

This document is classified as **White** in accordance with the Panel Information Policy. Information can be shared with the public, and any members may publish the information, subject to copyright.



DP171

‘Undertaking a FUSA without a Supply Licence’

Modification Report

Version 0.2

1 September 2021

Corporate member of
Plain English Campaign
Committed to clearer
communication

592



Managed by



About this document

This document is a draft Modification Report. It currently sets out the background, issue, and progression timetable for this modification, along with any relevant discussions, views and conclusions. This document will be updated as this modification progresses.

Contents

1. Summary	3
2. Issue	3
Appendix 1: Progression timetable	6
Appendix 2: Glossary	6

Contact

If you have any questions on this modification, please contact:

Joe Hehir

020 7770 6874

joe.hehir@gemserv.com

1. Summary

This proposal has been raised by Karen Lee from ESG Global (Energy) Limited.

Following changes to licencing arrangements in 2019, prospective market entrants must now obtain their Supply Licence quite late on in their onboarding process. Without a Supply Licence, Suppliers cannot undertake a Full User Security Assessment (FUSA), preventing them from becoming a Data Communications Company (DCC) User. This could add several further months of delay between gaining a licence and being able to install and support Smart Metering for consumers.

New market entrants are looking to be able to run the FUSA process in parallel with the Ofgem licensing process, such that the FUSA is assessed subject to successful award of a Supply Licence. This would enable them to be 'smart from the start'.

A second issue has also been identified by the Proposer. The SEC currently does not allow for an organisation to withdraw from the SEC whilst holding a Supply Licence.

2. Issue

What are the current arrangements?

Changes to the Licensing process

In 2018-2019, Ofgem undertook a Supplier Licensing Review. In its consultation, Ofgem noted that due to systems testing requirements under the electricity industry codes, its licensing process typically took place several months (and often more than one year) before a supplier takes on their first customer. Ofgem recognised that an applicant might have difficulties meeting some of the new information requirements this far in advance of entering the market

Ofgem decided that the timing of the supply licence application process should be moved relative to the electricity market entry processes operated by the industry codes. Licensing suppliers closer to market entry better enable Ofgem to scrutinise the plans of, and engage with, the prospective supply licence holder as part of a strengthened entry regime. This increases assurance that entrants are prepared to enter the supply market and meet their obligations. The new requirements also serve to better inform new entrants of the broad range of considerations, risks and obligations involved and help prevent any misconception that entry to the supply market can be taken lightly.

For electricity suppliers, this meant that prospective suppliers should apply for a licence after having commenced initial entry testing under the BSC and MRA, but before Controlled Market Entry (CME). Both gas and electricity suppliers are also required under the licence conditions to be DCC users. Ofgem were not prescriptive as to whether the applicant must have fully completed these processes before applying for a licence. It considered it possible for licensing to run concurrently with the later stages of these processes provided the applicant is capable of meeting its criteria.

More information on the Supplier Licensing Review can be found in the following links:

- [Ofgem Supplier Licensing Review, 21 November 2018](#)
- [Ofgem Supplier Licensing Review: Final Proposals on Entry Requirements, 11 April 2019](#)
- [Ofgem Decision on new Applications Regulations and guidance document, 18 June 2019](#)

Managed by

Full User Security Assessments

Smart Energy Code (SEC) Section G 'Security' requires those organisations wishing to become DCC Users to undertake a Full User Security Assessment in each of its User Roles. A User can fulfil the following User Roles as defined in Section A 'Definitions and Interpretation'.

- Import Supplier
- Export Supplier
- Gas Supplier
- Electricity Distributor
- Gas Transporter
- Registered Supplier Agent
- Other User

An Eligible User must satisfy SEC Section H3.8, which lists the type of User which can be considered eligible for each User Role. The Import and Export Supplier User Roles refer to a Supplier Party and they must hold the corresponding Electricity and/or Gas Supply Licence.

Therefore, to undertake a FUSA, a Supplier must hold an Electricity Supply License.

