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Ørsted's response to supplier licensing review consultation

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Our ref. Supplier Licensing Review

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs and operates offshore and onshore wind farms, solar farms and energy storage facilities, bioenergy plants and provides energy products to its customers. Headquartered in Denmark, Ørsted employs 6,500 people including over 1,000 in the UK. Ørsted is the largest offshore wind farm developer, generator and owner in the UK, and the world. Our energy retail business supplies power and gas to large, non-domestic customers and provide them with energy management solutions.

We welcome the opportunity to respond to the supplier licensing review consultation and Ofgem's intent to reduce disorderly exit and disruption to consumers and the wider market. Ørsted believes that this review into supplier licensing arrangement is timely, given the unprecedented number of supplier failures and the associated costs with the Supplier of Last Resort (SoLR) mechanism.

Ørsted supports reforms that will strengthen and help demonstrate an energy supplier's financial and operational abilities. As part of any sound general business practice, it is important for businesses to demonstrate responsible risk management and accountability to its customers, and to take a cooperative approach with its regulator. In the context of the energy supply sector, this means a robust, capable supplier that understands a fast-evolving landscape and how it may impact consumers.

Whilst we broadly agree with the reforms as proposed within this consultation, we believe that there is a significant implementation risk that the requirements may result in a duplication of efforts where a supplier already has robust business practices in place. In particular, we believe that the risk of supplier failure and consumer detriment in the large energy user market are low due to good existing business practices. If the proposed changes are disproportionately applied, this would add unnecessary costs to these consumers.

Recognition of the resilience of the Commercial and Industrial (C&I) segment and its structural differences with domestic and microbusiness supply will be critical to ensure policy is delivered efficiently. We set this out in more detail below.

Proportionate regulation to facilitate efficient business

We note that supplier failures have only occurred in the domestic and microbusiness sectors. In contrast, the Commercial and Industrial (C&I) sector has remained robust due to structural differences between the two segments. A more proportionate view on how each of these distinct segments can meet any credit balance requirements should be considered by Ofgem. This will ensure suppliers can remain efficient businesses and offer value to customers.

For example, in order to meet the requirements of supplying large non-domestic customers, C&I suppliers currently active in the GB market are backed by large parent energy groups with strong balance sheets and credit ratings. In the event of market exit, the process for C&I suppliers would be orderly and very different to SoLR, such as going through merger & acquisition or divestment. Customer credit balances will also be protected as part of the business transaction.

We also note that in the C&I market, most customer sites are settled on a half-hourly basis. As such, these customers pay their energy bills monthly and based on actual consumption rather than estimated consumption. This means that they do not incur large amount of credit balances that will remain in suppliers' accounts. Applying a 50% credit balance would therefore represent an inefficient cost layer that needs to be priced back into customer bills.

Avoid duplicating due diligence work already carried out by suppliers

We are also cautious that the proposals could result in duplicating work that existing C&I suppliers already perform in order to serve customers and mitigate risks.

For example, C&I suppliers are exposed to significant credit risk from customers due to the size of the energy supplied per customer. Should a large customer go into administration, the supplier will have to write-off unpaid bills when there is no credit protection in place. In order to mitigate these effects, a C&I supplier carries out the necessary counterparty due diligence that minimises impacts to the business. A large energy consumer will also not contract with a supplier that does not have the necessary demonstration of protections to ensure business continuity for the supply of their energy.

We are therefore concerned that overlaying additional requirements over existing practices carried out by C&I suppliers will result in additional costs to operating the business that are then passed back to consumers. We believe that where companies are already subject to reporting requirement or financial audits (e.g. listed companies) that these should be recognised as meeting requirements set out in the proposals.

A proportionate response may be to mandate these checks at the point of supplier market entry to ensure that new suppliers would have reasonable financial resilience, process setup, and managerial capability. However, stipulating such conditions in the licence as on-going requirements may not be appropriate as it could introduce unnecessary compliance and cost burdens for existing and experienced suppliers that overlap existing processes.

Please do not hesitate to contact me directly (olixi@orsted.co.uk, 07879 697812) if you would like to discuss our response further.

Yours sincerely

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