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Sent by email to: [FutureConsumers@ofgem.gov.uk](mailto:FutureConsumers@ofgem.gov.uk)

Dear Jemma

### **Innovation in the energy retail energy market<sup>1</sup>**

Centrica's purpose is energising a greener, fairer future. Innovation is central to that purpose and our energy and services businesses are already leading the way to help customers cut emissions across power, heat and transport.

Investability is key to supporting innovation, and the necessary conditions to drive change at scale inevitably depend on the supporting regulatory and policy framework. We set out our priorities in response to the DESNZ call for evidence last year and attach our previous response for reference.

The Government's response to its own consultation highlights four key enablers or building blocks identified by stakeholders as critical to support retail innovation: smart meters, Market-wide Half Hourly Settlement (MHHS), price signals and consumer protection. We agree that these are appropriate priorities and that new policy approaches are needed in some areas, for example to support smart meter adoption and ensure that price cap supports rather than hinders time of use (ToU) pricing and demand flexibility. Equally, we note that routes to market were not identified as a priority and therefore question Ofgem's current focus on them.

To a greater or lesser extent, all the policy options Ofgem discusses involve selective relaxation of regulatory rules for some market participants but not others. Such an approach risks undermining sustainable competition by creating an un-level playing field and repeating

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<sup>1</sup> [Innovation in the energy retail market | Ofgem. We note that Ofgem's consultation is confined to energy supply and does not propose an alternative route to market for parties that control a consumer's load for demand side response or energy management services \(for which a new licensing regime is being developed separately\).](#)

previous regulatory failures. It also leads to a confusing patchwork of consumer protection that risks undermining consumer trust and confidence.

Therefore, selective regulatory relaxation should not be pursued lightly. This is demonstrated by previous experience. Policy aimed at encouraging new entrants succeeded in stimulating market entry but ultimately failed when market conditions exposed unsustainable business models, leaving consumers to pick up the tab for risks that should have been borne by investors. This further reinforces the need for caution and maintaining newly introduced regulation to underpin financial resilience in the consumer interest.

This is not to say there is no scope for reviewing outdated or unnecessarily burdensome regulation where the need to support innovation outweighs the original consumer protection goal, or where that goal can be better met by other means. The “dead tariff” rule is one example of legacy regulation of dubious relevance in today’s market which, nevertheless, risks complicating and inhibiting tariff innovation. We think Ofgem should consider relaxing this rule across the board rather than selectively for new entrants.

Ofgem should limit this exercise to considering time-limited derogations to support innovation, for instance in relation to small scale trials to test proof of concept. However, we note that unless there is a viable route for the regulatory relaxation in question to become enduring the usefulness of derogations to facilitate innovation at scale is likely to prove limited. To support sustainable innovation at scale, derogations should provide a stepping stone to wider review of whether any underlying rule can be relaxed or withdrawn completely.

In conclusion, while we do not exclude the possibility of some modest reform to derogations, for example, we are not persuaded that reviewing routes to market in general is an appropriate priority and therefore urge Ofgem work with Government to maintain focus on more critical enablers to unlock retail innovation.

Our thinking is set out in further detail in the appendix responding to Ofgem’s specific consultation questions.

Yours sincerely

Don Wilson

**Retail Market Design and Policy**

## Appendix: response to consultation questions

Questions relating to Chapter 3 – Innovation in the retail market

*Q1: What innovation is currently happening in the domestic and non-domestic retail markets? What is the scale of this innovation?*

At Centrica we believe that climate change is the single biggest threat we are facing today, and that helping deliver net zero is the single most important thing we can do.

Through a combination of measures we already help customers cut emissions across power, heat and transport. Today we help customers decarbonise by providing energy efficiency and optimisation products like Hive, facilitate greener motoring by installing electric vehicle charging solutions, and keep the home warm by installing heat pumps and hydrogen blend ready boilers.

