

Supplier Licensing Review

Stakeholder workshop November 2019



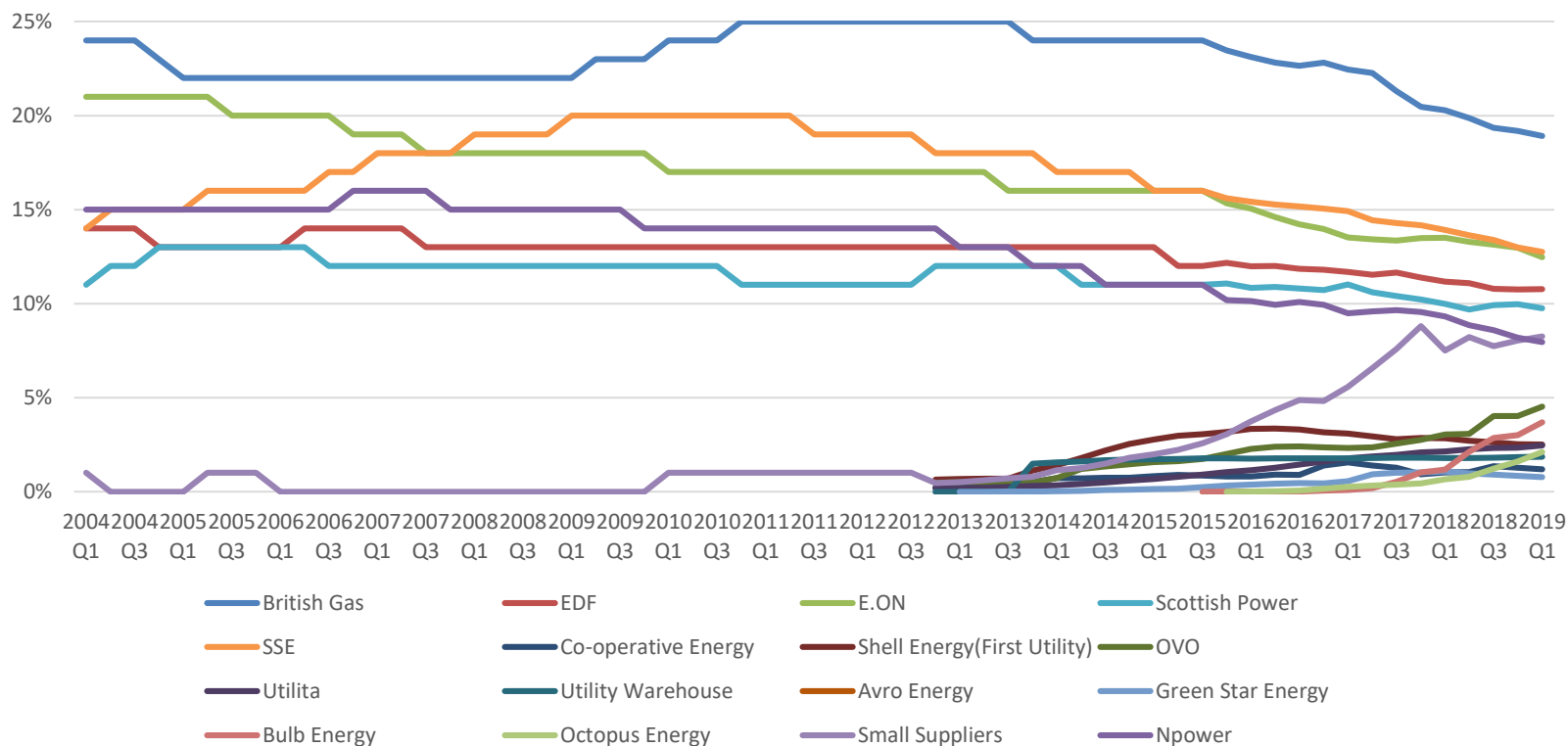
ICL Team
26/11/2019

This workshop is designed to provide you with an opportunity to:

- 1. Feed in your views** as we further refine the policy proposals for the statutory consultation. We are open to hearing your suggestions.
- 2. Help us understand the practicalities of implementing** certain policy proposals.
- 3. Highlight any risks** associated with the policy proposals.

