

To all licensed energy suppliers

Date: 6 August 2021

Dear colleague,

Following the introduction earlier this year of new requirements on suppliers, aimed at improving standards of financial resilience and consumer protection, we are issuing this open letter to remind suppliers of their obligations under the licence conditions and set out our expectations.

We are committed to taking timely action where we see poor supplier practice. However, our strong preference is to work cooperatively, and for suppliers to engage with us and be transparent about any challenges they may be facing. Where suppliers have financial stability concerns, it is essential that they engage with us early on developments and possible impacts. We want to work with energy suppliers to ensure we have a full understanding of the financial risk management issues they are encountering, and to identify potential concerns at an early stage. Where necessary, we can take appropriate action to protect consumers.

Monitoring retail financial stability

In November 2020, Ofgem's Supplier Licensing Review: Ongoing requirements and exit arrangements¹ decision resulted in a package of new rules for energy suppliers, which came into force in early 2021. These measures were designed to (i) promote more responsible risk management, (ii) improve governance and increase accountability, and (iii) enhance our market oversight.

Importantly, the new **Financial Responsibility Principle**² requires suppliers to make sure that they are managing their finances effectively and actively, minimising the extent of cost mutualisation in the event of their failure. This reduces both the risk of potential consumer harm and of negative effects on other participants in the energy market. Ofgem can request further information from an energy supplier to ensure it is acting responsibly, and in accordance with the Financial Responsibility Principle.³

As we have previously stated, a supplier should have:

- robust financial governance and decision-making frameworks in place, including to meet its financial obligations under government schemes by relevant dates;

¹ Link: [Decision on the Supplier Licensing Review: Ongoing requirements and exit arrangements | Ofgem](#)

² SLC 4B.1 of the Electricity and Gas supply licences

³ [Financial Responsibility Principle – Guidance document](#)

- sustainable pricing approaches that allow it to cover its costs over time, and suppliers should not be overly reliant on customer credit balances to fund working capital; and
- effective processes that are consistent with the licence requirements, for example for setting direct debit levels and for checking and returning customer credit balances.

We also expect suppliers to make early notifications to Ofgem of any financial stability issues, as well as other key business developments. This is in line with our new principles-based requirement for suppliers to be **open and cooperative** with Ofgem. The purpose of this licence condition is to ensure that an energy supplier engages in an ongoing dialogue with Ofgem where it is experiencing compliance issues, financial difficulty, or where its action or inaction may cause consumer detriment.

To perform our regulatory functions effectively, it is essential that stakeholders provide us, and where relevant our third party advisors, with timely, complete and accurate information, both proactively and when requested. The quality of information provided to us by stakeholders is vital to our ability to monitor the market, make effective policy decisions and fulfil our statutory duties.

More broadly, in addition to the need for suppliers to engage with us in this way and to have appropriate arrangements in place to meet their licence requirements, all company directors will be aware of the need to comply with their duties under company law and we expect they will seek timely advice and expertise on such matters where necessary.

Engagement

Ofgem will continue to engage closely with suppliers to ensure they take action to improve standards of financial resilience and provide better consumer protection. We welcome the conversations we have already been having with a number of suppliers, both those we have been engaging with to undertake dynamic or milestone assessments, and those who have proactively reached out to us to have open and transparent discussions about challenges they are experiencing. We expect all suppliers to engage with us in this way.

We are prepared to act swiftly and decisively where businesses do not comply with their regulatory obligations, including by taking further compliance or enforcement action where appropriate. We remain committed to achieving a culture where businesses act in line with their obligations, and with visible and meaningful consequences for those who fail to do so.

We look forward to open and cooperative engagement with energy suppliers as we move into the autumn 2021 period. If you would like to discuss any of these issues further, please contact us by getting in touch with your Ofgem Account Manager where relevant, or using the e-mail: supplier@ofgem.gov.uk.

Yours faithfully,

Neil Lawrence
Director of Retail