Ceasing to be a SEC Party

The [Ofgem Supplier Licence Conditions](#) state for both electricity and gas in Condition 48.1 that the licensee must by no later than the Commencement Date, be a party to the SEC; and thereafter remain a party to and comply with the SEC. The Commencement Date is defined as either the SEC start date (23 September 2013) or the date that the licensee first starts supplying electricity or gas to Domestic or Designated Premises, whichever is the later. Electricity Designated premises means Non-Domestic Premises at which a metering point falls within profile class 1, 2, 3 or 4 as defined in the Balancing and Settlement Code (BSC) on 30 November 2012. Gas Designated Premises means Non-Domestic Premises at which the measured annual consumption of gas is 732,000 kWh or less.

SEC Section M 'General' 8.9 states the following:

Ceasing to be a Party

M8.9 A Party that holds an Energy Licence that requires that Party to be a party to this Code:

- (a) cannot be expelled from this Code by the Panel unless the Authority has approved such expulsion (and, in the case of any such approval, Section M8.10(a) shall apply as if the Party did not hold an Energy Licence that requires it to be a party to this Code); and*
- (b) cannot voluntarily cease to be a Party while that Energy Licence remains in force.*

Therefore, unless their Energy Licence is revoked, a Supplier cannot voluntarily cease to be a SEC Party.

What is the issue?

Undertaking a FUSA without a Supply Licence

Prior to changes to licencing arrangements in 2019, obtaining an Energy Supply Licence was one of the first steps undertake as part of market entry. However, the new process requires that prospective market entrants must now obtain their Supply Licence quite late on in their onboarding process. However, without a Supply Licence, Suppliers cannot undertake a FUSA, preventing them from becoming a DCC User. This could add several further months of delay between gaining a licence and being able to install and support Smart Metering for consumers.

New market entrants are looking to be able to run the FUSA process in parallel with the Ofgem licensing process, such that the FUSA is assessed subject to successful award of a Supply Licence, thereby enabling them to be 'smart from the start'.

Energy Licensees ceasing to be a SEC Party

In February 2021 a Supplier that is a DCC User informed SECAS that they had transferred their SMETS customer base to another Supplier. The gaining Supplier confirmed all the customers and SMETS meters had been transferred successfully to them. The losing Supplier stated that they would be keeping their licences as they would continue supplying to a few industrial & commercial (I&C) non-Domestic customers that only used Advanced (non-SMETS) Meters.

The Supplier notified Ofgem on 12 March 2021 that they wish to withdraw from the smart metering market and notified the Panel on the 28 April 2021. The Panel agreed that it would prefer a managed withdrawal of the Supplier, as opposed to expulsion from the SEC. However, as the Supplier still holds an Energy Licence, this is not currently possible. Ofgem confirmed that it could not approve the Party's withdrawal, as it would require a change to the Supplier Licence conditions.

What is the impact this is having?

This issue is delaying the time for new market entrants wishing to become Supplier Parties from providing smart metering services to consumers. This causes detriment to the consumer, as they cannot choose to switch to the new Supplier without the risk of temporary loss of smart services (as the new entrant cannot offer smart services until they have become a qualified DCC user, which can take many months).

A Supplier that holds an Energy Licence and is therefore unable to voluntarily withdraw from the SEC remains obligated to comply with the SEC, even if it has no registered metering points. Consequently, the Supplier could be incurring costs for activities such as security assessments, even if it is no longer a DCC User and is trying to exit the energy market.

Impact on consumers

By delaying the time for new market entrants to provide smart metering services, consumers are left with less Suppliers to choose from to supply their Smart Metering System.

3. Assessment of the proposal

Observations on the issue

Security Sub-Committee views

The Security Sub-Committee (SSC) considered that it did not foresee an issue with new market entrants looking to be able to run the FUSA process in parallel with the Ofgem licensing process, such that the FUSA is assessed subject to successful award of a Supply Licence. However, it advised that Suppliers must only go-live with the DCC once they have obtained a Supply Licence.

Appendix 1: Progression timetable

This proposal will be presented to the Change Sub-Committee (CSC) on 29 June 2021 for initial comment.

Timetable	
Event/Action	Date
Draft Proposal raised	18 Jun 2021
Presented to CSC for initial comment	29 Jun 2021

Appendix 2: Glossary

This table lists all the acronyms used in this document and the full term they are an abbreviation for.

Glossary	
Acronym	Full term
CSC	Change Sub-Committee
DCC	Data Communications Company
FUSA	Full User Security Assessment
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator and Secretariat