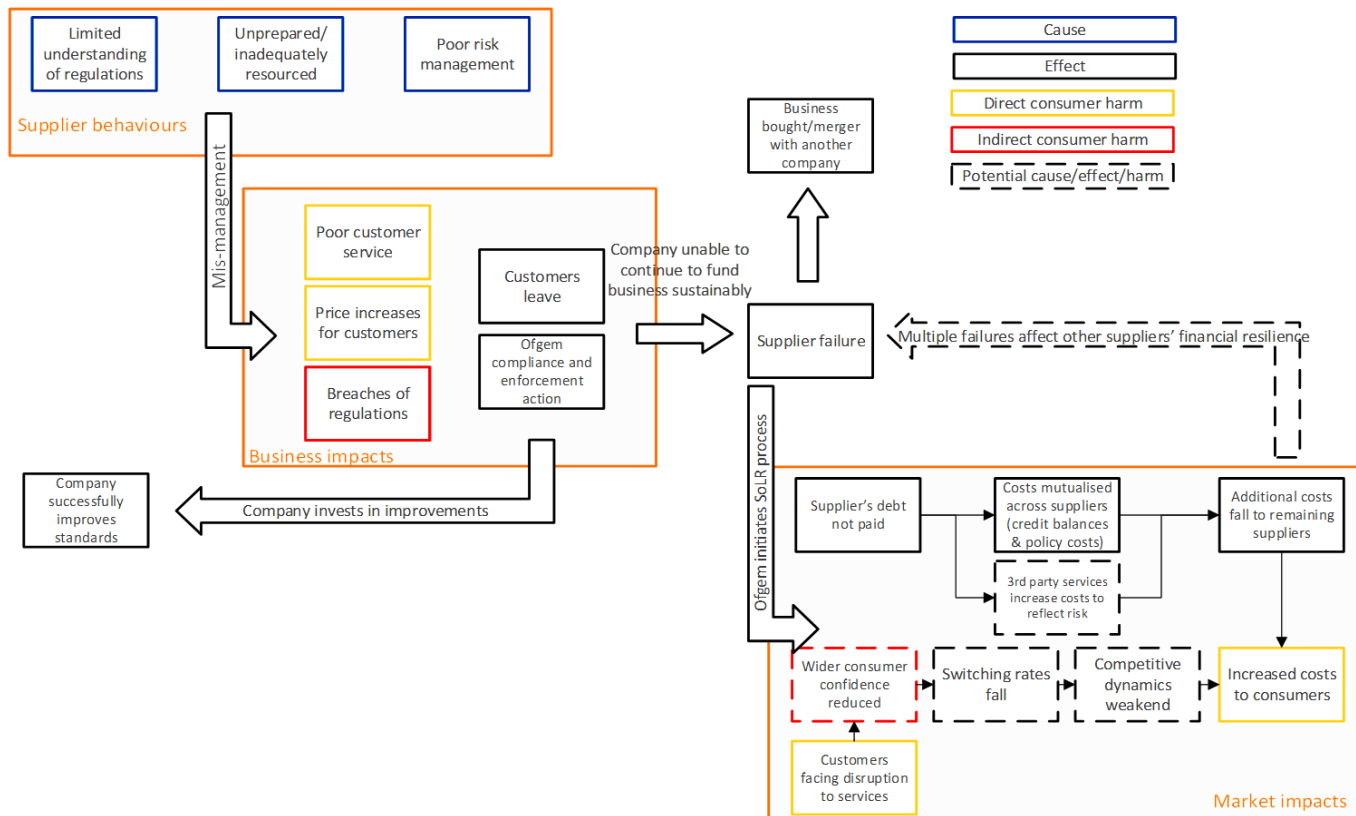
There has been a significant increase in the market share of smaller suppliers in recent years – small and medium sized suppliers now account for around 30% of the market. Consumers have benefited from increased competition.

