



How to start an Energy Supply Company



Dyball
Associates Limited

Foreword

Entering the retail energy market is perhaps not as complicated as you might think.

The proliferation of independent energy suppliers is testament to how starting an energy company has become far more accessible.

In this guide, we look at how you can become an energy supplier, as well as the things you'll need in place to get your electricity and gas supply licence.



What is the Energy sector and how does it work?

Before we get into how to start your own energy supply business it's a good idea to go over just what the Energy Sector in the UK is and what it's comprised of.

The Energy Distribution Network

Who operates within it and what role does the network play in keeping the nation's lights on?

We've all heard of the energy supply companies, but the organisations responsible for generating, transmitting and distributing our power are relatively unknown by the public, even though they are responsible for operating the pylons and cables that bring power to homes and businesses across the UK.



The 4 parts of the Network

Generation companies -



These manage, operate and own the UK's power stations. They are responsible for the creation of the energy that we use daily. Companies such as Drax (the UK's biggest renewable energy generator).

Transmission companies -



These companies manage the transmission network of high-voltage cables that bring power from the generators to the distribution network.

In short, Transmission networks carry electricity long distances around the country at high voltages. The organisation responsible for electricity transmission in England and Wales is the National Grid. It is responsible for balancing the system and ensuring that the supply of electricity meets the demand on a second-by-second basis.

Distribution companies -

These companies are responsible for delivering the power from the transmission networks to the nation's homes, businesses and industries.

There are six companies or Distribution Network Operators (DNOs) across 14 districts that handle the distribution across the entirety of the country.

These are the companies that consumers need to contact in the event of any power outages as they are responsible for managing the cables, transformers and poles that comprise the distribution network.

Electricity Distribution



Supply companies –

Energy supply companies suppliers buy the energy from the wholesale market and then sell it on to consumers.

They are the ones you're probably most familiar with. Formally dominated by the 'Big Six' there has been a sharp increase in the number of challenger companies.

These smaller supply companies are taking a larger share of the market and regularly beat the big players when it comes to satisfied customers and service.

The Gas Distribution Network

In the UK nearly half of our gas is imported from overseas via pipelines from Norway and Europe. 44% of the nation's gas comes from under the North Sea and East Irish Sea with the remainder being imported as Liquefied Natural Gas from the Middle East.

As with electricity, gas is transmitted across the country via a network of high-pressure pipes.

Unlike with electricity, there is just one organisation tasked with overseeing the gas transmission network and that is the National Grid. Like the electricity distribution networks, the gas distribution networks send gas along pipelines via the national transmission network to homes and businesses across the country.

There are seven gas distribution networks in the UK managed by 4 companies.



GAS DISTRIBUTION NETWORKS

- SGN
 - Northern Gas Networks (NGN)
 - Cadent Gas
 - Wales & West Utilities (WWU)
-

Who regulates the network?

ofgem

Ofgem are the non-ministerial government appointed regulator for the UK electricity and gas markets.

They are responsible for maintaining order and fairness within the UK Electricity and gas market.

Although Ofgem do not deal with customer complaints directly, they ensure consumer interests are maintained inline with the various governing acts overseeing the industry.

In addition to these responsibilities, Ofgem also regulate the introduction of government related energy schemes, and work to ensure the security and sustainability of energy supply to UK consumers.

Ofgem's main focus is to ensure compliance from UK energy suppliers. Within the energy market they investigate suspected breaches to supply licence conditions, consumer acts or competition regulation.

These investigations, if found to be proven, can result in supplier fines, enforcement actions or even business closures. Ofgem also controls the energy licence application process for UK gas and electricity markets.



The rise of the Challenger Energy Companies

Ofgem, the energy regulator, encouraged new entrants to compete against the "big six" in order to give consumers more choice and ultimately to encourage energy switching which lacked behind other switching markets e.g. home insurance, at just 10% of consumers each year.

As a result, most UK homes were languishing on expensive Standard Variable Tariffs (SVTs) and paying an average of £300 a year more than they needed to.

Fast forward a few years and the plan has worked...a bit. The latest energy switching statistics show that 2019 was a **record year** for consumers switching their home gas and electricity supplier.

Whilst the growth in consumer choice and energy switching volumes has been welcomed, new entrants to the market haven't had it easy with many quickly going bust chiefly due to being unable to offer a good customer service.



Getting your gas and electricity supply licence

Entering the retail energy market is perhaps not as complicated as you might think.

The proliferation of independent energy suppliers is testament to how starting an energy company has become far more accessible.

