

Guidance

Supply licence guide: Introduction to the supply licences

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This is the first in a series of licence guides we've produced to help suppliers and other stakeholders navigate and understand the gas and electricity supply licences. The guide gives some background information about the retail energy market and how we regulate it, and some tips for using the licences.

Ofgem may update this guide from time to time. Suppliers are responsible for keeping up to date with the latest version of the rules.

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Who we are

We're [Ofgem](#): the Office of Gas and Electricity Markets. We're the economic regulator of the gas and electricity markets in Great Britain. Our main aim is to protect the interests of existing and future electricity and gas consumers. We do this in a variety of ways, including:

- promoting value for money
- promoting security and sustainability when supplying energy
- supervising and developing the market and competition within it
- delivering government schemes.

We're independent from the government and the energy industry but work alongside both, as well as consumer bodies, to achieve our aim to protect energy consumers.

For more information about who we are and what we do, have a look at our [Corporate Strategy](#) and our [Forward Work Programme](#).

How we regulate the market

What are the rules?

The regulatory framework for supplier obligations is contained in a variety of sources, including licences, codes, and EU and UK legislation.

Licences

To enter the gas and/or electricity market, organisations must check whether the activity they are proposing to do is a [licensable activity](#). If it is then they must hold a licence, or an exemption (see below), before they can operate in the market.

We issue, and monitor compliance with, licences. To access all licence documentation and to understand which conditions are in effect for which licensee, visit the [Electronic Public Register](#).¹ Our [website](#) also has quick links to the licences, eg supply, transmission, generation, and transportation of energy.²

¹ You can navigate around the EPR using the menu on the left hand side. For example, to find the current supply licence conditions, expand the 'licence conditions' category > expand 'standard licence conditions' > select 'all current versions of the SLCs' and look for the supply licence. To view which conditions are in effect for each licensee, expand 'licensees' and navigate through the options of what type of licensee they are, to find the licensee you are looking for.

² SLC 19B prohibits cross-subsidisation between any of these licensable activities.

This guide primarily focuses on the gas and electricity **supply licences**. These list the conditions that all energy suppliers must abide by in order to supply energy to domestic and non-domestic consumers. The majority of conditions in the licence apply to domestic suppliers, though some conditions also (or only) apply to non-domestic suppliers. We keep track of changes in the market and make changes to the licences accordingly, so that consumers' interests are protected.

There are several alternatives to becoming a licensed supplier if you are considering entering the market. See the 'other useful information' section at the end of this guide for more details on this.

Industry codes

The [industry codes](#) underpin the electricity and gas wholesale and retail markets. Licensees are required to maintain, become party to, and/or comply with the industry codes in accordance with the conditions of their licence. Below we provide a brief description of each of the industry codes.

- **[Balancing and Settlement Code](#)** (BSC): this electricity code contains the governance arrangements for electricity balancing and settlement. It's administered by [Elexon](#).
- **[Connection and Use of System Code](#)** (CUSC): this electricity code constitutes the contractual framework for connection to, and use of, the national electricity transmission system. It's administered by [National Grid](#).
- **[Distribution Code](#)**: this electricity code covers the technical aspects relating to the connection and use of the electricity distribution licensees' distribution networks. It's administered by the [Energy Networks Association](#).
- **[Grid Code](#)**: this electricity code covers all material technical aspects relating to connections to, and the operation and use of, the national electricity transmission system. It's administered by [National Grid](#).
- **[Master Registration Agreement](#)** (MRA): this electricity code provides a governance mechanism to manage the processes established between electricity suppliers and distribution companies to enable electricity suppliers to transfer customers. It's administered by [Gemserv](#).
- **[System Operator – Transmission Owner Code](#)** (STC): this electricity code defines the relationship between the national electricity transmission system operator and onshore and offshore transmission owners. It's administered by [National Grid](#).
- **[Distribution Connection and Use of System Agreement](#)** (DCUSA): this electricity code provides a single centralised document which relates to the connection to and use of the electricity distribution networks. It's administered by [Electralink](#).

