

## **Future of retail market regulation – Programme Update**

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ofgem

# What is the case for change?

- **Our supply licences have mostly relied on a prescriptive approach.**
- **The licences have grown substantially in recent years.**
  - 64 pages in 2007 to 482 pages today.
- **Deep and wide-ranging energy sector transformation has started and is accelerating.**
- **Status quo is not an option – the supply licence cannot stand still.**
  - Barrier to new business models / products / services.
  - New risks to consumers may not be mitigated.
- **Operating a licence that relies more on principles is crucial.**
- **Strong Ofgem Board commitment to the FRR programme.**
- **Success will be measured by the consumer experience.**
  - Improving consumer outcomes is our focus.

- Standards of Conduct (SoC) introduced in 2013. Broad principle-based rule that requires suppliers to treat their customers fairly.
- In 2015 we launched a project to expand the use of principles in areas where we think it can deliver benefits. We think relying more on principles can:
  - **Protect consumers better** by providing overarching protection that reduces the likelihood of poor consumer outcomes.
  - **Enable suppliers to innovate** and tailor their approaches to meet the needs of their customers as the market develops
  - **Place a greater onus on suppliers** to understand and deliver what is right and fair for their customers.
- The programme's scope for now is the domestic retail supply market, where we see greatest potential benefits (eg the volume of prescription is particularly acute).

## Reforming the rulebook

- Reviewing the domestic supply licences – considering use of broad principles, narrow principles and prescription.
- Role of guidance – can be helpful but we do not want guidance to act as ‘prescription through the backdoor’.
- Making the rulebook more user-friendly.

## Operating the framework

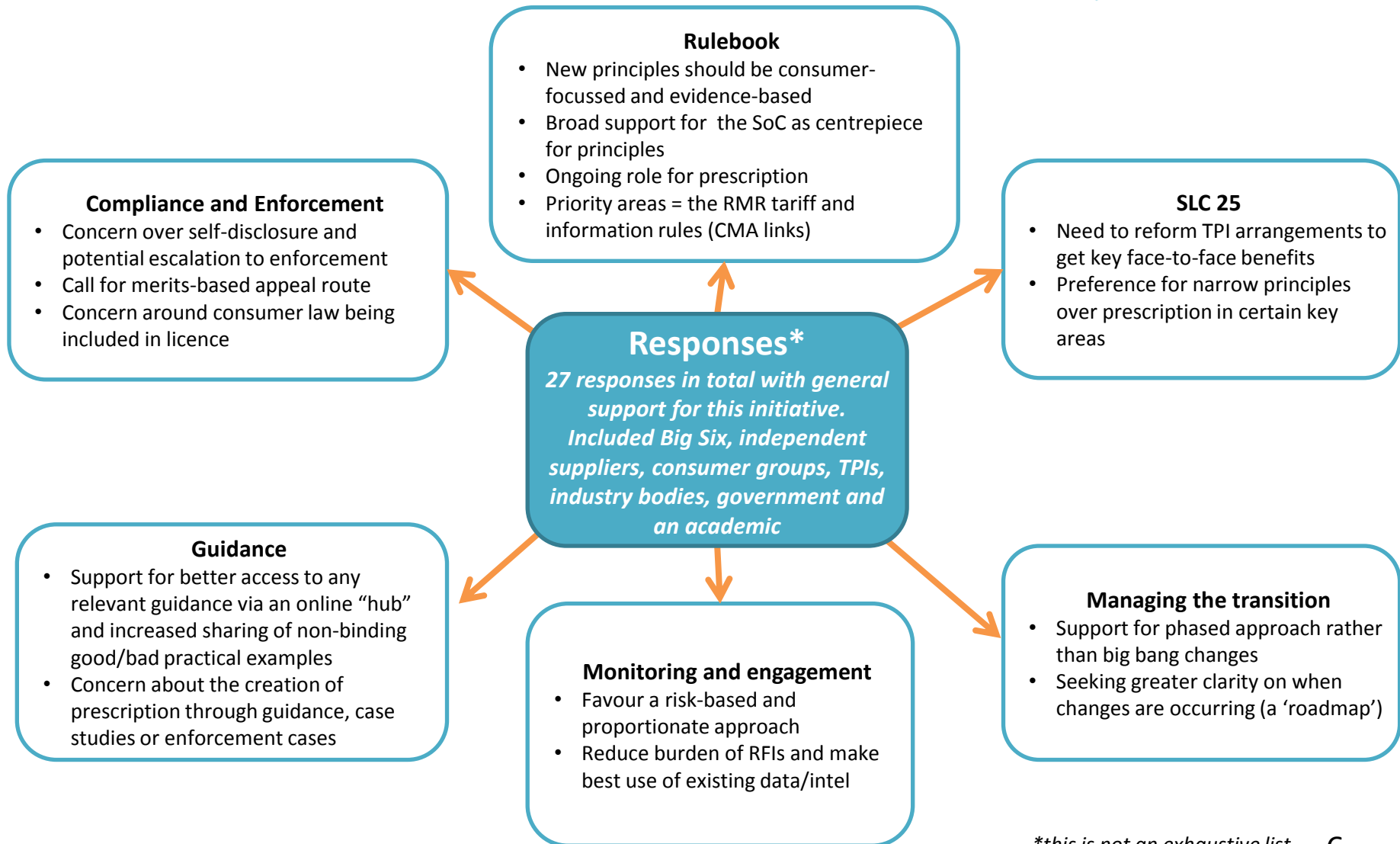
- Engagement – helping suppliers understand their obligations and us understand their businesses.
- Monitoring principles – to understand what is happening in the market and spot issues quickly.
- Compliance – working with suppliers to resolve issues.
- Enforcement – principles must provide a real deterrent to bad practices.

## Managing the transition

- Phased approach to implementation – eg prioritising areas of rulebook to reform.
- Managing ongoing changes in the short-term (such as business-as-usual licence changes and the CMA’s remedies).
- Assessing the impacts of our changes.
- Priority areas for reform – CMA remedies (simpler and clearer aspects) and sales and marketing.

- Our consultation closed 11 March with 27 responses
- The team are reviewing responses and we will publish our response, outlining a roadmap and priorities, by end of June 2016.
- Other key highlights for 2016/17\* :
  - SLC 25 consultation (Q1) and new SLC 25 go-live (Q3)
  - RMR 'simpler choices' statutory consultation (Q2) and removal of prescription (Q3)
  - Policy consultation on new tariff principle(s) (Q2) and go-live (Q3)
  - Policy consultation on overarching suite of principles (Q3)

*\*Please note all dates are in terms of financial quarters and may be subject to change*



# What we'd like to know from you:

- What are your views on operating in a more principles-based environment?
- What is your preferred balance between having flexibility to innovate and regulatory certainty?
- What other considerations should we make for independent / smaller suppliers?

- We are continuing with our ongoing engagement through bilaterals and are happy to engage via phone or email. If you would like to discuss your views further, please get in touch with one of the team.
- We are also open to any other ways of engaging most effectively with smaller suppliers – please let us know if you have any suggestions.
- Please contact the team on [FutureRetailRegulation@ofgem.gov.uk](mailto:FutureRetailRegulation@ofgem.gov.uk).