Here, we'll investigate how to become an energy supplier, as well as the things you need in place to get your electricity and gas supply licence granted.

There are several key steps to gaining an electricity and gas supply licence which all independent energy suppliers must follow before they can enter the UK market.

It can take around **4 months** to be granted a gas supply licence, and up to **12 months** for an electricity supply licence.

Because energy is an essential service, all suppliers are expected to meet minimum levels of customer service and to provide a universal supply.



In addition to complying with the standard conditions of licensing, Ofgem expect companies to treat customers fairly, including:

- Providing complete and accurate information for relevant product and services
- Be easily contactable by customers and provide prompt resolution to issues
- Providing a service which is fit for purpose Behaving in an honest, professional and transparent way

In addition to these requirements, there are additional licensing tests which will inspect the financial health of new businesses.

These measures aim to ensure that new suppliers have adequate funds to manage their business for 12 months post licensing.

Getting a licence costs **£450** for electricity and **£350** to **£450** for gas. Being granted a licence requires compliance with a range of industry codes, further details of which are available on our electricity supply licence and gas supply licence pages.



Dyball Associates works in close connection with the regulatory and qualification boards, Ofgem, Elexon, MRASCo and Xoserve, to help our clients achieve the licensing requirements quickly and easily.

We can provide direct one to one advice on gaining your licences; just [get in touch](#) to find out more.

Licence Lite

Unlike gas suppliers, new electricity companies have the option to go down a licence lite route which can reduce the time to market.

This works by partnering with an existing supplier already in the industry to assist with some of the challenging parts of getting started.

If this route is appealing, you will have to make a declaration within the licencing process. More information can be found in the [Ofgem factsheet](#).



White label branding

A white label company will use the infrastructure and resources of an established supplier to offer tariffs under their own brand.

The existing licenced company retains contractual responsibilities with consumers, but the white label collects revenue from the tariffs they sell. For local authorities and community groups, this has proven a success in the past. More information is available [here](#).

Exemption from licensing

A very small section of independent energy suppliers may be exempt from seeking licensing from Ofgem.

An example is those who supply less than 5MW of energy, of which less than 2.5MW is supplied to the domestic market.

The Department for Business, Energy & Industrial Strategy (BEIS) will have the final say over whether an activity is exempt or not; further information can be found on their [webpage](#).

Although the majority of new energy suppliers will endeavour to source their own electricity and gas supply licences, these other methods of entering the market are interesting food for thought.

We're happy to advise on any of these routes to market for new suppliers; [talk to our expert team](#) to find out more.



Considerations for new independent energy suppliers

Entering the UK market is not a decision to be taken lightly.

Aside from the **requirements** from Ofgem of setting up an energy supply company, there are ongoing challenges such as the energy price cap and the highly competitive marketplace to contend with.

Regulatory requirements are a constant strain on any new company, and many of those with poor pricing strategies and inefficient operations have already become market casualties over this winter.

However, with a solid business plan and a sustainable revenue strategy, the UK energy market is still wide open for business.

Customer service is key to success, so it's worth thinking about your energy supplier CRM system early on in the process.

Our [customer service management system](#) (CSM) incorporates an energy billing system as well as integration with marketing messaging systems and PSR compliance tools, to make it easy to manage your customers in a professional, efficient manner.

For more information on creating your own energy supply company from scratch or any other aspect of how to start an energy supply company, [get in touch](#) with Dyball Associates today and we'll be pleased to help.



The Customer is King

The biggest difference between those electricity supply companies that survive and thrive and those that crash and burn, is often down to how they provide for their customers such as whether they provide cheaper energy tariffs to help them save money or offer great customer service.

Well-staffed customer service response services, quick and accurate billing, excellent deals and customer engagement are key to attaining a loyal customer base. With the ability for customers to switch their supplier easier than ever it is those companies that regularly appear at the bottom of the consumer satisfaction charts that are at most at risk of failing.

Implementing effective management systems such as Dyball's Customer service management system (CSM) allows a supplier to handle billing, marketing messaging and PSR compliance in one place making it easy to manage your customers' needs quickly and efficiently.



We're here to help

Dyball Associates are proud to help new supply businesses successfully launch in the UK market.

Through our energy market consultancy services, and the software we've developed, we're supporting new UK electricity and gas suppliers get set up and start supplying.

For more information on how to start and manage an energy company, [get in touch](#) with Dyball Associates today.

Follow us on [Twitter](#) and [LinkedIn](#) to keep up to date with the latest news and updates in the energy industry.

