

## Entering the retail energy market: a guide

August 2016



### Introduction

This document is for prospective new gas and electricity suppliers. It gives you an overview of how to enter the energy market, and points to useful industry and Ofgem resources.

## Being regulated

As the energy market regulator, our principal objective is to protect the interests of consumers, both present and future, through effective regulation, and as a market participant, you will be expected to operate within this regulatory framework. This is primarily done via standard licence conditions, which contain obligations influenced by EU and domestic legislation. There are also industry codes that underpin the electricity and gas wholesale and retail markets. Licensees must become party to, and comply with, the industry codes according to the conditions of their licence. The codes define the terms under which industry participants can access the electricity and gas networks and participate in industry systems.

As a supplier, you will often have to deal with Ofgem and the Department for Business, Energy and Industrial Strategy (BEIS). Ofgem is the regulator of the gas and electricity markets in Great Britain. Our principal objective is to protect the interests of consumers. We must regulate in the way we think does this best, including by promoting competition. We facilitate effective wholesale and retail markets, but cannot advise on specific business operations and processes. One specific interaction that all suppliers have with Ofgem is through our reporting requirements, where each supplier must provide data on various metrics.

If you are planning to enter the market, [please send us information](#) on your business model and when you are likely to enter. We don't want our regulatory framework to get in the way of innovative products or business models unnecessarily. If the licence conditions are a constraint on your business model, please let us know. We welcome conversations on these areas and want to have an ongoing and helpful dialogue between Ofgem and suppliers.

We're gradually moving towards governance that [relies more on principles rather than detailed rules](#) and our [derogations](#) team can relieve a supplier of its obligation to comply with certain licence conditions if we are satisfied that an exemption is warranted in the circumstances.



**Ofgem** works with independent suppliers and new entrants through the Independent Supplier Stakeholder Engagement Programme. This includes our [webpage](#), the [Independent Suppliers' Forum](#) and our Independent Supplier Champion, Adam Cooper. We are always happy to discuss business plans and policy issues with independent suppliers – just send us an [email](#).



**BEIS** sets the strategic framework and policy for the wider energy market. You can see an infographic about the roles of both bodies [here](#). BEIS also has an independent supplier webpage [here](#).







**Suppliers** also regularly interact with Citizens Advice, who can act on behalf of consumers through the [Extra Help Unit](#). This provides extra assistance to vulnerable energy consumers, or those with complex complaints against their supplier. Each supplier must have a named contact responsible for cases escalated through the Extra Help Unit.

## Becoming a licensed supplier

Here we step through getting a licence, codes and compliance, and standards of performance. There are several steps to becoming a licensed supplier and entering the market, which can take 2-4 months for gas and up to 12 months for electricity. This is in part driven by other market entry processes. Please note that this should not be relied on as legal advice on how to comply with your regulatory obligations.

Because electricity and gas supply are essential services, suppliers are expected to provide minimum levels of customer service and offer universal supply. They must comply with the obligations in their supply licence (the standard licence conditions for gas and electricity supply are [here](#)). Examples include the obligation on suppliers to treat their customers fairly, which in simple terms requires suppliers to:

-  provide information that is complete, accurate and not misleading, and that relates to relevant products and services;
-  make it easier for customers to contact them and act promptly and courteously to put things right when they make a mistake;
-  ensure service arrangements are complete, thorough and fit for purpose; and
-  generally behave in an honest, transparent, appropriate and professional way.

For instance, communications should be clear, complete and not misleading in any way. Information on the Standards of Conduct that suppliers are expected to meet is [here](#). Suppliers are also responsible for ensuring that consumers in vulnerable situations have an equal opportunity to engage with the market, for example, providing Braille bills for those with impaired vision. There's more information [here](#).

Alongside their consumer-facing retail activities, suppliers will also take on system and market functions through wholesale market trading.

### Getting a licence

Supply licences describe how the licensee must interact with customers, both domestic and non-domestic (as applicable), structure and market its products, and also define other obligations on the supplier. We aim to decide whether to grant a gas or electricity supply licence within 45 days from when a licence application is made<sup>1</sup>. An electricity supply licence costs £450 but generally takes the licensee longer to submit than a gas supply licence, because of the lengthier market entry processes described below. A gas supply licence costs £350-450. These costs are not reflective of the total cost of becoming a supplier and prospective market entrants should ensure they have estimated such costs before entering the market. Holders of gas supply licences will need to either contract with a gas shipper to move gas through the network, or apply for their own gas-shipper licence to ship gas themselves. More information on how to apply for a licence is on Ofgem's licences [webpage](#).

<sup>1</sup> No initial information is outstanding and payment has cleared our accounts.

