



Association of Meter Operators

Gemserv Ltd
8 Fenchurch Place
London
EC3M 4AJ
2nd December 2019

By e-mail

Vlada Petuchaite
Licensing Frameworks
Ofgem
licensing@ofgem.gov.uk

Dear Vlada,

Supplier Licensing Review: Ongoing requirements and exit arrangements

I am responding on behalf of the Association of Meter Operators, the trade organization that represents gas and electricity meter operators across Great Britain. The AMO membership represents a variety of sectors of the electricity and gas metering markets including domestic, non-domestic, installers and operators as well as meter data management agents. These agents are engaged by energy suppliers and provide services that support consumers.

We welcome Ofgem's interventions. We support the broadening of review to ensure that this includes mechanisms that will reduce wider operational risks and consequential inefficient costs.

We do not wish to respond to all of the consultation questions as some point towards matters that fall outside the scope of metering agents, e.g. mutualisation of costs arising under government schemes and protection of consumer credit balances. We wish to make the following responses, ordered according to the consultation questions.

Q1. We agree that the proposed package of reforms will help to reduce the likelihood of disorderly market exits with the consequential disruption caused for consumers and the wider market. We endorse the comments made in paragraph 1.4 "A supplier that cannot meet its customer service and financial obligations can cause direct and indirect harm to energy consumers". We support the extension of this concern to include the financial and operational detriment more widely across the market including to the agents appointed by the failed supplier. Such agents are not protected under any mutualisation scheme for payments owed by the failed supplier and may also suffer further commercial distress if records are inaccurate so that the incoming supplier of last resort is unable to identify the incumbent agent(s). These issues are acknowledged in paragraph 1.29 of the impact assessment. We identify some possible actions to address these concerns in our responses below.

Q2. We agree that the impact assessment provides a balanced analysis of the risks and potential costs. It is hard to quantify all of the costs so some of the points are necessarily qualitative.

The failure of a supplier has an impact not only on its customers but also on its supply chain. Whilst it can be argued that supply chain parties should ensure that they have appropriate commercial protections, clearly if there are greater risks of suppliers failing then there will be higher costs for that risk premium in the supply chain. It is also our observation that smaller, new entrant suppliers tend to contract with the smaller, independent meter operators; many large suppliers have their own affiliated operators. In many cases the meter agent is an essential provider of new innovations in customer service. In these instances, a commercial failure of a supplier can cause significant financial hardship for such smaller-scale meter agents and this may in turn act to the detriment of customer choice or act to dampen innovation.

Q6. We agree with the proposal to introduce new milestone assessments for suppliers and the levels suggested. We believe it is right to expect all suppliers to have the capability, processes and systems in place to enable them to effectively serve all their customers and comply with their regulatory obligations. These capabilities must be scalable and reflect the supplier's growth. The consultation points towards achievement of the supplier's regulatory obligations but we believe it would also be appropriate for any stage assessment to also consider the supplier's compliance with wider market processes that are in turn essential for efficient operations. These wider assessments might require a performance assessment by the bodies responsible for management of industry systems and central databases. The assessment might also be structured to permit any industry party to comment to Ofgem and provide an opportunity for any concerns to be identified.

Q7. We agree with the proposal to introduce an ongoing fit and proper requirement. However, we have noted that the consultation appears to then narrow the scope of the proposed tests to consider only the fitness of the senior management personnel rather than of the supplier company as a whole.

The consultation rightly has a focus on ensuring that suppliers are capable of sustaining good customer service. Taken in isolation, a supplier may have systems and processes in place to manage their own customers and on the face of it, deliver satisfactory customer service. However, weaknesses in those processes can throw a strain onto many interacting parties including the supply-chain agents and other suppliers.

We would like to see the fit and proper test extended to include a capability to sustain an acceptable quality of performance in operation of the market processes. These 'back-office' processes are pivotal not only in helping to deliver the customer outcomes for the supplier but also in determining whether all the interacting market participants are able to operate properly and efficiently. A supplier that fails to build and operate their back-office systems with such rigor may 'store up' problems that only become visible too late.

Q8. We support the concept of a 'living will'. The focus during the SoLR process is to assure consumers that there will be no interruption to their energy supply and only temporary disruption to service. Whilst the transfer of the customer portfolio data is relatively well understood there is room for improvement in the way that the details of the respective agents is passed across. We believe that the scope of a 'living will' should include ensuring that the supplier has reliable processes in place, not only to ensure that metering data is correct and well-ordered but also that such data can be readily extracted from their business systems. This would include the essential data necessary to support billing and settlement and also identify all the relevant metering agents.

Q9. We would urge an extension of the proposed scope for independent audits. Some of the difficulties that have been experienced in the market relate to suppliers' failures to operate the industry standard data flows. The consequence of such failures is that meter data is not correctly recorded and this in turn leads to billing errors or problems with provision of field services. The testing of supplier performance could include an assessment drawn from other market participants through the existing self-governance processes. The proposals for the Retail Energy Code indicate an extension of the performance assurance boards. We recognise that an innovator, presenting commercial disruption to the market might view such rigidity and self-policing as exclusionary but we believe that innovation should not be at the expense of wider inefficient costs thrown onto incumbent parties. There is almost certainly a vital role for the regulator in balancing the interests of existing and new market participants.

Q10. A shortcoming of the current arrangement is that the incumbent operator's contract for service terminates when the supplier fails and there may be a period before the appointed SoLR takes up the arrangements. This is a particular concern where there is a prepayment meter that might require attention.

We would like to suggest an additional measure that we believe would secure the process for appointment of a supplier of last resort. Our proposal is that the appointed metering agents should remain incumbent unless and until the incoming SoLR actively de-appoints them. A deemed contract would operate unless the incoming SoLR already has an appropriate commercial arrangement with the incumbent metering agent. This change would ensure that there would be no break in the continuity of metering service thereby supporting the continuity in energy supply to the consumer.

I would be happy to elaborate on any of the points made above.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Eric Fowler".

Eric Fowler

Consultant to the Association Meter Operators

Eric.fowler@powerdataassociates.com

cc David Wright, Chair, Association of Meter Operators