

**Gas and electricity supply  
licensees**

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Dear Senior Management,

**Transitioning to a supervisory approach to the financial resilience of energy  
suppliers**

A financially resilient retail energy market will benefit consumers by ensuring a better balance of risks between supply licensees and consumers and, in doing so, reduce the likelihood and cost of widespread failures. A resilient, profitable, investable market is also essential for the sustainable competition we want to see, where energy retailers have incentives to innovate in the pursuit of net zero and receive a reasonable profit as they drive up consumer service standards.<sup>1</sup>

As you will be aware, since the end of 2021 we have implemented a package of measures to build the capitalisation of the sector, enhance its resilience to external shocks and put the retail market on a solid foundation to deliver innovation, high standards and consumer outcomes. So far, we have enhanced the Financial Responsibility Principle<sup>2</sup>, which clarifies supply licensee obligations to behave in a financially responsible manner and establishes a proactive reporting framework of Trigger Points and Annual Adequacy Self-Assessments. We have also introduced measures to ringfence Renewable Obligation receipts and modified licences so we can direct Customer Credit Balance ringfencing in certain circumstances,<sup>3</sup> when it is in the consumer interest to do so. Lastly, we introduced a new common minimum capital requirement due to take effect from Q1 2025, with the Capital Floor,

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<sup>1</sup> The development of a competition framework for the domestic retail market (August 2023), [The development of a competition framework for the domestic retail market | Ofgem](#)

<sup>2</sup> Further details in the Guidance on the Operational Capability and Financial Responsibility Principles (July 2023), <https://www.ofgem.gov.uk/sites/default/files/2023-07/FRP%20Guidance%20for%20decision%20-%20JULY%202023%20%281%29.pdf>

<sup>3</sup> Where the licensee does not have a certain level of Cash or, from March 2025, it does not meet the Capital Target (or where there is a Material risk of these in the next 12-month period) - see SLC 4B.23

Target and associated compliance framework. Alongside this, we will be considering how companies meet the other financial responsibility principles such as the requirement to have sufficient Capital and Liquidity to meet business specific risks.

This package of financial resilience measures represents a cultural shift in our expectations around risk management and reporting in the retail energy market. We expect suppliers to be able to demonstrate how they are managing their financial risks and resources, based on the clear minimum standards and principles we have set out. We look to supply licensees to identify issues early, and to embed continuous improvement over time, setting out their business plan, risks, and mitigation strategies in their Annual Adequacy Self-Assessment and discussing these with us.

I wanted to openly explain to you how we are also shifting our approach within Ofgem. We created the Financial Resilience and Controls (FRC) Directorate earlier this year, to bring together our financial policy, monitoring and analysis, and supervision expertise. This sits alongside and coordinates closely with the Consumer Protection and Retail Markets Directorate, and the Enforcement and Emerging Issues Directorate, within the Markets area of Ofgem. Led by Andrew Milligan, our Retail Market Intelligence & Stability function has enhanced our holistic monitoring of the market, suppliers' activity within and our understanding and analysis of suppliers' financial positions, stability and associated risk. We have now successfully expanded the FRC Directorate, adding a Financial Supervision team. This team is led by Shai Hassid.

Alongside our monitoring and analysis work, the supervision function will play a pivotal role in working with you to understand and mitigate potential issues without the need for enforcement activity. We envisage it doing this by furthering open, constructive and proactive relationships with suppliers, enabling us to deepen our understanding of suppliers' financial risks and mitigating strategies, and form views and judgements based on analysis of a broader and more holistic base of evidence. We intend that, starting in the near future with the largest suppliers, we will assign FRC contacts to suppliers and ensure single first points of contact for financial resilience and monitoring matters, to aid two-way communications. This will be coordinated with the equivalent contact points in Retail Compliance and in the Consumer Protection and Retail Markets Directorate.

We intend that our approach to monitoring and supervision, will be **risk-based** (focused on the areas which pose the greatest risk to consumer interests), **proportionate** (tailored to the size of firm and business model and impact of a possible failure on consumers), and **forward-looking** (to ensure ongoing financial resilience and proactive risk management as

the landscape evolves). While we expect engagement with all suppliers to be ongoing, the frequency and intensity of it for individual suppliers will vary according to those principles.

For financial resilience and controls matters, this signals a transition away from single topic-based compliance and market-wide compliance reviews. We will start by understanding your business model and strategy, how you are managing your risks such as through your hedging strategies, and how you assess the appropriate level of financial resources for the risks you are taking. It is critical that we base our decisions on the best available evidence. We expect suppliers to be open and proactive in their dealings with Ofgem. We encourage relevant Ofgem staff to visit you at your premises to see first-hand how you deliver for consumers. In turn, we commit to communicating clearly and openly with suppliers on Ofgem's priorities and the rationale for our judgements. We will do this via our dialogue at individual supplier level and more broadly, where sector-wide themes and issues are identified which would be beneficial to share. We also want to review and ensure, as we emerge from the worst of the gas crisis, that we are collecting and monitoring the right data for our objectives in the most efficient way for you and us. This will also include the frequency and approach to stress-testing in non-crisis times to which we would aspire to evolve. We hope that many of you will be willing to engage with us on this journey and influence the outcome.

We will be holding a session with stakeholders in due course to share experiences and learn lessons from the recently implemented Renewables Obligation Ringfencing, and Customer Credit Balance Cash Coverage Trigger. As part of this session, we will also provide the opportunity to ask questions on the Annual Adequacy Self-Assessment submissions process.

If you have questions or would like to discuss this approach, please contact Shai Hassid, Interim Deputy Director, Financial Supervision and or Andrew Milligan, Deputy Director, Retail Intelligence & Market Stability (via [retailfinancialresilience@ofgem.gov.uk](mailto:retailfinancialresilience@ofgem.gov.uk)).

Yours faithfully,



**Rohan Churm**  
Director, Financial Resilience and Controls