



CORNWALL INSIGHT

CREATING CLARITY

Ofgem consults on supplier governance arrangements

Headline assessment	
Document:	Supply licensee governance arrangements guidance
Consultation date:	30/01/2025 – 24/04/2025
Impact classification:	Medium: Domestic Suppliers, Non-Domestic Suppliers
Action if desired:	Respond to the consultation and note the proposals around governance arrangements.

31 January 2025

Alex Jephson

Author



Alex Jephson

Analyst

a.jephson@cornwall-insight.com

For more information about us and our services contact us on enquiries@cornwall-insight.com or contact us on 01603 604400.

Disclaimer

While Cornwall Insight considers the information and opinions given in this report and all other documentation are sound, all parties must rely upon their own skill and judgement when making use of it. Cornwall Insight will not assume any liability to anyone for any loss or damage arising out of the provision of this report howsoever caused.

The report makes use of information gathered from a variety of sources in the public domain and from confidential research that has not been subject to independent verification. No representation or warranty is given by Cornwall Insight as to the accuracy or completeness of the information contained in this report.

Cornwall Insight makes no warranties, whether express, implied, or statutory regarding or relating to the contents of this report and specifically disclaims all implied warranties, including, but not limited to, the implied warranties of merchantable quality and fitness for a particular purpose. Numbers may not add up due to rounding.

1 Assessment and recommendation

On 30 January, Ofgem issued a consultation on the [supply licensee governance arrangements guidance](#). As part of its ongoing work to drive improvements in customer service, it is proposing to expand Standard Licence Condition (SLC) 4A *Operational Capability Principle* to introduce new guidance clarifying its expectations around governance arrangements.

It is also proposing to amend the guidance for milestone assessments, required under SLC 28C *Milestone Assessments* for domestic suppliers, to incorporate the regulator's expectations that supply licensees should include details of how their governance arrangements are appropriate to support their growth plans.

Ofgem considers a principles-based approach to be appropriate at this stage, but noted that if this does not achieve the outcomes expected it will consider whether more prescriptive requirements are needed.

Cornwall Insight comment: Following the wave of supplier exits during 2021-22, Ofgem has continually looked to ensure that existing and any new suppliers are fully robust and capable of operating in the market, with the aim of minimising the risk of supplier exits and the detrimental impact on consumers that follows. While this guidance is not prescriptive, Ofgem will be looking to ensure suppliers meet its expectations, or further requirements may be considered.

2 Background

Since 2021, Ofgem has delivered a package of changes to improve the financial resilience of suppliers, including measures to help strengthen governance arrangements and ensure a more financially responsible culture across suppliers. This includes guidance for [Annual Adequacy Self Assessments \(AASAs\)](#), which set out expectations in relation to governance, and a [supervisory approach](#) for monitoring financial resilience of licensees. SLC 28C *Milestone Assessments* was implemented in 2022 to require suppliers to undertake assessments when they reach 50,000 or 200,000 domestic customers to ensure proper measures are in place to support their growth. There are also requirements under SLC 4C *Fit and Proper Requirement* to ensure any persons in a position of significant managerial responsibility or influence are 'fit and proper' to hold the role.

Ofgem's [consumer confidence programme](#), introduced in September 2024, sets out how it intends to drive further improvements and a culture change in customer service. The regulator considers that weak supply licensee governance, including a lack of internal controls can facilitate poor or unwelcome risk management and decision making, ultimately leading to consumer harm. It noted instances of previous supplier exits where a lack of opportunities for challenging key decisions, alongside questions over whether there was sufficient experience and knowledge across the senior leadership contributed to their risk of failure. Ofgem therefore considers that strengthening the effectiveness of the board of a supply licensee is likely to have a positive impact on the culture of an organisation, improving customer service and driving up standards.

