



By email only

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Dear Mark

Ofgem Simplification Plan 2016-17

Thank you for your letter of 17 December inviting suggestions for Ofgem's Simplification Plan. This response is from npower's retail business and is not confidential. Several of the points made here reflect those addressed by Energy UK in its response on behalf of the industry.

We welcome Ofgem's intention to remove burdensome regulatory requirements and to improve its effectiveness and efficiency to support delivery of positive consumer outcomes. We fully support improved consumer outcomes; simplifying things for supply businesses can help achieve those by freeing up resource, reducing costs and therefore prices for customers, and enabling businesses to offer more of what customers want. We look forward to seeing the industry's suggestions being put into operation.

Information

As last year, we identify information requests as being a significant call on resources for suppliers, both because of their number and complexity. A similar point was also raised by suppliers at Ofgem's workshop on the future of retail regulation at the beginning of February. We of course continue to recognise how important information requests are in enabling Ofgem to fulfil its functions and therefore it is crucial that they work for both Ofgem and businesses. At present, we continue to experience requests with short and overlapping timescales (incorporating key holidays in some cases) for information that sometimes is not readily available. Taken together with the consultations from other regulators and government departments, it is not difficult to envisage that this is far from an ideal state of affairs. We would ask Ofgem to consider how it can improve matters. We note that Ofgem as part of its work on principles based regulation is already looking at options for using leading indicators such as challenge panels and closer engagement with suppliers, which for the future should be less burdensome than lagging indicators such as data trawls.

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Change

The next few years will see significant changes being introduced to the industry. Ofgem's letter suggests that it will be more focussed and is aware of the need to reduce the pressures on businesses. We welcome this and suggest greater dialogue in relation to some of Ofgem's key programmes as a means of producing more effective and workable outcomes.

We believe that policy will benefit from policy makers having a greater awareness of the detailed arrangements within our industry. This greater understanding would ensure that Ofgem is aware of the time and complexity needed to implement some of the changes it proposes – and of the different impacts on different suppliers. Complexity of course is often costly and costs are passed on to customers; therefore if changes are to be introduced they should be the subject of detailed and robust impact assessments.

At present this doesn't always happen; for example in the case of half-hourly (HH) settlement we find that there is no detailed impact assessment available. We do not agree with Ofgem's apparent assumption that the costs of change will only be incurred by suppliers who wish to settle on a HH basis. Suppliers who do not elect to settle HH will bear some costs of change and need to service HH customers who switch to them. Therefore, all customers will bear the costs of implementing HH settlement, even those who do not participate in elective HH settlements. At a time of significant and costly industry change it seems neither appropriate nor fair to burden customers with the costs of even more complexity, especially when a business case for the change in the proposed timescales has still to be made.

Ofgem in its letter notes that it has worked with government on the development of requirements in the Enterprise Bill to extend the Business Impact Target (BIT) to include Ofgem's activities. We welcome this, as Ofgem's inclusion in the scope of the BIT would help ensure that proposals for changes brought forward are really necessary and cost effective; and that impact assessments are monitored by a third party.

Innovation

We are pleased to see the reference to innovation and non-traditional business models and look forward to Ofgem's Innovation Plan in the spring. We agree that innovation handled in the right way could bring benefits to competition and consumers.

In this context we note that Ofgem's recent Innovation event received a presentation from the Financial Conduct Authority (FCA) about its Sandbox concept. We support further examination of the potential of this as a safe environment for new businesses; and Ofgem's proposal for an Innovation Hub (similar to that already operated by the FCA) to provide a safe environment for businesses to engage with Ofgem on new and innovative concepts, provided Ofgem is flexible and sufficiently open to allow it to operate effectively. These would be interesting departures for the energy industry and we look forward very much to seeing how they develop.

Transparency

By transparency we mean both early notice of changes and developments in the pipeline, and the progress of ideas once they are in train. For the former there are a number of pieces of work for which Ofgem has held workshops and pre-consultation events. We would like to see more of this across the board. A good example was the Smarter Markets work. We would also like to see Ofgem communicate progress more readily; often this is not the case.

Simplification

We look forward to seeing in the Simplification Plan how Ofgem intends to deliver the new requirements proposed in the Enterprise Bill; and how it will remove regulatory burdens. Principles based regulation should in time help to remove much regulatory detail; but that will also require culture changes within Ofgem and suppliers to ensure the successful transition. We welcome Ofgem's intention, as noted at the February workshop, to bring in specialist expertise to ensure that the culture change required in Ofgem is embedded throughout the organisation, from the Board down. One measure of the success of principles based regulation will be a reduction in the number of rules. Otherwise there is likely to be conflict between the principles and extant regulations, which will place licensees in a difficult position.

The key to simplification is to make matters simple from the outset; many of the existing licence conditions are excessively complicated. Accompanying the work on principles based regulation therefore must be an exercise to revise all those detailed conditions that will remain, in order to ensure that they are set out simply and clearly. The supply licence review in 2006/7 did achieve that. One thing that was expected then, but did not materialise, was written guidance to accompany the revised licence conditions. There is an opportunity to correct that as part of the process just beginning.

I hope these comments will be helpful.

Please contact me if you need any further detail or clarification.

Yours sincerely,

Gerald Jago
Regulation