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27 November 2024

Dear Jemma

Re: Innovation in the energy retail market consultation.

SSE Energy Solutions is a non-domestic energy supplier providing gas and electricity to businesses of all sizes across Great Britain. The business also provides distributed energy infrastructure such as private networks, behind-the-meter generation, heat networks and EV charging, and related digital services needed to help businesses and public sector customers transition to a low-carbon future.

Please find our detailed answers to each of the consultation questions in Annex 1 beneath this letter. In addition, we summarise our key points as follows:

- We welcome Ofgem's consultation on increasing innovation in the energy retail market, however Ofgem's questions could benefit from being reframed in the context of a fundamental question: what do energy consumers want? We note that Ofgem has launched its Consumer Confidence Programme (September 2024)¹. We feel that this should go hand in hand with promoting innovation in the energy industry, and we look forward to working with Ofgem as it develops this to ensure the industry is delivering the highest consumer standards. As such, we encourage Ofgem to consider the most transformative options to champion innovation and best consumer outcomes that are not covered within the consultation:
 - Supplier access to quality customer and industry data, and consumer engagement with and trust in new energy products and services are key to successful realisation of innovation in the retail energy market. Without the above, the commercial drivers to invest in developing new supply offerings is minimal. A centrally managed database for all supply related information including consumption data could improve the accuracy of data, service and costs to consumers, and better enable tariff comparison websites and improved digital propositions. There is also essential work required to educate and empower consumers to better understand their role and potential to contribute toward achieving net zero ambitions. This should be done through a centrally led (government and Ofgem) programme of consumer education to ensure there is a long term coordinated approach across industry that is supported by market participants and consumer bodies.

¹ [Consumer confidence: a step up in standards | Ofgem](#)

- Smart meter rollout and Market-wide Half Hourly Settlement are essential enablers for creation of low-carbon innovative energy retail offerings. We continue to advocate for a mandated roll-out of smart meters to standardise the basis from which all customers can transition to net zero solutions at scale.
- A more principles-based approach to supplier licensing would help to foster innovation compared to the current prescriptive model.
- We support Ofgem's intention to explore improvements to routes to market for products and services that do not require legislative or significant industry system change. However, most of the options presented in this consultation (for expanding derogations, restricted licences, individually modified licences) have been explored by Ofgem before and discounted. We feel there is limited merit to exploring these again. There is risk of fracturing the market if a proliferation of 'specialist suppliers' choose not to serve certain markets or customer types. The complexity of the regulatory environment can deter innovation amongst providers and causes confusion amongst consumers. Ofgem should seek to reduce complexity but take great care not to erode consumer protections, create an uneven playing field or destabilise the existing supply market in seeking to improve routes to market.
- As an additional quick win to enable more innovation, Ofgem could use this opportunity to increase transparency of the Innovation Link feedback services and publish the guidance it gives to market participants on how to navigate the retail market. This could be done in a way which does not undermine the commercial proposition of industry parties who go to the Innovation Link and would help to increase regulatory understanding for the wider industry which would help enable wider innovation across the retail market.

We look forward to continuing to work collaboratively with Ofgem.

Yours sincerely,

Megan Coventry

Senior Regulation Analyst

Annex 1

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

We note that Ofgem identifies three broad categories of innovation that have recently emerged or are being trialled in the retail energy markets: new types of energy supply (e.g. specialist tariffs and propositions, local tariffs, energy as a service), advisory services using data driven insights (e.g. smart price comparison websites, customer advice services), and energy management Services (e.g. flexibility products and services, behind-the-meter asset installation and management). These correlate with what we are aware of, however from a non-domestic energy supply and distributed energy infrastructure perspectives we observe that scale of innovation is somewhat limited by low consumer engagement, business challenges including constrained access to and quality of consumer and industry data, and an overly prescriptive supplier licencing regime which does not foster innovation.

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

Harnessing automation and Artificial Intelligence (AI) in the energy industry will significantly benefit consumers and the transition to net zero through improved speed and efficiency across the energy retail sector. We responded to Ofgem's 'Use of AI within the energy sector call for input' (May 2024)². We note that Ofgem has not yet published their findings from this consultation. It would be helpful to the industry to get confirmation of Ofgem's direction on this topic.

