

Reference
SGN 01/23.

Date
23 January 2019



Dear Lisa Charlesworth and Jeremy Adams-Strump,

Consultation on Ofgem’s Supplier Licensing Review

SGN welcomes the opportunity to participate in this important review of Ofgem’s Supplier Licensing.

As a major stakeholder, we’re naturally mindful that recently there have been some issues with smaller suppliers ceasing trading which can have a significant impact across the total value chain if services are disrupted or payments not made.

It’s the industry responsibility to maintain the best social and environmental credentials. SGN is fully committed to ensuring first class customer care for all our customers and continually strive to improve in all areas of performance. An example of this, is our dedicated programme of work ‘Help to Heat; focused on delivering positive outcomes for customers that need more help. Ensuring the most vulnerable in society are supported by their suppliers is a key goal and eradicating fuel poverty must be a task shared by all stakeholders involved in delivering energy to UK homes.

Operating our networks in both some of the remotest parts of Scotland and by contrast in London / South East England, we continually address challenges that bringing safe, reliable energy to homes and businesses presents. We proactively drive open dialogue with the many stakeholders involved in the complex UK energy market.

Please find our response to the Consultation below.

Do you agree with the principles we have set out to guide our reforms?

2.12 – SGN is aligned to the principles set out by Ofgem.

However, we note that the Consultation has stated “energy supply is a competitive market and we will not operate a ‘zero failure’ regime.” However, for many years multiple energy suppliers operated competitively without any failures.

After the deregulation of the UK’s energy market in the 1990s until November 2016, only one supplier ceased trading (2008). Efforts to increase competition in the energy sector prompted a flurry of new entrants, with a sharp rise seen from 2015 onwards and since 2016, more than ten suppliers have ceased trading.

There were 73 active electricity and gas suppliers in June 2018, compared with 60 in 2017 which was already a 400% increased from 2012 (14 suppliers). As is well documented, there has been a dramatic number of supplier failures in the past year. These supplier failures can surely or at least in part, be directly attributed to the number and speed of licenses provided for new market entrants which has created a crowded market place, and as such SGN feels that some of the supplier failures could have been prevented.

4.16 - 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?

Yes. SGN agrees that there should be tougher entry requirements and increased scrutiny for supply licence applicants. Companies should have to clearly demonstrate that they can support all their customers and that they have adequate financial resources in place to see through any volatile periods in their first years of trading.

SGN also agrees that tougher entry requirements can be achieved with increased information requirements and qualitative assessment criteria.

From the options proposed by Ofgem, SGN feels the new tests for suppliers entering the market would help to ensure customers will be better protected against the risk of a poorly performing supplier. Our preferred option is number 2 as SGN considers these tests to be well balanced against providing competition and innovation in the energy market.

5.4. Do you agree that our proposed assessment criteria for supply licences applications are appropriate?

Yes. No further comment.

5.14. 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?

Yes. SGN feels that any licence applicant should provide evidence that there is enough resource available to provide first class care from the very first customer.

Some of the more recent entrants into the market have – through price comparison websites – advertised exceptionally low prices. This is naturally appealing to the end customer seeking the cheapest deal possible. However, Ofgem and market data has demonstrated that there is often a direct correlation between the lowest prices for energy and the worst customer care. Such low-margin businesses clearly risks or at least limits investment in the many departments a fully competent energy supplier needs.

SGN therefore fully agrees evidence of their ability to fund activities for the first 12 months is essential with robust due diligence and stress testing of business plans required.

5.15. 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?

SGN feels that the information that would be asked of new applicants as set out in Appendix 1 is fair and reasonable and considers this the minimum of what should be expected for any business that wants to take on the important role of providing gas and electricity to homes across the UK.

Technological advances mean that new market entrants are able to buy 'off the shelf' packages such as Utiligroup's 'supplier-in-a-box' CRM package.

Furthermore, currently, a new supplier is not required to invest in UK staff or premises and can operate via outsourced customer service centers often outside of the EEA e.g. in countries such as South Africa and the Philippines which makes regulation even more challenging e.g. data protection and customer care.

Where the 'Big 6 suppliers' have invested in teams and infrastructure e.g. IT systems and established staff training programs – some of the smaller suppliers outsource core functions retaining minimal core staff. This becomes a challenge when dealing with problems such as a complex metering issue or a bill dispute.

Evidence from both CAB's and Trust Pilot's supplier ratings for customer service suggests that certain small suppliers have no understanding of Green Deal finance customers or how to manage the payments, resulting in difficult complaints. Of course, the large suppliers can get things wrong too, however the available data suggest that some of the smaller suppliers that have had an easy entry into the marketplace often perform badly more often.