Our social housing business PH Jones has partnered with Broadacres, one of the largest housing associations in North Yorkshire, to help them decarbonise their social housing stock, making homes warmer and more energy efficient. The installations have helped Broadacres to reduce the amount of energy their homes need, their carbon footprint and their bills.

British Gas is focused on getting the UK to net zero by 2050 - helping customers reduce the carbon footprint of their homes through energy-efficient home improvements and investing in renewable energy. British Gas powers millions of UK homes and small businesses and is a leading provider of home services in England, Scotland and Wales. As a business, our purpose is to energise a greener, fairer future. We do this by offering simple and fair energy prices, smart meters, a range of green energy tariffs and easy online access and tools.

Our PeakSave<sup>2</sup> proposition rewards customers for shifting their electricity usage to times of lower demand or when more renewable energy is available on the grid, supporting a greener energy supply. To date, customers have shifted 16,725 MWh of energy and avoided 467 tCO<sub>2</sub>, contributing significantly to a cleaner, greener future.<sup>3</sup>

*Q2: What innovation should happen to meet consumers' needs and meet net zero?*

In our vision of the future of the retail market, consumers choose to engage in, contribute to, and benefit from the net zero transition. We envisage consumers doing this through Home Energy Management (HEM) propositions, for example remote load control provided by flexibility service providers, responding to real time price signals through static and dynamic ToU tariffs.

We envisage helping a wide range of consumers to optimise their in-home smart energy assets such as heat pumps, EV chargers, solar panels, smart storage heaters and water tanks, and batteries to reduce their costs and generate income for themselves.

We currently have several partnerships with technology providers and social housing associations to install smart energy devices such as smart storage heaters in homes to benefit the occupants. We use the contact with potentially vulnerable consumers that this model

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<sup>2</sup> [2024 finalists - Utility Week Awards](#)

<sup>3</sup> Figures cited relate to domestic customers but see also: [British Gas is extending its Half-Price Electricity Offer and Powering Pubs For Free](#)

provides to provide a service which optimises their energy consumption using a combination of a ToU tariff, along with remote load control to access additional value by participating in the Balancing Mechanism.

*Q3: What will be the impact on consumers of new, innovative products and services? How can we maximise the benefits and minimise the risks?*

As electricity generation becomes increasingly driven by the weather, some consumers may embrace the volatility of near-term prices, for example by taking up ToU tariffs. Others may seek to protect themselves from volatility, for example by locking in prices through fixed price deals underpinned by longer term hedges or taking up energy-as-a-service offerings.

However, some customers may choose to stay on default tariffs. Those customers should be protected as well, requiring an appropriate price cap applicable to all default tariffs and specific social tariff protection to address affordability for those most in need

A key question is how to bridge the divide between today's market where HEM propositions are niche to one where they are mass-market. We consider simplification to be key to achieving this, including retaining but simplifying the p/kWh price cap for default tariffs by removing the standing charge and simplify the household market further by removing regional variations in electricity prices.

We agree with Ofgem that a cost-reflective price cap is not and cannot be a mechanism to ensure affordability since most elements of wholesale and networks costs are passed through to consumers without allowing for them to respond to price signals.<sup>4</sup> That is why targeted help for those who need it, funded via progressive taxation rather than levies on bill payers, is already a pressing issue and will become ever more important in the context of energy transition. Nevertheless, we believe that retaining the p/kWh price cap as a backstop will help reassure customers that prices are fair in relation to underlying costs and risks. It will also help customers understand what makes up their energy bills, including the costs of the transition to net zero.

We believe that removing unnecessary complexity such as standing charges and regional variations on default tariffs will help customers to engage with their energy. Over time, additional complexity may be necessary to incentivise efficient consumption patterns. In the initial stages of MHHS we expect there will be strong market incentives to encourage customers who can adopt flexible tariffs that reward load shifting to do so while protecting other customers from uncertain price impacts they cannot effectively manage. However, the cap must enable suppliers to recover efficiently incurred costs and provide sufficient competitive headroom to enable suppliers to incentivise those customers with the ability to flex consumption to make financial savings by adopting non-default tariffs.

