

Thursday 20 August 2020

To: Licensing Frameworks, Ofgem
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Statutory Consultation response: ongoing requirements and exit arrangements

Licensing Frameworks Team -

We have studied the pending licence changes with close interest and appreciate the opportunity to respond to what is a comprehensive consultation paper. With the process to apply these changes now in the last stage, we think it appropriate to come back out of the detail and restate the key issues of broader principle.

The supply market remains in a delicate stage of its development. On one hand we have experienced three years of a highly fragmented market starting to consolidate; an experience which has proved expensive in terms of the mutualised costs left behind. On the other, the market remains in a fragmented state and there will be considerably more consolidation to come; consolidation which will be unduly expensive to achieve without new financial safeguards.

Therefore we support the package of tightening measures that will come into play from this consultation, particularly the headline addition of a Financial Responsibility Principle. Also of particular note is the addition of new powers to prevent Supplier of Last Resort distortion occurring via trade sales, which market observers can see has happened in certain past cases.

Where the pending changes fall short is in delaying the application of prescriptive cost mutualisation protections. By definition, a supplier that cannot afford to operate if it has to ring-fence a proportion of customers' credit balances is insufficiently resilient.

Ring-fencing credit balances would also resolve, or partly resolve, the unintentional and distorting market feature of moral hazard created by the Safety Net. There remains no creditor for the credit balances lost by a failed supplier, and therefore no penalty (from the sold or liquidated assets) for failing to safeguard customers' money.

It is therefore welcome at least that prescriptive cost mutualisation protections are only delayed, rather than dropped. It will be important that the next steps are outlined clearly, in order that this necessary next tranche of licence developments is not lost in the long grass. With this in mind we will ascertain what consensus there may be in the sector to follow up on this issue as soon as possible, in order to contribute further to Ofgem's work.

Kind regards, on behalf of Utility Warehouse,

Ben Sheehy
Head of Energy Compliance and Regulation