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

Yes.

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

Yes.

5.29. 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. SGN fully agrees that Ofgem should ask additional 'fit and proper' questions as part of the application process. The proposal in Appendix 1 seems sensible.

In addition, Ofgem may want to consider carrying out a Cifas ‘fraud’ check. Cifas is the national fraud database for instances of fraudulent conduct and financial crime committed by individuals and companies. As part of the licence application, Ofgem could check details against the Cifas database for matches with individuals whose behaviour appears to be consistent with that of known fraudulent conduct. This information, in conjunction with the questions as set out in Appendix 1 should help Ofgem make a decision over whether or not to grant a licence.

6.8. 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?

Yes, the licensing process should be undertaken as close to the proposed market entry as possible. SGN is not aware of any barriers to this approach or any adverse impacts of this change.

7.14. 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?

SGN agrees that suppliers should report on their financial and operational resilience on an ongoing basis.

Two of the most recent supplier failures highlighted that Renewables Obligation payments were not being met and in each case £15 million debt created. If details around the impact of the Renewable Obligation payments on these businesses had been reported more transparently and in a timely manner perhaps more could have been done to proactively manage the pending failure.

Another issue to highlight is around social and environmental schemes such as the Warm Home Discount (WHD), Energy Company Obligation (ECO), and the Feed in Tariff (FIT’s). These schemes generate costs for suppliers once they pass the 250,000 customers participation threshold.

Although some work has been done on ensuring the ‘cliff edge’ impact of having to meet these obligations can be tapered, the reality is that a supplier reaching the threshold must then achieve more than 300,000 customers in order to compensate for the costs of meeting these schemes. Interestingly, the two most recent supplier failures had customer bases of around 250,000 customers and chose to exit.

SGN believes that transparent and regular reporting along with realistic stress testing around the impacts of the schemes listed above could help support suppliers that are in transition from new entrants through to obligated suppliers.

SGN has seen that some small suppliers with customer bases as low as 10,000 are ‘opting in’ to give their customer the support of the Warm Home Discount scheme. This demonstrates that some small suppliers are putting the needs of potentially vulnerable customers ahead of making a quick return on investment. Obligating suppliers to make Warm Home Discount payments from the very first customer onwards would demonstrate good planning and strive for sustainability.

The current set-up imposes costs in an asymmetric way, such that larger suppliers have greater obligations than smaller suppliers and this affects costs. Some of the small suppliers free from the

burden of paying for the social and environmental schemes easily attract customers on price and then, as we have seen recently – leave the market place around the point they are due to reach the participation threshold. As an example, one of the most recent suppliers that failed with 290,000 customers reported £30 million profit in 2017, with a rise to £36 million in 2018, only to then cease trading with £15 million in unpaid Renewable Obligation debts in early 2019. The current framework arguably encourages a ‘boom and bust’ attitude from certain suppliers, and improvements could definitely be made around financial and operational resilience reporting so that Ofgem can intervene at the earliest point when problems begin to arise.

On this topic SGN proposes acknowledges there are likely to be many views on what should be included and recommends a workgroup session would be a good opportunity to gather the viewpoints of all the stakeholders.

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

SGN supports Ofgem’s comments on the potential introduction of targeted or strategic monitoring / requirements on active suppliers. In particular, the option to have certain actions occur at specific ‘milestones’ in an energy supplier’s growth seems to make considerable sense. Deciding these ‘Milestones’ may prove quite difficult, and again the appropriate use of a workgroup session may help.

Also, submission of information if growth or certain metrics are materially different from projections can help ensure developments are kept in check. This could also include situations where there is more prepayment over that of Monthly Direct Debit customers than expected, which could impact on a new entrant to the markets expected return on investment.

7.31. Do you consider that Ofgem should introduce an ongoing requirement on suppliers to be ‘fit and proper’ to hold a licence?

Yes

It is unfortunate that there has been a spate of energy suppliers failing in the past year, and anything that can be done to prevent any further failures is very much welcomed. SGN considers this consultation key to help stabilising the market and is very timely.

We hope our feedback is useful to Ofgem as it develops its strategy to manage new and existing supplier licensing arrangements.

If you would like to discuss any of the points in this letter further, please do not hesitate to contact me or a member of the SGN team at the address below.

Yours sincerely

Edward Fyfe
Regulation & Codes Officer
St Lawrence House,
Station Approach,
Horley, Surrey
RH6 9HJ
07583056829 •

edward.fyfe@SGN.co.uk

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