- **[Uniform Network Code](#)** (UNC): this gas code comprises a legal and contractual framework to supply and transport gas. It's administered by the [Joint Office of Gas Transporters](#).
- **[Independent Gas Transporter Uniform Network Code](#)** (iGT UNC): this gas code was implemented to streamline and harmonise the network code arrangements of the iGTs as much as possible. It's administered by [Gemserv](#).
- **[Supply Point Administration Agreement](#)** (SPAA): this gas code sets out the inter-operational arrangements between gas suppliers and transporters in the UK retail market. It's administered by [Electralink](#).
- **[Smart Energy Code](#)** (SEC): this gas and electricity code specifies provisions to govern the end-to-end management of smart metering. It's administered by [SECAS](#).

Above we've indicated the Code Administrators for each code. Contact these bodies to find out more information about each code, including how to become a party to the code (if appropriate).

EU and UK legislation³

Suppliers are also responsible for complying with various pieces of EU and UK legislation. We've listed some of these below, though this is by no means a comprehensive list. Suppliers are responsible for adhering to all relevant legislation and regulations, as applicable to them (including non-energy specific legislation, e.g. relating to data protection, consumer protection and health and safety).

- The Energy Acts 1976, 1983, 2004, 2008, 2010, 2011, 2013 and 2016.
- The Gas Act 1986.
- The Electricity Act 1989.
- The Competition Act 1998.
- The Utilities Act 2000.
- The Enterprise Act 2002.
- The Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008.
- EU Third Package legislation 2009 (three Regulations and two Directives).
- EU regulation on energy market integrity and transparency 2011 (No 1227/2011) (REMIT).
- The Consumer Rights Act 2015.

We remind suppliers that Government departments (e.g. the Department for Business, Energy & Industrial Strategy, BEIS) and other regulatory bodies (e.g. the Competition and Markets Authority, CMA⁴) may introduce regulatory requirements, laws and/or

³ The section will be updated after 29 March 2019, or in due course, once the outcome of the EU Exit process and the associated legislative framework have been confirmed.

⁴ In 2016, the CMA completed its two year investigation into the GB energy market. As a result of the investigation, the CMA issued a number of orders for changes to energy supply rules. You can view these orders on the [CMA website](#).

licence conditions which suppliers need to be aware of and ensure compliance with.

Directions and derogations

From time to time (where the licence provides for this, and where it is appropriate to do so), we issue directions. These are time-limited modifications to the supply licence. For example, we've used directions to require suppliers to trial prompts aimed at increasing consumer engagement.

You can find directions we have issued on the [Electronic Public Register](#). Some apply across the market, whereas others only apply to specific suppliers.

Derogations are a type of direction, and relieve a licensee from having to comply with a relevant provision in its licence, in specified circumstances and to a specified extent. Where the licence provides for this, we may issue a derogation from certain supply licence conditions if we believe it is in the interest of consumers.⁵

For more information, please see our guidance on derogations from [electricity technical codes and standards](#), [domestic Retail Market Review rules](#), and our [Licence Lite guidance](#).

Exemptions

In some cases, it is possible to be exempt from the requirement to hold a licence. These exemptions can apply to individual cases or a class of activity and may be conditional or unconditional. We're unable to give advice on exemptions and recommend that prospective new entrants consult the legislation (Gas Act 1986 and Electricity Act 1989), their own legal teams, and BEIS. There is a list of exemption orders on Ofgem's licensable activities [webpage](#), and more information on BEIS's licence exemption [webpage](#).

Voluntary codes of practice

Voluntary codes of practice are non-mandatory codes that market participants can choose to sign up to. Other than the Confidence Code, these are not developed or administered by us. We think they are helpful for suppliers to be aware of, as they can showcase good practice. We've listed some of them below.

- **Confidence Code**: a voluntary code of practice for domestic price comparison websites, which is administered by us. Sites accredited to the Code must ensure they provide a transparent, independent, reliable, and accurate service to customers.
- **Energy Switch Guarantee**: a voluntary code of practice developed by [Energy UK](#) (a trade association for the UK energy industry), which allows consumers to switch energy account from one supplier to another in a simple, reliable, and hassle-free way. Suppliers agree to ten basic commitments to facilitate this.

⁵ We may only grant a derogation where a particular licence condition makes provision for us to do so. Not all licence conditions provide for this.

