs and implications of complaint handling.</p>
<p>4.58. An applicant's approach on vulnerability should be acknowledged throughout their statement of intent, as it is relevant within all customer obligations. In addition to this,</p>	<p>4.58. An applicant's approach on vulnerability should be acknowledged throughout their statement of intent, as it is relevant within all customer obligations. In addition to this,</p>

<p>applicants <u>should</u> specifically comment on how they will operationalise the vulnerability principle namely the policies and procedures they have, or will establish, to identify vulnerable customers, and how they will respond to their needs.</p>	<p>applicants <u>must</u> specifically comment on how they will operationalise the vulnerability principle namely the policies and procedures they have, or will establish, to identify vulnerable customers, and how they will respond to their needs.</p>
<p>4.59. Applicants <u>should</u> tell us their plans to establish, maintain and promote a Priority Services Register.</p>	<p>4.59. Applicants <u>must</u> tell us their plans to establish, maintain and promote a Priority Services Register.</p>
<p>4.60. Applicants <u>should</u> outline their proposed approach to customer acquisition in line with their business plan, and how they will ensure they will be compliant with the relevant provisions of the licence. For domestic suppliers this should include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> how customers will be able to easily compare and select appropriate tariffs; <input type="checkbox"/> that tariffs are only recommended which take into account, and are appropriate to, customers characteristics and/or preferences (with particular regard to vulnerable customers); and <input type="checkbox"/> steps to ensure that the applicant, or their representatives, do not mislead customers or use high pressure sales tactics. 	<p>4.60. Applicants <u>must</u> outline their proposed approach to customer acquisition in line with their business plan, and how they will ensure they will be compliant with the relevant provisions of the licence. For domestic suppliers this should include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> how customers will be able to easily compare and select appropriate tariffs; <input type="checkbox"/> that tariffs are only recommended which take into account, and are appropriate to, customers characteristics and/or preferences (with particular regard to vulnerable customers); and <input type="checkbox"/> steps to ensure that the applicant, or their representatives, do not mislead customers or use high pressure sales tactics.
<p>4.61. <u>We expect applicants to</u> detail if they are undertaking any face-to-face selling, and what controls are in place where third party intermediaries (TPIs) are being utilized to acquire customers.</p>	<p>4.61. We expect Applicants <u>must</u> detail if they are undertaking any face-to-face selling, and what controls are in place where third party intermediaries (TPIs) are being utilized to acquire customers.</p>
<p>4.62. For micro-business customers, applicants <u>should</u> explain how they will ensure price transparency, and the need to provide price information on their website plus at one least third party web portal.</p>	<p>4.62. For micro-business customers, applicants <u>must</u> explain how they will ensure price transparency, and the need to provide price information on their website plus at one least third party web portal.</p>
<p>4.63. Applicants <u>should</u> describe the systems they will have in place to ensure that they will switch customers in line with relevant provisions of the licence including facilitating a switch within three weeks.</p>	<p>4.63. Applicants <u>must</u> describe the systems they will have in place to ensure that they will switch customers in line with relevant provisions of the licence including facilitating a switch within three weeks.</p>

<p>4.64. Applicants <u>should</u> be able to provide a narrative on how they will ensure their customers are provided with sufficient information to enable them to make informed choices, including thinking about what is appropriate to customers’ characteristics and preferences.</p>	<p>4.64. Applicants <u>must</u> be able to provide a narrative on how they will ensure their customers are provided with sufficient information to enable them to make informed choices, including thinking about what is appropriate to customers’ characteristics and preferences.</p>
<p>4.65. Applicants <u>should</u> describe their proposed approach to offering a range of payment types, how they will provide accurate and timely billing (recognising consumer requirements, particularly for vulnerable customers), and their processes to review and refund credit balances.</p>	<p>4.65. Applicants <u>must</u> describe their proposed approach to offering a range of payment types, how they will provide accurate and timely billing (recognising consumer requirements, particularly for vulnerable customers), and their processes to review and refund credit balances.</p>
<p>4.66. If the applicant’s projected growth does not exceed the pre-payment meter threshold within its initial two-year growth projections, they <u>should</u> nonetheless acknowledge the requirements and indicate how they will manage requirements relating to customers in payment difficulty.</p>	<p>4.66. If the applicant’s projected growth does not exceed the pre-payment meter threshold within its initial two-year growth projections, they <u>must</u> nonetheless acknowledge the requirements and indicate how they will manage requirements relating to customers in payment difficulty.</p>
<p>4.67. Applicants <u>should</u> outline their awareness of the relevant price caps namely the prepayment price cap and the default price cap, and how they will ensure that their tariffs and pricing will remain complaint.</p>	<p>4.67. Applicants <u>must</u> outline their awareness of the relevant price caps namely the prepayment price cap and the default price cap, and how they will ensure that their tariffs and pricing will remain complaint.</p>
<p>4.68. Suppliers are required to install and serve customers with smart meters in line with government plans. Applicants <u>should</u> have a plan for completing the DCC user entry process and be aware of their obligations regarding the installation of Smart Metering Systems and In-Home Displays, and outline where they intend to use third parties to help them deliver on these obligations (metering equipment, installers etc).</p>	<p>4.68. Suppliers are required to install and serve customers with smart meters in line with government plans. Applicants <u>must</u> have a plan for completing the DCC user entry process and be aware of their obligations regarding the installation of Smart Metering Systems and In-Home Displays, and outline where they intend to use third parties to help them deliver on these obligations (metering equipment, installers etc).</p>
<p>4.69. They <u>should</u> demonstrate an awareness of the various safety obligations on them, how they intend to ensure compliance with SMICoP,55 and where relevant, the requirements relating to non-domestic smart metering.</p>	<p>4.69. They <u>must</u> demonstrate an awareness of the various safety obligations on them, how they intend to ensure compliance with SMICoP,55 and where relevant, the requirements relating to non-domestic smart metering.</p>



4.70. Suppliers are required to submit data to Ofgem on their operations. Applicants should provide information on how they expect to comply with this reporting requirement, and indicate that they understand how the business will meet their relevant obligations as these change with growth (including government schemes).

4.70. Suppliers are required to submit data to Ofgem on their operations. Applicants must provide information on how they expect to comply with this reporting requirement, and indicate that they understand how the business will meet their relevant obligations as these change with growth (including government schemes).