Providing simple, straightforward products and services to consumers will become increasingly important as domestic consumers become increasingly active in providing flexibility. Consumers will need access to sufficient information to understand the importance and value of providing flexibility, but the complexity and risk associated with participating in flexibility markets must sit with energy and flexibility service providers, who are best placed to manage this on behalf of consumers.

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<sup>4</sup> [Future Price Protection Discussion Paper | Ofgem](#)

The flexibility products and services provided to consumers must be tailored to individual consumers needs and appetites, for example highly engaged consumers who have invested in expensive smart energy devices may want more information and energy management options than vulnerable consumers who may be more interested in receiving a simple, lower fixed energy price to reduce their overall costs.

As well as the costs of the transition to net zero needing to be clear to consumers, they should also be funded fairly. We believe that the fairest way to fund policy costs, especially legacy schemes with higher costs of support, is through general taxation rather than energy bills.

We understand that some may have reservations about the distributional impacts of moving costs in the p/day standing charge into the p/kWh unit rate. But we believe that any negative impacts should be more than outweighed by a broader and more generous social tariff than the Warm Home Discount we have today. Indeed, the removal of a standing charge will have distributional benefits for some categories of customers (e.g. low consuming / low-income households).

Questions relating to Chapter 4 – Enablers and barriers to innovation

*Q4: Are there any additional enablers or barriers to innovation?*

Ofgem discusses ‘enablers’ under the following headings, suggesting that “*significant work [is] underway*” to deliver these:

- **Data and technology:** smart meters and tech; access to data
- **Commercial:** competitive pressures; price signals
- **Market and regulatory structure:** pathways for testing; routes to market; financial resilience; access to capital; regulatory certainty and investor confidence
- **Consumers:** awareness; engagement; trust.

There is no similar list of ‘barriers’ so we assume that Ofgem perceives the absence of an enabler as a barrier.

In our view, while the headings may be sufficiently broad to capture most potential enablers or barriers, this does not imply that all are on the same par. Some are more significant than others, so the key questions are about emphasis and priority.

We note that the Government’s response to its own consultation suggests smart meters, MHHS, price signals and consumer protection are core priorities. As regards routes to market it states: “*Our current view is that there is not a strong enough case for pursuing immediate regulatory interventions to unlock new routes to market.*”<sup>5</sup>

We broadly agree with the priorities Government has identified. In this context, we question Ofgem’s current focus on routes to market and respectfully suggest that energy would be better directed towards agreed priority enablers.

*Q5: What is the most significant barrier to innovation? Why?*

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<sup>5</sup> [Towards a more innovative energy retail market: call for evidence summary of responses](#)

We would highlight the following factors as barriers to widespread adoption of time of use (ToU) pricing and load shifting which are critical to realising the MHHS business case:

- *Smart meter penetration*

The current policy framework intended to drive rollout of smart meters is not working and requires a fundamental rethink. This should, among other things, focus on ensuring that smart meters are able to function effectively rather than pursuing meter rollout for its own sake. We acknowledge that the policy framework rests with government rather than Ofgem. Nevertheless, we underline that getting the policy framework right in this area should take priority over speculative consideration of routes to market which risks being a distraction and contributes to uncertainty.

- *Consumer engagement and trust*

The benefits case for MHHS relies on consumer behaviour change so that consumers with large and flexible loads can and do manage their consumption in a way that helps minimise overall system costs. This in turn requires increasing consumer exposure to underlying variations in cost by time of use and for consumers to be comfortable sharing half-hourly consumption data. Removing unnecessary complexity such as standing charges from default tariffs and regional variations will help customers to engage with their energy usage.

