

Guidance

Milestone assessment guidance

Publication date: 26 November 2020

Team: Licensing Frameworks

Tel: 020 7901 7000

Email: supplier@ofgem.gov.uk

This guidance document is intended to help suppliers to understand the milestone assessment process and their obligations in relation to milestone assessments. It explains who is required to notify Ofgem in order to begin the assessment process and how and when to notify Ofgem. It also gives an overview of what information may be required and the criteria we will use as part of our assessment.

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10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

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1. Introduction

Context and related publications

- 1.1. A milestone assessment is a proactive 'deep dive' assessment that is conducted at a particular checkpoint.
- 1.2. Milestone assessments were introduced as part of the Supplier Licensing Review: Ongoing requirements and exit arrangements decision, published on 26 November 2020. The milestone assessment requirements (condition 28C of the electricity and gas supply licences) take effect on and from 22 January 2021.

General feedback and questions

- 1.3. We hope this guidance is clear and easy to follow. Please send any general feedback, comments or questions to supplier@ofgem.gov.uk.

2. General information for suppliers

Section summary

This section provides a summary of who is required to notify Ofgem and how and when notifications must take place. It also explains when an assessment may take place.

Notification requirements

Who is required to notify Ofgem and how?

- 2.1. A supplier is required to notify Ofgem when it reaches its first 50,000 and 200,000 domestic customer accounts for each fuel. Notifications must be sent via email to supplier@ofgem.gov.uk. This email must state the number of unique domestic customer accounts that it currently has for each fuel, the date at which the threshold was reached, and provide the name and e-mail address of the supplier's key contact for the milestone assessment. Ofgem aims to acknowledge receipt of the notification within five working days.
- 2.2. The requirement to notify Ofgem applies to all domestic licensees, whether the threshold is exceeded due to organic growth, through mergers and acquisitions, or customer book purchases. Where a supplier exceeds a threshold due to becoming a Supplier of Last Resort (SoLR), a separate notification is not required as Ofgem will be aware from the SoLR process that the supplier is exceeding the threshold. This does not necessarily mean that the supplier would be exempt from completing a milestone assessment.
- 2.3. We are not applying the new milestone assessment criteria retrospectively. Any supplier that passes the relevant thresholds prior to the relevant licence conditions coming into effect will not be subject to a milestone assessment. However, we may conduct a dynamic assessment of any supplier where we have concerns about their financial sustainability or ability to serve their customers. If a supplier is above the relevant customer threshold and then falls below the threshold, it will not be required to notify Ofgem when it exceeds the threshold again.

When will a supplier be required to notify Ofgem?

- 2.4. A supplier must notify Ofgem when they reach the relevant threshold. We expect to receive the notification within 10 working days from when the threshold is reached.
- 2.5. There may be extenuating circumstances, but we envisage that delays in notifying Ofgem should be rare.

Who is required to complete a milestone assessment?

- 2.6. All domestic supply licensees are required to notify Ofgem when they reach the relevant customer number thresholds, however there may be circumstances in which Ofgem decides an assessment is not needed.
- 2.7. Ofgem will have the flexibility to decide whether a milestone assessment is required. For example, a supplier may have recently undergone a dynamic assessment, it may have recently had a milestone assessment due to exceeding the relevant threshold for the other fuel, or the supplier may have exceeded the threshold due to becoming a SoLR. Ofgem will have flexibility in terms of the timing of the assessment, whether another assessment is required, or whether information requested in the assessment should be adapted based on information we already have about the supplier.

Timing of milestone assessments

- 2.8. Ofgem may conduct a milestone assessment at any point in time after it has been notified by the supplier. This will allow us to prioritise assessments, or delay assessments, for example when a supplier has crossed the threshold due to being appointed as a SoLR. Following a supplier's appointment as a SoLR, it may be impractical to carry out a milestone assessment within the relatively short space of time. Given the SoLR assessment itself would look at similar criteria to a milestone assessment, we may want to delay any assessment.
- 2.9. Ofgem will generally seek to conduct an assessment soon after being notified by the supplier that they have reached the threshold. The purpose of the assessment is to ensure that suppliers are adequately resourced and prepared for growth at appropriate points in time after their market entry, and that they maintain the capacity and capability to deliver a quality service to their customers. Conducting an assessment

soon after notification will enable us to mitigate the risk of consumer harm in a timely manner.