- **[Code of Practice for Accurate Bills](#)**: a voluntary code of practice developed by Energy UK, which aims to improve billing standards. Members of the code focus on, and are audited for, five 'commitment areas': switching, meter reading, energy bills and statements, payments and refunds, and back-billing.
- **[Prepayment Meter Principles](#)**: a voluntary code of practice developed by Energy UK, which commits suppliers to a "comprehensive assessment process" to determine whether or not a customer may be vulnerable and provide assistance for those who are.
- **[Commitments to reduce closed account balances](#)**: a voluntary code of practice developed by Energy UK, which commits the biggest six energy suppliers to ten actions that will help return credit balances from closed accounts to former domestic customers.
- **[Commitments to reduce closed account balances \(for microbusinesses\)](#)**: this code is a version of the above code specifically for microbusiness suppliers.
- **[Safety Net for Vulnerable Customers](#)**: a voluntary code of practice developed by Energy UK, which commits suppliers to never knowingly disconnect a vulnerable customer from their energy supply. The Safety Net also sets out an illustrative debt collection path, which includes an example of the steps a supplier may choose to take between issuing a bill and the warrant visit or approved remote disconnection, along with indicative timescales for each stage.

Monitoring, compliance, and enforcement

We take a risk-based approach to monitoring to ensure suppliers comply with their licence obligations. We have strengthened our engagement, particularly with new suppliers, to provide greater contact with Ofgem to support compliance and supplier understanding of their obligations.

We expect suppliers to self-report when things go wrong, and to act quickly to put things right. We would also expect suppliers to make us aware if they are about to embark on high-risk activities that have caused problems with companies in the past, such as IT upgrades. We take self-reporting into consideration in our compliance and enforcement action.

As part of our compliance monitoring, we ask companies to submit certain information to Ofgem on a regular basis. The following list isn't exhaustive, but provides an insight into some of the more significant reporting requirements for suppliers. From time to time, we may also issue supplier with ad hoc requests for information. (Suppliers should note that Citizens Advice and BEIS will also request information from suppliers on a regular, and sometimes ad hoc, basis.)

- **Social obligations**: Suppliers are required to submit data quarterly and annually on their performance against their [social obligations](#) for domestic customers. This includes data on payment methods, customers in debt, disconnections, smart meters, the priority services register, and energy efficiency.

- **Guaranteed Standards of Performance:** Suppliers are asked to submit data quarterly on the [Guaranteed Standards of Performance](#) for domestic and microbusiness customers. This includes number of appointments, missed appointments, faulty meters, reconnections, and payments to customers due to the above issues.
- **Complaints:** We also ask all suppliers to submit monthly and quarterly complaints data to us and Citizens Advice on domestic and non-domestic customers, including the number of complaints received, those resolved, and timing of resolution.
- **Retail market monitoring report:** All suppliers are asked to submit monthly and quarterly data on a number of indicators relating to customer numbers, erroneous transfers, switching, delays, and final bills.
- **Microbusiness debt and disconnections:** We ask microbusiness suppliers to submit microbusiness customer numbers, debt and disconnection numbers every quarter.
- **Customer numbers:** We ask domestic suppliers to submit customer numbers by tariff type and payment method every six months.
- **PPM price cap:** Suppliers must submit data about their prepayment tariffs in accordance with their licence obligations (SLC 28A) no more than five working days after the start of each charge restriction period (i.e. every 5th April and 5th October).
- **Smart meter roll-out reporting:** Suppliers must submit roll-out plans and progress reports to us in accordance with their licence obligations (SLC 38 for gas and 44 for electricity under which, amongst other things, large suppliers set annual milestones that they must achieve and smaller suppliers set non-binding targets).

The companies we regulate are responsible for ensuring compliance with relevant legislation, licences, and codes. We are helping suppliers better manage the risks to consumer harm that have historically resulted in enforcement or compliance action through [‘lessons learned’ activities](#).

When compliance issues arise, we expect suppliers to act promptly to resolve the issue and put things right quickly for consumers. In this event, we welcome early and constructive engagement with suppliers. We expect those suppliers who have not been treating customers fairly to proactively assure us that they are addressing the weaknesses in their current approach.

Although compliance activity is an important part of our role as regulator, there will also be circumstances where enforcement is the best course of action, to correct and deter non-compliance. Our [enforcement guidelines](#) give information on the broad steps stakeholders can expect us to take as part of an enforcement case, including the circumstances in which we are likely to open a case.

The policy-making process

When we're considering making changes to the licence, we typically issue a policy consultation with our initial proposals. If we decide to proceed with the change, we will always then publish a statutory consultation, lasting for a minimum of 28 days. This will set out our final proposals and explain the effect of the proposed changes and, where appropriate, set out an impact assessment. The policy and statutory consultations give stakeholders the chance to comment on our proposals before they become licence requirements. When developing policy, we always refer to our [regulatory stances](#) and engage stakeholders to ensure their views are taken into account.