3 Updating guidance under SLC 4A

SLC 4A requires licensees to ensure they have and maintain robust internal capability, systems and processes. Ofgem is proposing to expand the guidance under SLC 4A to include its expectations in relation to governance arrangements within a licensed supplier. To shape this guidance, Ofgem has reviewed published corporate governance frameworks, such as the UK Corporate Governance Code, and requirements set in other areas such as electricity network licensees. It has identified examples of good practice it thinks would be particularly important for suppliers to consider.

To avoid repetition with the existing guidance, Ofgem proposes that the new guidance will cover three key areas:

- Effectiveness of the board
- Transparency of governance arrangements
- Example scenarios

3.1 Effectiveness of the board

Ofgem considers that suppliers should ensure there is sufficient independent oversight and challenge in their governance and decision-making processes. It also expects suppliers to have checks and balances in place to avoid dominance by an individual or group of individuals in its decision-making process. This could include ensuring the board of directors includes at least one independent non-executive chair and/or board member, or separating the roles of the Chair and Chief Executive Officer (CEO). Licensees should also consider and manage any conflicts of interest that might be present across their senior teams.

Licensees should consider the collective skills and knowledge that their directors and senior management have, with the aim to identify and fill in any gaps. Ofgem also states that organisational culture and employee behaviour should align with the licensee's vision, values, and risk appetite. It considers this will positively impact the culture of the organisation, putting consumers first and prioritising regulatory compliance.

3.2 Transparency of governance arrangements

This is already required within the RIIO framework, and Ofgem considers the benefits of transparency are also applicable to supply licensees.

Ofgem states that suppliers should be transparent about their own arrangements. This could include publication of details of the corporate ownership of the licensee, matters reserved for its board or parent companies, and/or the composition of its board of directors.

3.3 Example scenarios

Ofgem's proposals do not specify the exact arrangements a licensee should have in place, as it considers the most effective governance arrangements will depend on the individual circumstances of that supplier. However, some worked examples are shared of the arrangements it might expect to see in hypothetical supply licensees. Examples include publishing a policy on diversity and inclusion which is used to support succession planning and help introduce different perspectives and ideas, as well as clearly publishing information on the board of directors and corporate ownership on a licensee's website.

The examples are not intended to be exhaustive, and compliance with SLC 4A will be considered holistically to ensure the policy intention is achieved by the governance arrangements in place.

While Ofgem considers that this principles-based approach is the most appropriate, it notes that if it does not achieve the expected outcomes, it will explore whether a more directive approach is required.

4 Enhanced data gathering

The current milestone assessments for domestic suppliers largely focus on financial governance arrangements and do not cover all aspects of governance arrangements, for example information on the licensee's board of directors. Ofgem considers it important to increase the data it collects in this area to ensure it is still appropriate and effective for a licensee's growth plans.

The regulator is therefore proposing to amend the milestone assessment guidance for SLC 28C to set out expectations that the assessments should include details about how a supplier's governance arrangements will evolve as the supplier grows. Suppliers will need to provide details on its board of directors and how it ensure that it is and will continue to be effective. This includes:

- How it ensures that there is sufficient oversight and challenge in its decision making.
- Showing there are the necessary skills, knowledge and experience across the board of directors and senior leadership on an ongoing basis.
- How it ensures its organisational culture and employee behaviour align with the licensee's vision, values and risk appetites.

- Explaining how these arrangements will evolve as part of its growth plan.

Ofgem acknowledges that governance arrangements such as these are unlikely to change on a yearly basis and is therefore not proposing to introduce a new annual collection for this data. It is also proposing to update the terminology used in the guidance document to refer to the 'supply licensee' throughout to provide clarity that the expectation is placed on the licensed entity.

5 Next steps

The consultation closes on 24 April. A decision is expected to be published in late spring 2025 alongside finalised guidance.



CORNWALL INSIGHT

CREATING CLARITY

Cornwall Insight
The Atrium
Merchant's Court, St George's Street
Norwich, NR3 1AB

T: 01603 604400

E: enquiries@cornwall-insight.com

cornwall-insight.com