- 2.10. When a milestone assessment is required, we will send an information request to the supplier. Condition 5 of the Electricity and Gas Supply Licence Conditions enables us to gather information for the purpose of performing our statutory duties, and requires the licensee to provide the information by a certain deadline and in the form requested.
- 2.11. Ofgem will generally request a response to the milestone assessment within 20 working days of sending the request. As the supplier will already have notified Ofgem, they should be expecting the request. They should also be aware of what information may be requested and so be able to prepare for this.
- 2.12. There is no set time period for Ofgem to assess responses but we aim to review them within a reasonable time period after they have been received. The time taken to assess will vary depending on the quality of submissions and whether any follow up or clarification is required.

3. Milestone assessment content and our approach to assessment

Section summary

This section explains the content of milestone assessments, our approach to assessment and what information suppliers need to provide / what suppliers will need to demonstrate for the purposes of milestone assessments.

Content of milestone assessments

3.1. The milestone assessment information request may contain questions requesting information on:

- operational performance in relation to customer service, billing, switching, debt management and vulnerability;
- scaling of customer service functions against projected growth and how the supplier has given due regard to maintaining customer service standards, including in relation to customers in vulnerable circumstances and debt management processes;
- how suppliers have assured themselves that IT systems, billing systems and Customer Relationship Management (CRM) are fit for purpose and integrated into their growth strategies;
- oversight and controls over outsourced functions;
- plans in relation to pricing strategy, tariffs and products, projected volume of energy and purchasing strategy;
- how the supplier budgets for energy-specific charges and collateral requirements;

- how the supplier budgets for costs resulting from obligations under the government's renewable energy, energy efficiency and social schemes, and plans for changing costs associated with business scaling;
- plans the supplier has to seek further investment;
- how the supplier is meeting (or planning to meet) obligations that begin at certain thresholds; and
- the supplier's Customer Supply Continuity Plan.

3.2. Depending on what information we already have about a supplier, we may not necessarily require suppliers to answer all questions. This list is non-exhaustive and we may ask other questions on a case-by-case basis.

Our approach to assessment

3.3. In responding to the milestone assessment questions, suppliers must provide us with sufficient information to enable us to make a qualitative risk-based assessment against the following criteria.

Criterion one: the supplier has the appropriate resources (both financial and operational) to manage its current customer base and for its growth plans, including but not limited to:

- how it will manage and resource core operational processes and functions including IT systems, to maintain customer service standards, giving due regard to customers in vulnerable circumstances;
- reasonable assumptions about the impacts of growth on its financial and operational resources;
- awareness of key risks and a plan to manage/mitigate these; and
- costs associated with government schemes and regulatory obligations.

Criterion two: the supplier understands and has sufficient plans to meet / is meeting regulatory obligations linked to customer thresholds (both upcoming and those that currently apply).

- 3.4. Depending on the responses, we may require further details or clarification from the supplier. If our concerns are significant and have not been addressed, and if Ofgem deems it appropriate and proportionate, following this we may require that the supplier undertakes an independent audit.
- 3.5. Further detail on these criteria is provided below. We expect suppliers to be able to demonstrate that they are meeting these criteria. Where they cannot do so, as with other forms of intelligence gathering, this could lead to compliance and enforcement action where it appears to the Authority that the supplier is contravening or is likely to contravene its obligations.

Detailed information requirements

- 3.6. Below we provide details of the information we expect suppliers to provide in response to some of the milestone assessment questions.

Criterion one: the supplier has the appropriate resources (both financial and operational) to manage their customer base and for their growth plans.