Over time, additional complexity may be necessary to incentivise efficient consumption patterns. In the initial stages of MHHS we expect there will be strong market incentives to encourage customers who can adopt flexible tariffs that reward load shifting to do so while protecting other customers from uncertain price impacts they cannot effectively manage. However, the cap must enable suppliers to recover efficiently incurred costs and provide sufficient competitive headroom to enable suppliers to incentivise those customers with the ability to flex consumption to make financial savings by adopting non-default tariffs.

- *Regulatory uncertainty and unintended consequences*

Innovation depends critically on a stable and predictable regulatory framework that supports investment; this will only be achieved if retail market participants can recover efficiently incurred costs and make a sufficient return that appropriately reflects underlying costs and risks.

DESNZ consulted earlier this year on future default tariffs, shortly followed by Ofgem's consultation on Future Price Protection. A key theme of both consultations is the need to encourage demand side flexibility to support energy transition at lowest cost in the long-term interests of consumers as a whole.

We endorse continued regulation of default tariff through a p/kWh cap. However, suppliers will be exposed to new costs and risks as a result of MHHS which need to be recognised. It is also vital to ensure that the way default tariffs are regulated does not provide perverse incentives for consumers with large and flexible loads to take advantage of flat rate regulated prices to use power at peak times in such a way that they impose unfair costs on others.

Ofgem needs to consider its statutory duties in the round when determining the level of the cap and not assume that consumer protection is synonymous with the lowest possible cap. In particular, Ofgem must also have regard to the need to maintain incentives for domestic customers to switch to different domestic supply contracts.

*Q6: What innovation is not happening because of regulatory barriers?*

Widespread adoption of dynamic ToU tariffs requires the barriers discussed above to be addressed as a matter of priority. While commercial experimentation to better understand consumer behaviour and responsiveness is occurring on a limited scale at the moment, the conditions are not yet in place for mass market propositions that are both attractive to consumers and commercially sustainable at scale. Ofgem and Government should, therefore, focus on the critical enablers already identified rather than routes to market.

*Q7: Should we do further work to improve routes to market?*

As discussed above, we see no compelling case for focus on routes to market and would urge Ofgem to work with government to prioritise the key enablers/overcome the principal barriers discussed above.

Questions relating to Chapter 5 – Options to improve routes to market for products or services that involve selling energy

*Q8: What is the most attractive route to market? Why?*

The most attractive route to market for a potential market entrant or an established market participant is likely to depend on their preferred business model and risk appetite. But Ofgem should be cautious about calls for selective ‘light touch’ regulation that risk undermining sustainable competition and the long-term interests of customers as a whole.

Ofgem must learn the lessons of the recent past where a combination of ‘light touch’ regulation and moral hazard led to a proliferation of new entrants with risky business models. Those business models proved to be unsustainable in the face of wholesale market turbulence, leading to the collapse of 29 suppliers at an estimated cost of at least £2.7bn or £94 per customer.<sup>6</sup>

*Q9: If you think that we need to improve routes to market, which option do you think should be our top priority and why?*

We do not think a compelling case for ‘improving’ routes to market in general has been made. Consequently, we question the focus of the present consultation which risks being an unnecessary distraction from more critical priorities to support retail innovation and decarbonisation.

However, Ofgem could usefully focus on the wider regulatory framework for all suppliers and service providers. There has been a tendency for regulatory accretion – adding more and

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<sup>6</sup> [The energy supplier market](#)

more new rules with less emphasis on interrogating the effectiveness and proportionality of old rules which, nevertheless, continue in force. Unnecessary restrictions or overly burdensome regulation risk posing barriers to innovation for existing market players quite apart from any impact on market entry. To the extent old rules are time expired or no longer fit for purpose, Ofgem should consider relaxing them across the board.

Ofgem should not, however, again tilt towards a two-tier model where suppliers engaged in the same activity are subject to more or less onerous regulation based on when they entered the market or at what scale. Such an approach inherently distorts competition and undermines consumer confidence in the nature and level of protection they can expect.

*Q10: What are your views on the options presented for amending routes to market? What would be the risks and benefits of each option?*

All of the options presented are concerned with the mechanics of how to relax (unspecified) requirements selectively. We do not support this approach.