Once the consultations are over, and comments considered, we issue a final decision. This outlines the new policy and licence condition wording, explains the reasoning behind the decision and states when the changes will 'go live'. On this date, the new rule becomes a binding condition of the supply licence that suppliers must follow. There is always a minimum 56-day statutory notice period (beginning on the day that the decision is published) before these changes come into effect. During the 20 working days from the decision being published, certain groups⁶ affected by our decision can appeal to the CMA.

Tips for using the supply licences

- Remember that **the Standards of Conduct contain enforceable overarching principles that are relevant across many supplier activities and licence guide themes.** (The Standards are SLC 0 for domestic / SLC 0A for non-domestic suppliers.) The Standards aim to ensure that licensees (and their representatives in the case of domestic suppliers) treat each customer fairly. This includes behaving in a fair, honest, transparent, appropriate, and professional manner, and providing information that is complete, accurate, and not misleading.
- Suppliers should have special regard for **consumers in vulnerable situations.** This means that to make sure they are upholding their obligation to treat all domestic customers fairly, suppliers need to make an extra effort to identify and respond to the needs of domestic customers who are in vulnerable situations. Our [Consumer Vulnerability Strategy](#) has more detail on how suppliers can do this.
- Some licence conditions apply to suppliers **and their representatives** (for example SLC 0, the domestic Standards of Conduct). In these cases, suppliers are responsible for ensuring that their representatives comply with the rules. Suppliers should bear this in mind when agreeing contractual terms with third parties. Note that 'Representative' is defined in the licence as "in relation to the licensee, any person directly or indirectly authorised to represent the licensee in its dealings with customers". This could include, for example, price comparison websites.

⁶ These groups are: (a) a 'relevant licence holder' within the meaning of section 23 of the Gas Act 1986 and section 11A of the Electricity Act 1989, (b) any other person who holds a gas or electricity licence of any type whose interests are materially affected by the decision, (c) a qualifying body or association in the capacity of representing a person falling within a) or b) above, and (d) the Council (Citizens Advice and Citizens Advice Scotland) in the capacity of representing consumers whose interests are materially affected by the decision.

- Wherever a word or phrase starting with a capital letter appears in the licence, it's a **defined term**. This means there is a specific definition for it set out in the licence, so you must read the condition in conjunction with that definition to understand the rule properly. The definition is usually found in SLC 1, though sometimes it will be at the end of the specific licence condition. SLC 2 contains more rules on interpreting the licence conditions.
- Licence conditions are often interconnected and shouldn't be read in isolation. To understand the whole supply licence, it is important to understand that **every condition works in accordance with all the others**. Supporting materials we have produced (i.e. the supply licence guides) will identify many of these links as they break the licence down thematically, so all licence conditions that relate to a given theme will all appear in one place. However, these supporting materials are not meant to replace the need to be familiar with how the conditions all work and interact. One example of interconnections between the rules is the multiple requirements that must be followed to market a green tariff to a domestic consumer. For example, these include:
 - Suppliers are subject to general requirements on conduct set out in SLC 0: Standards of Conduct.
 - Suppliers are also subject to wider marketing requirements contained in SLC 25 (informed choices).
 - Suppliers must meet basic information provision conditions before the point of sale by providing principal terms to the customer, providing a personal projection, and providing a Tariff Information Label (SLC 31F).
 - To market a green tariff, suppliers must meet SLC 21D regarding tariffs with environmental claims.
- **Not every licence condition applies to every supplier:**
 - Some licence conditions only apply to gas suppliers, and others only to electricity suppliers. There are separate standard supply licence conditions for gas and electricity suppliers, which contain the rules for each. Many of the licence conditions are similar, but comparing them side-by-side will show where they differ.
 - Some licence conditions only apply to domestic suppliers, and others only to non-domestic suppliers. The sections of the licences show this: sections A and C apply to all, and section B to domestic suppliers only. SLC 3 contains specific rules about the application of Section B of the licence. SLC 6 contains rules around classifying a premises as domestic or non-domestic.
 - Some licence conditions only apply to suppliers with more than a certain number of customers, for example suppliers with more than 250,000 customers. Each licence condition must be read carefully to identify where this is the case.
- Finally, we also publish other **information to help suppliers understand and comply with their obligations**. This includes:
 - **Guidance documents**. Some licence conditions include a provision that requires suppliers to have regard to any guidance published relating to that condition. Where this is the case, suppliers must follow the guidance. Any breach of the guidance could potentially be enforced against. Other guidance we publish is not mandatory to follow, but it's intended to be useful for suppliers, so we would

suggest following it. Our consultations and decision documents are particularly useful sources of guidance.