Domestic electricity supplier market share over past 15 years (%)

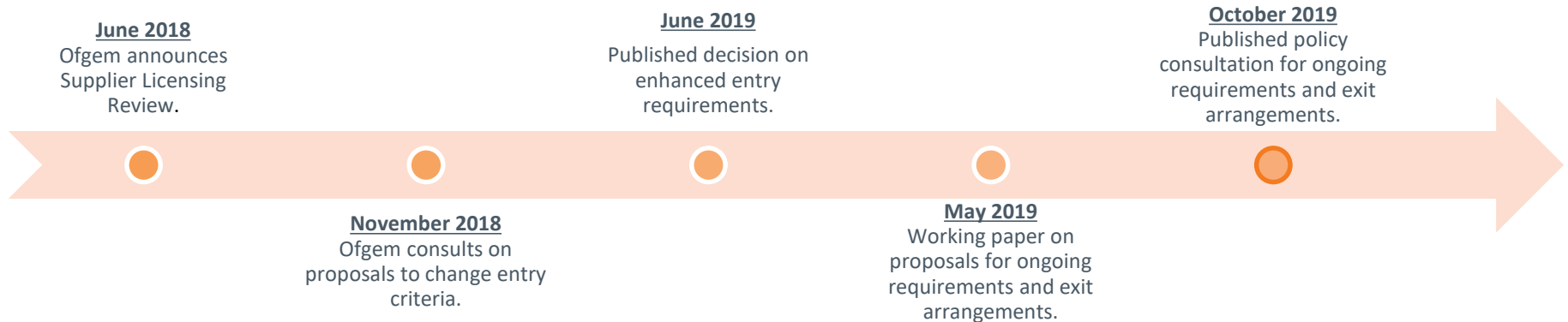


However, increased market entry has created some risks for consumers. A number of energy suppliers have failed over the past 18 months, and others have failed to meet their financial commitments under government schemes such as the Renewables Obligations and Feed-In Tariffs regime.

Theories of harm



As in any competitive market, we expect that over time some suppliers may fail. We want to ensure that if this happens customers are protected and wider market impacts are minimised.



Market Entry

- New requirement to demonstrate appropriate knowledge, funding, awareness of risks and necessary capabilities
- New requirement to demonstrate awareness of key regulatory obligations & how the supplier intends to comply
- 'Fit and proper' test of persons with significant responsibility



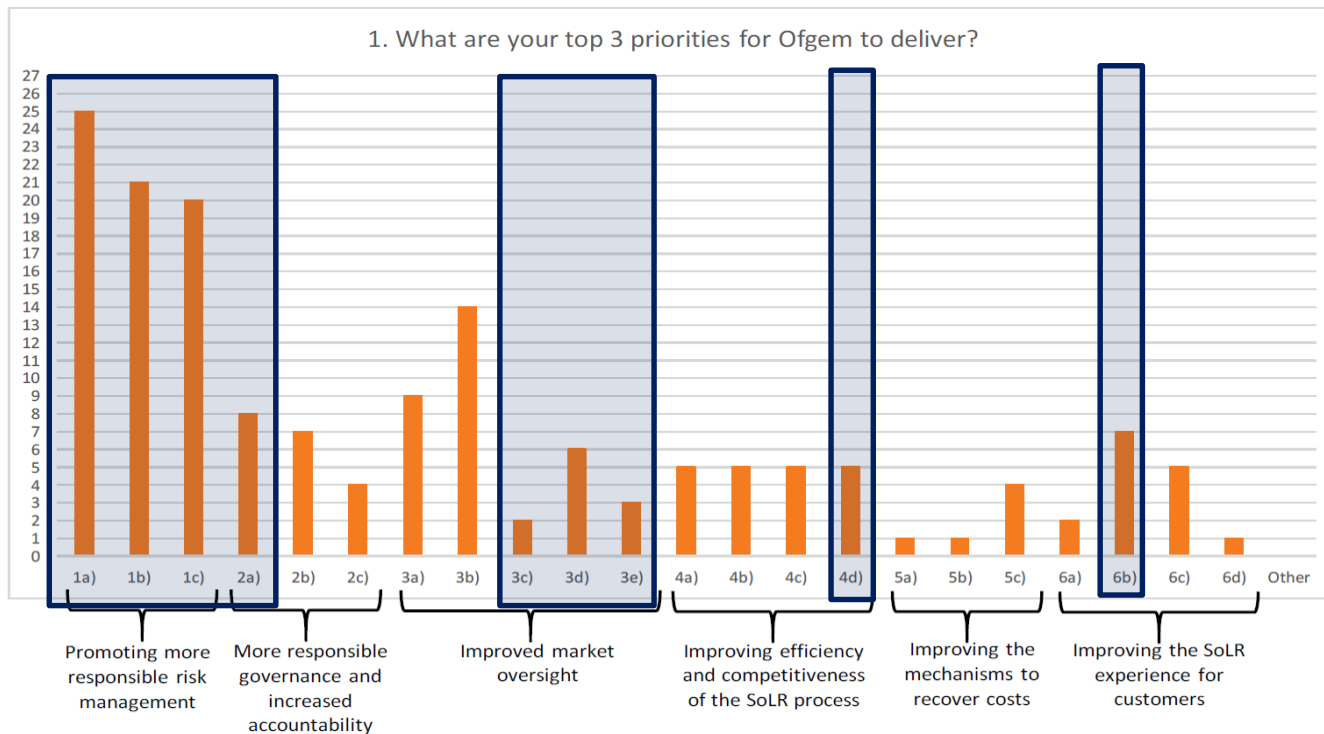
Ongoing Requirements & Exit Arrangements