Core operational functions and processes

- 3.7. Suppliers should explain their business functions and how they are resourced, including details of any outsourced functions. Suppliers should explain how they identify and serve customers in vulnerable circumstances and provide details of their debt management processes. Suppliers should also make clear how they intend to scale their customer service function against their projected growth and show that they have given due regard to maintaining customer service standards, particularly with reference to how they identify and serve customers in vulnerable circumstances.
- 3.8. Suppliers should include details of any outsourced functions and what oversight/controls are in place to ensure that those third parties deliver the required service to the required standard.

- 3.9. For all core functions, suppliers should provide: high level details of the main responsibilities of each function and how the number of staff in each business function aligns to growth plans.

IT systems

- 3.10. Suppliers should provide information on their IT systems and integration testing, including switching, billing and Customer Relationship Management (CRM), and how IT is integrated into their business and the growth strategies. Suppliers should be aware of the impact their growth plans could have on their systems and customer service capability, including how they identify, record and manage customers who are in a vulnerable situation to ensure that they treat these customers fairly.

Pricing strategy, tariffs and products

- 3.11. We want to understand how suppliers have positioned themselves in the market, including if they intend to grow the business and how they propose to manage the associated risks. Suppliers should provide details of their pricing strategy (both current and future) and highlight if these are considered reflective of costs. If not, suppliers must make clear how the risks associated with a loss-leading tariff are to be mitigated, and demonstrate that they have sufficient funding to cover the costs of this strategy.

Projected volume of energy and purchasing strategy

- 3.12. Suppliers should provide an indication of the amount of energy they supply and their strategy to buy energy in line with their growth plans. This should include details of who is trading on their behalf (if applicable), their understanding of the market, the costs and risks of their strategy, and how they will mitigate their wholesale and imbalance risk.
- 3.13. We expect suppliers to provide specific detail on: their hedging strategy and any reliance on the balancing market for an extended period of time; whether there are any purchasing agreements in place (or any intention to put in place purchasing agreements) and plans to deal with potential collateral requirements; how their approach differs by tariff type; and how often they plan to review their strategy.
- 3.14. Suppliers should understand the demand profile of their customers, the wholesale market contracts they plan to use for their hedging, and the percentage of their

demand this covers. If there is no hedging strategy, the supplier must demonstrate an awareness of the associated risks and how the downside risks would be addressed (and funded if applicable). This is particularly important if the supplier is offering fixed-term tariffs without having hedged forecast volumes.

Financial costs

3.15. Suppliers should provide details of how they budget and plan for:

- energy-specific charges and collateral requirements (including wholesale costs, Capacity Market charging, imbalance charging, network charging, smart metering and DCC costs, Ombudsman scheme);
- costs resulting from the obligations under the government's renewable energy, energy efficiency and social schemes; and
- changing costs associated with business scaling and how they plan to manage this (including additional costs from government schemes and other regulatory obligations that apply once a supplier exceeds a certain number of customers).

Criterion two: the supplier understands and has sufficient plans to meet regulatory obligations that link to customer thresholds (both upcoming and those that currently apply).

3.16. We will consider whether the supplier appears to have a good awareness of the relevant obligations that currently apply to them, and will apply in future, and whether they can show what practical steps they have taken (or will take) to ensure they can comply with them.

3.17. For the assessment at 50,000 domestic customers, suppliers should provide details of how they are compliant with SLC 27.1, which requires suppliers to offer a wide choice of payment methods, including cash and payment in advance through a prepayment meter. They should provide supporting evidence to demonstrate this.

3.18. For the assessment at 200,000 domestic customers, suppliers should provide details of how they are meeting obligations that begin at 150,000 domestic customers. This currently includes the Warm Home Discount (WHD) and Energy Company Obligation (ECO).

- 3.19. For the assessment at 200,000 domestic customers, suppliers should also provide details of the plans they have in place to meet obligations that begin at 250,000 domestic customers, including the Feed-in Tariff (FIT) scheme. Where a supplier has not made plans to comply with obligations that begin at 250,000 domestic customers, we expect them to provide an explanation of this and the expected timescales.