### Codes and compliance

As part of the licence conditions for the supply of electricity and/or gas to consumers, the licensee must comply with industry codes. Codes are technical documents which describe the processes for accessing industry infrastructure and services. Codes are maintained and overseen by Code Administrators - entities that suppliers will be in a lot of contact with when operating in the market. There's a list of codes and Code Administrators on our [website](#).

Code Administrators are the point of contact for each code, where users can find out information on that code. The Code Administrators have committed to operating their code administration functions in accordance with the [Code Administration Code of Practice \(CACoP\)](#). Under CACoP Code Administrators act as Critical Friends to code users. The role of the Critical Friend is described in CACoP as a Code Administrator who provides support to all with an interest in the code modification process, giving particular attention to under-represented parties, small market participants and consumer representatives. CACoP includes guidance on how Code Administrators should achieve the role of Critical Friend. To help users, the Code Administrators have also identified the [Top 5 activities of a Critical Friend](#) that describes a list of services that users can expect them to provide in performing this role.

Some codes require those who join up to pay a subscription. Parties must 'qualify' before going live as a supplier for both the Balancing and Settlement Code (BSC) and the Master Registration Agreement. An example is the BSC's qualification process, which can last up to 12 months and involves Supplier Volume Allocation (SVA). This is a structured self-assessment to provide assurance that systems and processes, which may interact with the BSC systems, will not pose any major risks to Settlement (the way market participants ensure that electricity supply and demand are in balance). One qualification issue that has been raised is the difficulty in developing a robust billing system for consumers, the critical nature of billing means that it's crucial that this is effective.

There's more information on entry and qualification processes online, from other industry bodies such as ELEXON (who manage the electricity and trading arrangements of England and Wales) and Xoserve (who provide services to the gas industry). ELEXON's website includes a [market entry process diagram](#) and a [BSC simple guide to SVA qualification](#). Xoserve has produced a ['Who's who' document](#) to provide a quick overview of the main market participants in gas.

### Standards of Performance

The supplier Guaranteed Standards of Performance (GS) place service level requirements on suppliers when they have certain interactions with their customers. Such interactions include making and keeping appointments, fixing faulty meters and reconnecting supply after disconnection for unpaid charges. Should suppliers not meet these standards, they are required to pay £30 in compensation to the affected customer. More information is [here](#).



# Alternative market entry routes

Beyond what is set out previously, there are other routes to market, described below.

## Pre-qualified, 'off-the-shelf' licenses

Some organisations specialise in supporting market entry, obtaining all licences and qualifications for a shelf company before purchase by the prospective market entrant. Like all suppliers, new market entrants who obtain a licence in this way must comply with their ongoing obligations in that licence. You can also consider outsourcing other areas of your supply.

## Licence Lite (electricity only)

Licence Lite is an option that helps prospective new suppliers enter the electricity supply market. It lets a new supplier partner with an existing supplier to be responsible for some of the more costly and technically challenging parts of a supply licence, such as code compliance and qualification (as set out above). For this to happen, the new supplier must have a commercial arrangement with another licensed electricity supplier - what we call a third party licensed supplier (TPLS). With this commercial relationship in place, we can grant a Licence Lite direction. Under this arrangement, the TPLS carries out compliance for those parts of the supply licence that may be particularly challenging for a new supplier. For more information, see the Licence Lite factsheet [here](#).

## White label

White labels are brands that have a commercial arrangement with, and use the infrastructure and resources of established suppliers to offer tariffs under the white label's branding. The contractual relationship with the consumer is the responsibility of the licensed supplier and not the white label. There is a lot of scope for the type of activity undertaken as a white label. For example, some are community schemes offered by local councils, and some are established businesses outside the energy sector who wish to use their customer base to develop new revenue streams. Becoming a white label is reasonably straightforward. The major hurdle is setting up commercial arrangements with the licensee. More information on the white label framework is available [here](#).

## Licence exemption

In some cases, it is possible to be exempt from the requirement to apply for a licence to supply electricity or gas. These exemptions can apply to individual cases or a class of activity and may be conditional or unconditional. We are unable to provide advice on exemptions and recommend that prospective new entrants consult the legislation (Gas Act 1986 and Electricity Act 1989), your legal team and BEIS. There is a list of exemption orders available on Ofgem's licensable activities [webpage](#). One example of a class exemption is for generators who supply their own energy which is less than 5MW, of which no more than 2.5MW is supplied to domestic consumers. For example, it is not necessary to apply for a supply licence for solar panels on your roof. There is more information on BEIS's licence exemption [webpage](#).

## Contacts

Licences, industry codes and standards: [licensing@ofgem.gov.uk](mailto:licensing@ofgem.gov.uk)

Independent Supplier inbox: [independent.suppliers@ofgem.gov.uk](mailto:independent.suppliers@ofgem.gov.uk)

Licence Lite: [licence.lite@ofgem.gov.uk](mailto:licence.lite@ofgem.gov.uk)