- New requirements to ensure suppliers manage risk effectively and are prepared for customer growth
- New protections to ensure suppliers bear an appropriate share of the costs associated with risk, rather than wider industry
- New requirements to ensure suppliers, when they fail, do so in an orderly manner

Time	Agenda item
9:30-10:00	Registration
10:00-10:05	Welcome / context
10:05-10:25	Supplier Licensing Review
10:25-11:15	Introduction to key policy areas
<i>11:15-11:30</i>	<i>Morning tea & coffee</i>
11:30- 12:00	Workshop session 1
<i>12:00-13:00</i>	<i>Lunch</i>
13:00-14:00	Workshop session 2 & 3
<i>14:00-14:15</i>	<i>Comfort break</i>
14:15:-15:15	Workshop session 4 & 5
15:15-15:45	Feedback & floor discussion
15:45-16:00	Closing remarks

“A fit and proper test was generally seen as an ‘easy win’. Many participants were in support of this requirement, though there was no clear consensus on how this might work in practice.”

“There was strong and almost universal support for suppliers to have provisions in place that ensures customer credit balances are protected in the event of failure.”



“Stakeholders were interested in how Ofgem might enforce compliance with this type of obligation... Ofgem could request evidence of compliance (eg through independent audits).”

Many stakeholders felt that rules for protections against credit balance mutualisation should be extended to any potential debts that could be shared across the industry in the event of failure.”

“Prevention is better than cure”

Suppliers should...

- Adopt effective risk management and be adequately prepared and resourced for growth, and bear an appropriate share of their own risk.
- Maintain capacity and capability to deliver a quality service to their customers and foster an open and constructive dialogue with Ofgem.

Ofgem should...

- Maintain a proportionate oversight of suppliers, and ensure effective protections for consumers exist in the event of failure.
- Ensure our licensing regime facilitates effective competition and enables innovation.

