

Proposed approach to dealing with supplier insolvency and its consequences for consumers

Ofgem consultation

A Response by Utility Warehouse

This document sets out the views of Utility Warehouse regarding the Ofgem consultation '*Proposed approach to dealing with supplier insolvency and its consequences for consumers*' issued by Ofgem on 13 June 2016. The response provided is on behalf of Gas Plus Supply Limited and Electricity Plus Supply Limited, both of which are wholly owned subsidiaries of Telecom Plus PLC; Utility Warehouse is the trading name for Telecom Plus PLC.

Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services spanning both the Communications and Energy markets. Customers benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of customer service. Telecom Plus does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied customers and distributors in order to grow its market share.

We take our responsibilities as an energy provider very seriously and make every effort to ensure we provide such essential services to our customers with the utmost integrity; the value of a customer is at the heart of our business model and the way in which we operate. Customer value is the cornerstone of the success we have and continue to achieve.

We understand Ofgem's preferred approach (Option 1) is to continue with the status quo, i.e. a case by case use of Supplier of Last Resort (SoLR) powers and in principle we have no objection to this approach.

While we understand Ofgem's desire to protect customers from the potential threat of supplier insolvency and indeed to protect any customer credit balances that may arise, we do not think it is appropriate that Ofgem could seek to allow a SoLR to recover such costs from the existing industry levy should a SoLR choose to offer to honour the reimbursement of such balances to customers as part of its SoLR application. In effect this would mean industry participants cash funding supplier's credit balance customers should the supplier go insolvent.

We firmly believe that more rigorous stress testing of a supplier's ability to operate in the GB energy market should be undertaken before a new entrant is allowed to commence the provision of energy supply to domestic customers. While we fully support competition in the sector, it is imperative that companies who operate in the market take their responsibilities incredibly seriously and those that choose do so must have the appropriate infrastructure in place, from collateral backing to the necessary operation of systems and staffing levels to support.

In recent years we have seen a range of evidence in the sector, through the opening of Ofgem compliance investigations, where some suppliers have clearly failed to ensure an appropriate infrastructure is in place to manage customer growth, complaints and billing etc. Repeatedly suppliers seem able to offer cheap unsustainable prices to fund their growth without actually having the supporting infrastructure in place to manage it.

Politically there is a constant rallying cry for cheaper energy tariffs that appears to ignore the commercial reality that if such tariffs, designed to encourage competition particularly with the disengaged, attract high growth for individual suppliers they also threaten the financial viability of a sustainable relationship when such suppliers can operate tariffs as loss making in order to drive growth.

The growing independent sector is at real risk should one of these “irresponsible” suppliers go bust. Customers will naturally flock back to the safety of the Big 6 in this circumstance and confidence in the independent supplier market will be challenged.

It is unfair to ask customers who haven't switched supplier to pay for the losses incurred by those who have benefitted from an artificially cheap price operated by an undercapitalised supplier, which if other suppliers are asked to fund, will need to be recovered from their customers through even higher prices.

One solution is to regulate for all credit balances to be held in a segregated (i.e. trust) account, possibly unless the supplier meets clearly defined capital adequacy rules.

While Ofgem have an accredited licence application process in place, it appears far too easy for a new entrant to simply purchase an accredited supply company off the shelf and then seek to commence trading without actually undergoing any testing itself.

While we recognise that Ofgem's licensing application arrangements include checks about the financial solvency of the applicant and any parent undertaking, if these were sufficiently robust it would seem far less likely that an energy supplier could face the potential risks of insolvency further down the line.