The primary question should be whether there is a case for regulatory relaxation of any particular requirement or requirements.<sup>7</sup> If there is, relaxation should in principle be considered across the board. Only if there are compelling reasons why across the board regulatory relaxation is not appropriate does the issue of selective relaxation arise (and with it the secondary issue of what regulatory mechanism might be used to support that outcome).

We note that there is a general problem with selective regulatory relaxation which permeates all the options Ofgem moots to some extent; namely the risk of competitive distortion and a confusing patchwork of consumer protection which may undermine consumer confidence.

The 'routes to market' terminology used in the consultation document suggests Ofgem may perceive selective regulatory relaxation as an instrument for supporting new market entrants rather than facilitating innovation by new entrants and existing market participants alike. We strongly caution against approaching regulatory relaxation in this way.

In addition to the risk of competitive distortion and erosion of consumer trust and confidence, it is doubtful that market entry which relies on exceptional treatment is sustainable over time. Exceptions justified based due to small scale, for example, create barriers to expansion once the limited scale threshold is exceeded. Similarly, exceptions which are time-limited face a dead-end once the exception expires.

For this reason, there is a presumption against selective regulatory relaxation, requiring specific case-by-case consideration and justification.

With these general points in mind, we make the following observations on Ofgem's high-level options:

- *Reformed derogations regime*

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<sup>7</sup> We note Ofgem's recent call for input on economic evaluation: [Ofgem's economic evaluation strategy | Ofgem](#)



We see a pragmatic case for allowing time-limited derogations to support innovation, for instance in relation to small scale trials to test proof of concept. There may also be a case for considering derogations in relation to a broader range of licence conditions.

However, we note that unless there is a viable route for the regulatory relaxation in question to become enduring the usefulness of derogations to facilitate innovation at scale is likely to prove very limited.

The process of applying for individual derogations is non-trivial and we support the concept of market-wide derogations (as recently confirmed in relation to the Ban on Acquisition only Tariffs) as a means of allowing flexibility from which all suppliers can benefit ahead of any wider review of the rule being derogated from.

To support sustainable innovation at scale, derogations should provide a stepping stone to wider review of whether any underlying rule can be relaxed or withdrawn completely.

- *Restricted licence*

In principle, using a restricted licence to enable supply in a limited geography or premises type without any variation in rules that would otherwise apply nationally could be considered without creating an un-level playing field. If, however, selective rule relaxations are also involved those relaxations should also be available to nationally licensed suppliers.

- *Individually modified licence*

We see substantial risks of competitive distortion and erosion of consumer trust and certainty under this option, in addition to administrative burden on Ofgem and questions over transparency which also arise.

- *Reform Licence Lite*

Partnering with licensed suppliers is an existing option. It is not clear from the consultation what 'reform' might entail, or that this should be a priority for Ofgem.

- *Enable licence exempt supply*

So long as supply is a regulated activity we see substantial risks with creating selective exemptions beyond those which currently exist and note that this is not currently within Ofgem's power in any event.

*Q11: To facilitate innovation, which licence conditions would most benefit from being reformed?*

While beyond the scope of this consultation, we note that the price cap will need to evolve with the advent of MHHS and look forward to Ofgem's forthcoming review of wholesale cost allowances next year.

We do see scope to rethink and relax some detailed aspects of regulation that pre-date the default tariff cap, including the “Dead tariff” rule which requires existing customers on “evergreen” tariffs to be moved to a new tariff if their current tariff is withdrawn from sale (or limited to certain customers). The existence of such a rule complicates and may inhibit tariff innovation via selective experimentation, while the consumer protection purpose of this legacy regulation in current circumstances is open to question.

*Q12: Are there any other improvements to routes to market which should be considered as part of enabling significant innovation in the retail market?*

No. As discussed in relation to previous questions we do not think a review of routes to market merits priority compared to other more critical enablers already identified.