Our proposals

Promoting better risk management

Cost mutualisation protections

Operational principle

Milestone assessments

More responsible governance and increased accountability

Ongoing fit and proper requirement

Open and cooperative principle

Increased market oversight

Living wills

Independent audits

General monitoring and reporting

Exit arrangements

Administrators

Trade sales

Portfolio splitting

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Market entry

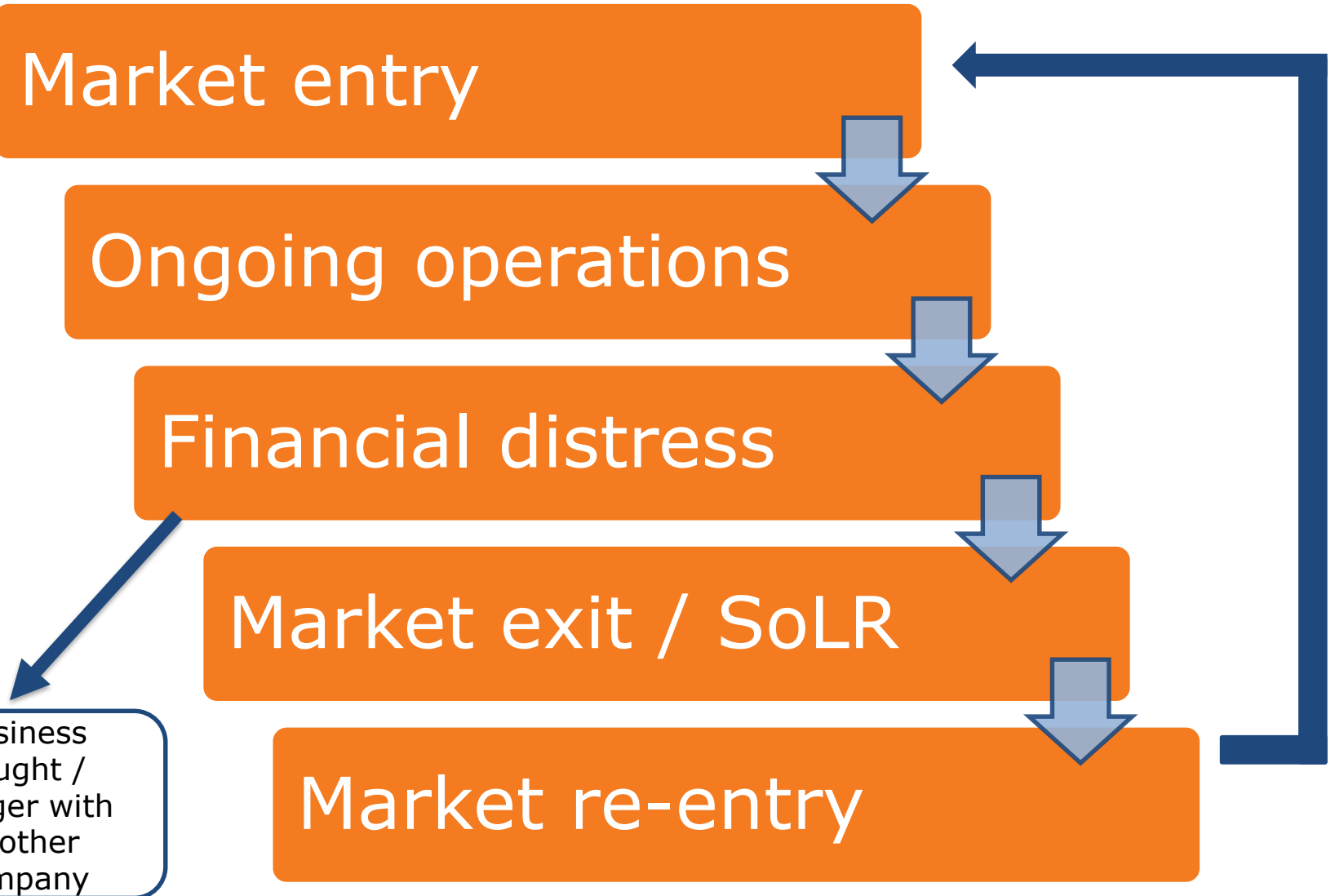
Ongoing operations

Financial distress

Market exit / SoLR

Market re-entry

Business
bought /
merger with
another
company



Introduction to key policies

Aims

- Reduce impact of supplier failure by mitigating the risk/size of costs to be mutualised.
- Shift risk to suppliers to incentivise better processes and practices.

The proposed solution

Require suppliers to protect 50% of their domestic credit balances and a proportion of government scheme costs. Suppliers can choose how to implement this from a 'menu' of options.

How?

