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Industry Codes & Licensing
Ofgem

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Dear Sirs

Re: Ofgem Supplier Licensing Review

I refer to your consultation published 21 November 2018.

Calvin Capital Limited (hereafter referred to as CCL) is very pleased to respond to your supplier licensing review.

CCL is a Meter Asset Provider (MAP) providing metering solutions for energy suppliers. We deliver conventional, SMETS1 and SMETS2 meters to a wide range of suppliers.

Our interest in this review is to protect the interests of CCL by reducing the number of suppliers entering the supplier of last resort (SoLR) process. Each time SoLR is triggered there is a high potential for supplier agents, including MAPs, to lose income from unpaid invoices amassed by a supplier prior to entering the SoLR process and also up to the date a new supplier is appointed by Ofgem. The increased risk of incurring bad debts through the volume of suppliers exiting the market will likely increase costs for all market participants.

We feel that MAPs are particularly vulnerable to lose of income through the SoLR process as we are unable to "choose" which suppliers use our meter assets once a meter asset churns away from an installing supplier. We are looking for this Ofgem review to deliver changes which will reduce the volume of suppliers entering the SoLR process. CCL expect that the measures set out by Ofgem in this review will provide some improvement but we would also like Ofgem to consider whether any additional measures could be put in place to provide an additional level of security to industry parties who are unable to opt out of a relationship with a supplier. We note that under the Distribution, Connection and Use of System Agreement (DCUSA) suppliers are required to provide cover to distribution businesses (DNOs) to enable DNOs to recover income from a supplier who is in default. We are interested in exploring whether this concept can be replicated in some form to provide a guarantee to other industry parties against bad debts when a supplier exits the market.

Our responses to your specific consultation questions are set out below.

If you have any questions regarding our response or require any further clarification, please do not hesitate to contact me.

Yours sincerely

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Regulation Manager

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Q1: Do you agree with the principles we have set out to guide our reforms? (need to consider financial resilience and customer service principles)

We agree with the principles set out by Ofgem. We believe that some of the principles should be enhanced further:

- You state that "Suppliers should adopt effective risk management and be adequately prepared and resourced for growth". We believe that suppliers should demonstrate that they are prepared for a range of growth scenarios from low to high such that they are able to provide a robust response to any future position. Supplier failures to date have covered both very small suppliers, whose growth has stalled, and large suppliers whose growth has been exponential.
- We believe that better checks are required ahead of market entry to ensure that a new supplier is able to meet its obligations to ALL industry parties from day one. This should not be limited to supplier obligations to customers.

Entry Criteria policy options

Q2: Do you agree with our proposal to introduce new tougher entry requirements and increase scrutiny of supply licence applicants? Do you agree this can be achieved with increased information requirements and qualitative assessment criteria?

We agree with the approach suggested and that, in principle, this can be achieved with increased information requirements and scrutiny. We would need more details on the level of detail that new entrants would be required to produce to confirm this high-level view. Again, any review of tougher entry requirements needs to consider the interests of all industry parties, not just consumers.

Entry Criteria Initial Proposals

Q3: Do you agree that our proposed assessment criteria for supply licences applications are appropriate?

We agree with the proposed assessment criteria although we stress that criteria 2 (The applicant understands their regulatory obligations and has appropriate plans in place to meet these) must cover all regulatory obligations to all industry parties. In particular, the new entrant should be able to demonstrate that they have the resources and systems available to enable them to meet requirements to transfer industry data to relevant parties in a timely manner.

Q4: Do you agree that applicants should provide evidence of their ability to fund their activities for the first 12 months, and provide a declaration of adequacy?

Given that the majority of supplier failures have not occurred within the first 12 months of operation, we question why Ofgem are restricting their assessment to this initial 12-month period and whether Ofgem should consider a longer period.

Q5: Do you agree with the specific information we would generally expect applicants to provide (in Appendix 1)? If not, why/what would you add or change?

In general we agree with the information listed although we would believe that the level of information to be requested is also critical to the checks to be made.

We would like to see Ofgem carry out checks on the ability of new entrants to function in the market; checking that the new entrant has both the necessary systems, resources to run those systems and knowledge of their obligations in respect of data exchange with relevant industry parties.

Q6: Do you agree that applicants should provide a narrative in respect of their key customer-related obligations under the licence?

Yes, but we believe that this narrative should be extended to all key obligations under the license rather than restricting this to customer related obligations only. Failure by suppliers to meet their obligations to other industry parties will ultimately affect customers.

Q7: Do you agree with the areas we would generally expect applicants to cover (in Appendix 1)? If not, why/what would you add?

As previously set out we believe that Ofgem should carry out checks on the ability of new entrants to function in the market. Checking that the new entrant has both the necessary systems, resources to run those systems

and knowledge of their obligations in respect of data exchange with relevant industry parties should be assessed before any new party enters the supply market.

Q8: Do you agree that we should ask additional 'fit and proper' questions as part of the application process (as set out in Appendix 1)?

Yes we agree. However, Ofgem need to set out clear guidelines of what is considered fit and proper and what is not considered acceptable for the purposes of new parties entering the market.

We also believe that the same questions should be asked retrospectively for all existing suppliers in the market creating a level playing field for all suppliers and reassurance to industry parties about the health of existing suppliers.

Timing of Licensing Initial Proposals

Q9: Do you agree that Ofgem's licensing process should be undertaken closer to proposed market entry? Do you identify any barriers to this approach or any adverse impacts of this change?

As we are not a supplier we are not aware of when a new entrant will have access to the information to be requested by Ofgem ahead of market entry.

We believe that the checks should be carried out at such a time that the required level of information is available to the supplier to readily provide and must be ahead of market entry.

On-going Requirements

Q10: Do you consider that suppliers should report on their financial and operational resilience on an ongoing basis? If so, do you have any initial views on the content of these reports/statements?

Since the assessment of new entrants is no guarantee of future standards or financial stability, we believe that on-going assessment must be introduced by Ofgem. This on-going assessment should apply to all suppliers in the market and could potentially follow a risk-based approach. Ofgem need to consider the level of checks they believe are required and the frequency at which these checks should be carried out based on how soon before a supplier failures suitable checks would provide warning signs of potential problems.

Q11: Do you have any initial views on the potential introduction of targeted or strategic monitoring/requirements on active suppliers?

Yes. We believe that monitoring should be introduced for active suppliers to ensure that they remain fit and healthy and able to meet their financial and operational requirements.

Q12: Do you have any initial views on the potential introduction of prudential/financial requirements on active suppliers?

Yes. Requirements should be introduced based on known indicators giving earlier identification of supplier stress. We believe that all suppliers should be required to provide on-going and regular assurance to Ofgem that they remain financially and operationally resilient.

Q13: Do you consider that Ofgem should introduce a new ongoing requirement on suppliers to be 'fit and proper' to hold a licence?

Yes. Any requirement on suppliers being "fit and proper" to hold a licence should be an on-going requirement with regular assurance from suppliers of their position. On-going checks could be risk based to respond to changes in the market or market intelligence.