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

We agree that new innovative products and services could help support consumers in managing their energy use and costs and help to lower the cost of net zero transition. As per our response to DESNZ's call for evidence 'Towards a more innovative energy retail market' (Sep 2023)³, and as mentioned in our answer to Q1 of this consultation, we highlighted that supplier access to better quality customer and industry data, and consumer engagement with new energy products and services, is key to successful realisation of innovation in the retail energy market. A centrally managed database for all supply related information including consumption data could greatly improve the accuracy of data, service and costs to consumers, and better enable tariff comparison websites and improved digital propositions. Currently suppliers have their own consumption data platforms, which means customers must transfer consumption data between multiple platforms to gain accurate quotes, which can be time consuming and introduce potential for errors and additional costs. Microbusinesses and small and medium (SME) business customers could experience more issues with switching due to data constraints once Market-wide Half Hourly Settlement (MHHS) is implemented. They do not typically experience these issues with the NHH settlement process, however MHHS will expose many of them and may lead to some of these consumers being deterred from switching supply. An improved centrally

² [Artificial Intelligence \(AI\) within the energy sector | Ofgem](#)

³ [Towards a more innovative energy retail market: a call for evidence - GOV.UK](#)

managed repository of data would help to mitigate this and improve consumer trust in engaging with the market.

There is also essential work required to educate and empower consumers to better understand their role and potential to contribute toward achieving net zero ambitions. This should be done through a centrally led (government and Ofgem) programme of consumer education on the benefits of safe and secure use of customer data and promote the uptake of related innovative technologies. By extension this would help foster trust in the advances that will come from significant programmes such as Market-wide Half Hourly Settlement (MHHS) and smart rollout to ensure there is a long term coordinated approach across industry that is supported by market participants and consumer bodies.

Interoperability of solutions is also of significant importance to consumers. Where previous new technology has not been interoperable between providers, consumers have become frustrated and disillusioned with adopting new energy products and services (e.g. significant consumer dissatisfaction with first generation smart meters going 'dumb' following switching supplier was widely reported in the media and damaged trust in the energy industry).

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

We agree with the key enablers Ofgem has identified on page 17 of the consultation. In particular, the importance of successful smart meter rollout and introduction of MHHS are essential foundations for enabling creation of innovative energy retail offerings. We continue to advocate for a mandated roll-out of smart meters across non-domestic properties to reach sections of the customer base that have not yet opted in and believe this could be piloted initially by public sector organisations. We also note the MHHS Programme re-plan has revised the key milestones for transition, and whilst necessary to ensure the solution is properly implemented, this does push back the realisation of related benefits of faster settlement.

Ofgem mentions price signals for net zero as a key commercial enabler. We agree that there is a need for provision of more appropriate price signals and incentives to utilise and purchase renewable energy. Consumers currently pay a premium for supply options with green credentials. Moving to a model where consumers pay less for using energy at times the grid is greener, and less for claiming the green credentials of their supply will incentivise emissions reductions. We believe this can be achieved through promoting use of existing market mechanisms and Time of Use (ToU) tariff products, rather than reliance on fundamental market changes e.g. zonal pricing as proposed in the government's Review of Electricity Market Arrangements (REMA)⁴.

We also note that in Appendix 1 of the consultation, Ofgem offers an overview of regulatory reform work already underway to deliver all the key enablers it has identified (including smart and MHHS). Ofgem should ensure that any new reforms do not undermine or slow down those already underway.

As per our answers to Q1 and Q3, key barriers to innovation are low consumer engagement/ demand for new products/ services, and business challenges including lack of access to and quality of consumer and industry data.

⁴ [Review of electricity market arrangements \(REMA\) - GOV.UK](https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements)

In addition, consumers need more government support in the form of grants and relief schemes to facilitate energy saving across the GB building stock and greater financial incentives to embrace new technologies, energy efficiency and flexibility initiatives. Where consumers perceive the cost to be high, this reduces demand and translates as a limitation on commercial drivers for providers to innovate. Energy supply is a highly competitive market, and there are significant differences between the domestic and non-domestic sectors that also have a bearing on what suppliers can offer and how they offer it. For example, we perceive that as businesses get larger, the gap between standardisation of innovation increases. Customers often have a vision of what they would like to achieve but within the extended supply chain processes, costs and timescales of creating a new building or retrofitting an existing building, innovative options for energy efficiency can often get ‘value engineered’ out of the process, leading to increased cost and carbon as the customer needs to meet an immediate budget. For projects decarbonising large public sector organisations, delays in public sector funding further compounds this issue with the knock-on impacts of delayed building work delaying revenue recovery and increasing business overheads. Ofgem mentions within the consultation that innovators might explore ways to offer financing services and long-term contracts, however it is not clear how this might work across different customer types and business sizes to fit in the regulatory framework. It would be useful to hear more from Ofgem on this.