- **Decisions from enforcement investigations.** These can all be found on our [website](#). Some of these decisions refer to older versions of the rules, but they are useful for showing what Ofgem has considered to be unacceptable behaviour in the past. We'd expect suppliers to use these to help understand precedents.
- **Lessons learned** (e.g. [sales and marketing](#)) and **examples of good or poor practice** (e.g. our [2014](#) and [2016](#) Challenge Panel reports and [Social Obligations annual reports](#)). These are documents we've pulled together to help guide suppliers with examples of things to do or not to do. They're not mandatory to follow but should be helpful for suppliers.

These documents are all in Ofgem's [publications library](#). The [licence guides](#) we have produced should help point you to the key documents for each theme. Suppliers may also wish to consult other helpful materials about good practice, for example those published by Citizens Advice.

Other useful information

If you're a new licensed supplier, you should check out our [independent supplier webpage](#). As the industry regulator, we are keen to have a constructive relationship with all suppliers who are active in the GB market. This includes having meetings tailored to the needs of new entrants. We will invite you to meet us in one of our offices (London, Glasgow and Cardiff) in due course. Feel free to contact us at Independent.Suppliers@ofgem.gov.uk.

If you're considering entering the market, you may find our [guide to entering the retail energy market](#) helpful. It mentions several alternatives to becoming a licensed supplier. These include:

- **Licence Lite** (electricity only): an option that helps prospective new suppliers enter the electricity supply market. It lets a new supplier partner with an existing licensed supplier who is responsible for some of the more costly and technically challenging parts of a supply licence, such as code compliance. An aspiring Licence Lite supplier (LLS) would apply for an electricity supply licence along with a request for a Licence Lite direction. The direction relieves the LLS of the obligation to be a party to the industry codes set out at SLC11.2 of the supply licence. The LLS is required to comply with all other licence conditions and obligations. For more information, see our [factsheet](#).
- **White labels:** organisations without a supply licence that have a commercial arrangement with, and use the infrastructure and resources of, licensed suppliers to offer tariffs under the white label's branding. For example, a supermarket chain partnering with a supplier to offer tariffs under the supermarket branding. The white label is not a supplier and does not need to apply for a licence or become a party to or comply with the industry codes. The white label effectively acts as an agent of (and therefore under the control of) a licensed supplier. The white label's activities operate within the parameters of the licence and industry arrangements of its licensed partner supplier. The licensed supplier is ultimately responsible for ensuring that the white label's activities comply with its supply licence.

- **Sleeving:** an option that helps organisations with excess on-site generation to transport this excess to another site using the public network. This excess could be consumed by the same party that generates it or by other consumers. The generating organisation contracts with a third party licenced supplier to buy its excess power and supply it to the other site, which could be owned by the same organisation or a different one. As with the white label model, the peer-to-peer relationship operates within the parameters of the licence and industry arrangements of the licensed partner supplier.

For more information on these options, or if you have an innovative new business proposition, get in touch at innovationlink@ofgem.gov.uk. The 'Innovation Link' is a dedicated service we offer to provide fast, frank feedback on the regulatory framework and what it might mean for you.

If you're thinking of applying for a licence, check out this [guidance](#) on the application process. We began a [review](#) of our approach to supplier licensing and regulating supplier in November 2018, in order to raise the standards around financial resilience and customer service. The scope of the review covers Ofgem's:

- conditions for suppliers entering the market,
- ongoing requirements, monitoring and engagement, and
- arrangements for managing supplier failure and market exit.

We anticipate that new licence application requirements will apply by late Spring 2019. Please see our [consultation](#) for more information.

We remind all suppliers that this guide does not modify or replace the conditions in the gas and electricity supply licences. Neither is it an exhaustive list of supplier obligations or information resources. Suppliers should continue to refer to the conditions outlined in the most recent versions of the [gas](#) and [electricity](#) supply licences.