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for energy consumers

**By email only**

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Dear Stakeholders

**Update on timing and next steps on Supplier Licence Review**

In October 2019, we published a consultation and draft impact assessment on the next stage of our Supplier Licensing Review (SLR), setting out a package of proposed reforms to the ongoing requirements and exit arrangements for suppliers.<sup>1</sup> In the consultation, we noted that, following a period of engagement and consultation, we expected to progress to statutory consultation in early 2020.

As expected, we will be progressing our reforms to statutory consultation in spring 2020. For the majority of our SLR proposals – including milestone assessments, fit and proper tests, and independent audits – our approach to introducing the reforms will remain unchanged. However, following careful consideration of the feedback we have had from stakeholders, we will take a phased approach to introducing our cost mutualisation protection proposals – these are the reforms that aim to minimise the costs that need to be mutualised across the rest of the industry when a supplier fails.

The first phase will seek to introduce a high-level principle to drive suppliers towards taking action that mitigates the extent of costs to be mutualised in the event of failure, and will be delivered alongside our wider SLR reforms in our spring 2020 statutory consultation. In parallel to this, we will carry out a further round of consultation on the second phase of our reforms, which will build on our October 2019 proposals to introduce specific requirements on suppliers to put in place protections for costs otherwise at risk of mutualisation. We anticipate taking our phase two reforms to statutory consultation over the summer.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/supplier-licensing-review-ongoing-requirements-and-exit-arrangements>

### *Rationale for phased approach*

We also recognise that we need to strike a careful balance between raising supplier standards without setting barriers to entry, innovation and expansion too high. During the consultation period, we received views from a wide variety of stakeholders. While generally supportive of the policy intent behind our proposals and the need for action in this area, stakeholders raised a number of complex issues, which we consider merit further investigation and analysis.

By taking this phased approach to introducing our cost mutualisation proposals, we can begin to deliver benefits for consumers as quickly as possible, while allowing appropriate opportunities to explore stakeholder views and the detailed design of certain aspects of our proposals further. This will allow us to ensure that we deliver the best possible design, and therefor outcome for consumers, in the next phase of reforms.

Our phase one reforms, along with the wider reforms delivered as part of the overall SLR package, will bolster the extensive tools we can, and do, use where suppliers are not meeting the standards required. Alongside our new entry requirements, which came in to force in July 2019, we consider that these reforms will promote more responsible risk management by suppliers, increase accountability and foster better governance. They will also strengthen our ability to effectively oversee the market and address problems earlier.

### *Implementation period*

Stakeholders have been clear that we need to allow sufficient time for suppliers to adapt their business models and financial arrangements to implement the changes we proposed in our October consultation. Many suggested that a minimum 12-month implementation period would be necessary, though some suggested as much as two years to allow adequate time for the changes to feed in to business planning.

We will consider the appropriate implementation period as we refine our phase two proposal. However, our direction of travel is clear. We want suppliers to adopt prudent financial management approaches to mitigate the risk that costs need to be mutualised in the event of their failure. In doing so we want to make sure that suppliers bear an appropriate share of their risk. Our phase one proposals will move the industry in this direction, and our phase two proposals will do so to a greater degree. We expect suppliers

to factor this direction of travel into their forward business planning. We will take this in to account as we refine our proposal and determine the appropriate implementation period.

In parallel with our work, BEIS are considering whether changes to the Renewables Obligation (RO) scheme would be beneficial. Any changes to the RO scheme may interact with our cost mutualisation policy development. We are coordinating with BEIS to ensure a joined up approach that considers the impact of different potential changes in the round.

Should you wish to discuss any of the issues raised in this letter please get in contact with either Leigh Rafferty ([leigh.rafferty@ofgem.gov.uk](mailto:leigh.rafferty@ofgem.gov.uk)) or Barry Coughlan ([barry.coughlan@ofgem.gov.uk](mailto:barry.coughlan@ofgem.gov.uk)).

Yours sincerely,

**Lesley Nugent**

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