- 'Group Parent Company Guarantees'
- '3rd Party Guarantee'
- 'Solicitor-Controlled Escrow Account'
- Other

We propose a 3-6 month period following our decision for suppliers to implement this requirement

Q&A

Aims

- Promote more responsible risk management from suppliers.
- Increase scrutiny of suppliers at appropriate points in time after their entry.
- Ensure that suppliers are adequately resourced and prepared to serve their customers

The proposed solution

Introduce new requirements for domestic suppliers to undergo milestone assessments conducted by Ofgem at certain customer number thresholds to ensure that they are adequately prepared and resourced for growth.

When?

Customer milestones

- 50,000 customers
- 150,000 customers
- 250,000 customers
- 500,000 – 800,000 customers

'Dynamic' assessment

- Signs of financial difficulty, such as:
- Missing industry payments,
 - Missing RO payments,
 - Other.

Failure of these assessments could result in different consequences.

Aims

- Ensure adequate plans are in place for an orderly exit in the event of supplier failure.
- Improve confidence in the market that when a supplier fails, it will do so in an orderly fashion.

The proposed solution

Require suppliers to maintain a 'living will' setting out the terms of their orderly market exit, and to make a public disclosure of this to promote confidence in the market.

This could consist of:

- An assessment of any barriers to an orderly exit supplier may face.
- Plans to mitigate the risk of excessive mutualisation of debts.
- Arrangements to ensure continuity of services by key service providers.
- Sensible plans for the sale of assets.
- Plans for engaging with Ofgem and industry central bodies during the wind down process.
- A methodology for the efficient handover of information.

To clarify, we will not require suppliers to analyse and report on the risk of failure, rather we intend to seek that suppliers create and maintain a living will which represents an up to date and practical exit plan.

Policy

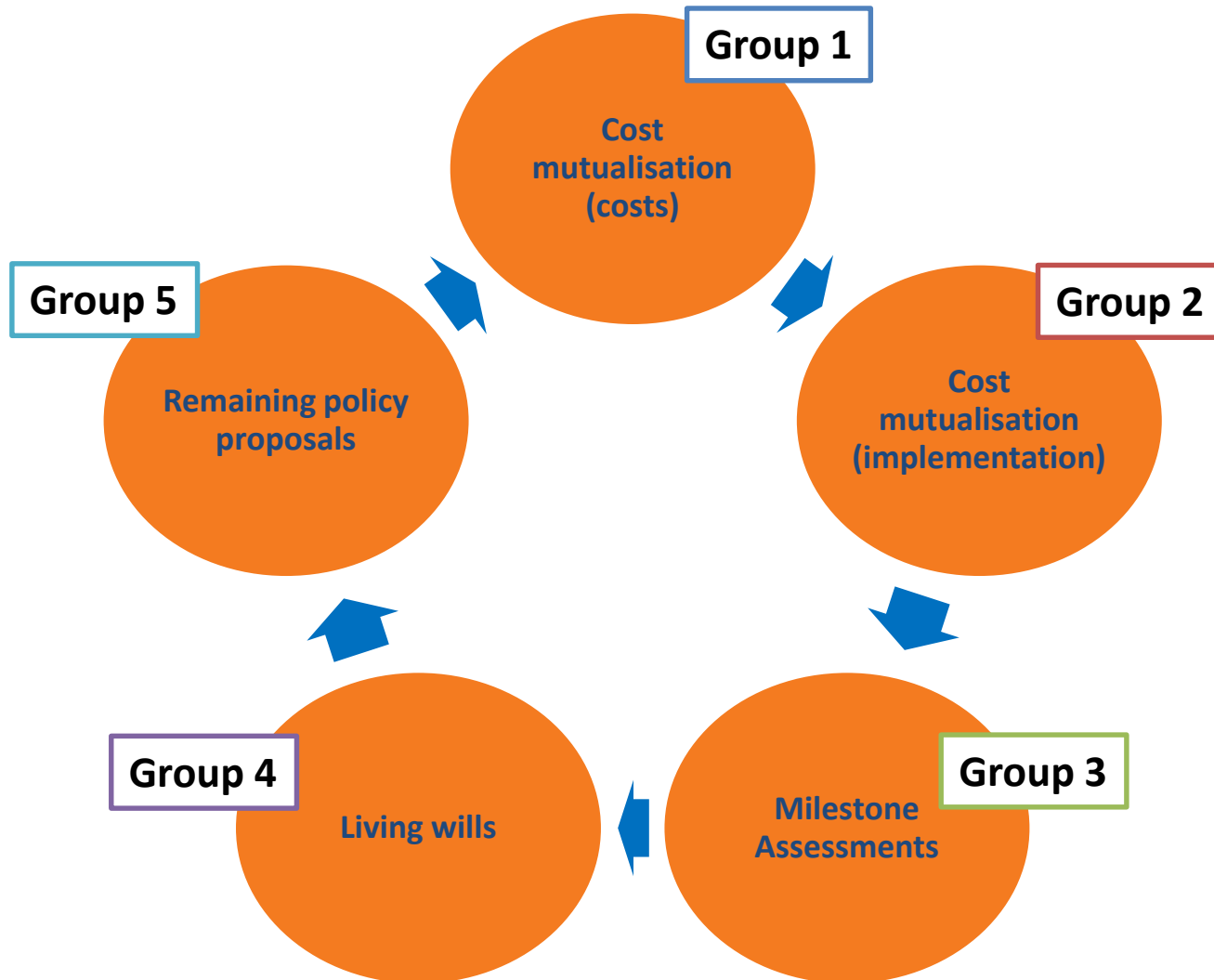
- Do you agree with our proposal as outlined in our consultation document?
- If not, what alternatives do you propose?

Implementation

- Are there any practical challenges with implementing these policies?
- Is the implementation outlined in the consultation period appropriate?

Reporting

- What reporting requirements do you think are necessary for this policy?



Tea and coffee break
11:15-11:30

Stations

- **Station 1:** Cost mutualisation – costs
- **Station 2:** Cost mutualisation – implementation
- **Station 3:** Milestone assessment
- **Station 4:** Living wills
- **Station 5:** Remaining policy proposals

Lunch
12:10-13:10

Stations

- **Station 1:** Cost mutualisation – costs
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- **Station 4:** Living wills
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Comfort break
14:30-14:45

Stations

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Feedback and floor discussion

- Policy consultation closes 3rd December
- Statutory consultation in early 2020
- If you would like to get in touch, please email licensing@ofgem.gov.uk

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

ANNEX

Discussion questions – cost and impact of policy

- Other than the cost of implementing and maintaining cost mutualisation protections, what impacts would our proposed requirement have on your business? How would this differ at various stages of growth?
- Do you think a proportion of government schemes should be included? What should this be?

Discussion questions – implementation

- What are the practical challenges or barriers to implementing the options we have identified? In particular, how can we ensure the protections prevails once an administrator has been appointed?
- Would an implementation period of 3-6 months be sufficient to put the required protections in place?

Discussion questions

- Should there be a final threshold of between 500,000 – 800,000 customers, and if so, what should this be?
- If you chose 'other' threshold, or do not think that we should use customer number thresholds, what are the alternatives?
- What specific checks would you like to see within the milestone assessments and what evidence could suppliers provide to pass the check?
- What are your thoughts on blocking suppliers taking on more customers until the assessment is passed? Do you think there should be a buffer for this?
- What factors should we consider to help us to identify where suppliers' may be in financial difficulty?
- Do you think that Ofgem should have oversight of, and the power to prevent, partial trade sales where a supplier is in financial difficulty? What would be the potential challenges

Discussion questions

- Which of the minimum criteria we have identified to be included in a living will do you anticipate would be most difficult to include in a living will?
- Is 1-2 months a sufficient implementation period to produce a living will containing the required information?
- Aside from the minimum criteria that we have identified, are there other considerations that should be addressed in a living will? What are these?
- Do you agree that in order to improve market confidence, suppliers should publish a public disclosure of their living will? What aspects of the living will is it appropriate to make public, and what aspects should remain confidential?
- Do you agree that with our proposal to require all suppliers to produce a living will?
- How often would should a living will be reviewed and updated?