As noted in our response to Q1 of this consultation, we highlight that the current prescriptive approach to supplier licensing does not foster innovation. Although we are cognisant of derogation and innovation sandbox initiatives available to suppliers, these piecemeal initiatives do not allow sufficient flexibility for suppliers to bring innovative new products to market. For that reason, we believe more transparency of the guidance offered by Ofgem’s Innovation Link team could help accelerate wider innovation in the market by increasing everyone’s understanding of the regulatory framework. While we are supportive of the consumer protections that the Supplier Licence Conditions provide, a more principles-based approach to supplier licensing would help to foster innovation compared to the current prescriptive model.

Complexity of the regulatory environment also deters innovation – we have written more about this in our answers to Q6, Q9, Q10 and Q11.

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

We perceive the most significant barrier to innovation to be low consumer demand for new products and services, and in particular low desire from small and medium (SME) business customers to engage with us about energy supply beyond seeking lowest price options. This results in low commercial drivers to invest in developing new supply offerings. We also mention this in our answers to Q1, Q3 and Q4.

SSE recently commissioned primary customer research into attitudes and readiness for flexible energy. The report provides clear indication that many small and medium sized business customers understand the concepts of new flexibility products and services e.g. Time of Use (ToU) tariffs and Demand Flexibility Service (DFS) and have an awareness of the national agenda to transition to net zero. However, many of these customers do not feel the benefits of such products match their needs (i.e. if they have fixed business hours) in the current economic climate. The clear preferences are

instead for solutions that provide tailored insight into their consumption of energy, costs and sustainability. Larger customers (I&C and public sector) are broadly more receptive to flexible energy propositions and more positive about the benefits to them and the wider energy system. We would be happy to share more detail about this report with Ofgem on request.

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

As per our answer to Q4, we continue to advocate for a mandated roll-out of smart meters. The current smart meter policy framework hinders development of innovative products.

Further reduction in Ofgem reporting requirements would also allow resource to be redirected to improve product development.

A more principles-based approach to supplier licensing would help to foster innovation compared to the current prescriptive model – we have also highlighted this in our answers to Q1, Q4, Q9 and Q11.

We note Ofgem refers in this consultation to government's Smart and Secure Electricity System (SSES) programme and within it the proposal for a new licence regime for entities that manage load control activities and demand side response. Companies undertaking both supply and load control activities would need both a supply licence and load control licence. Whilst we understand that separate policy engagement and industry engagement is ongoing, we are concerned that having two separate licensing regimes for suppliers who also offer demand side response services will stifle innovation, increase complexity and could deter suppliers from entering that market. We would encourage Ofgem and government to give more consideration to how load controller licensing might work to include suppliers utilising their existing supply licence.

We are also supportive of the government's work on direct regulation of Third Party Intermediaries (TPIs). Brokers have an important role to play in the sales and marketing of innovative products and services. We believe direct regulation of TPIs will therefore best protect consumers and promote consumer trust in the sale of innovative products and services.

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

Yes. However, we encourage Ofgem to take care not to destabilise the existing supply market. Please also see our answers to Q8 – Q12 in relation to this.

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

As a licensed non-domestic energy supplier, we create products within the parameters of the conditions of the supply licence and associated regulatory and industry code obligations. We also offer/have offered white label arrangements. Licensed supply is the most appropriate route to market for supply products and services, as it provides a common framework across which all licensed participants

can operate on a level playing field and offers best protections for consumers. A more principles-based approach to supplier licensing would help to foster innovation compared to the current prescriptive model, whilst maintaining full regulatory oversight. By contrast, there is a risk that opening further avenues for unlicensed activities in energy supply could increase potential for negative consumer outcomes where there are not regulatory protections, which could further damage consumer trust in the industry. As per our answer to Q6, we are supportive of the government's work on direct regulation of Third Party Intermediaries (TPIs), as brokers have an important role to play in the sales and marketing of innovative products and services. Direct regulation of TPIs who work with licensed suppliers will offer consumers the best levels of service and standards of conduct and help improve trust in the industry.

As per our response to Ofgem's previous policy consultation on Retail Innovation (2020)⁵, whilst we agree there are undoubted benefits associated with innovation, we continue to believe that there remains strong value in maintaining a common rulebook for market participants and it is essential that innovation does not undermine this.

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

As per our answers to Q8 and Q10, we believe the existing supply licence regime to be the most appropriate route to market. A more principles-based approach to supplier licensing would help to foster innovation compared to the current prescriptive model. Several of the options presented in this consultation have been explored by Ofgem before and discounted. We feel there is limited merit to exploring these again. There is risk of fracturing the market if a proliferation of 'specialist suppliers' choose not to serve certain markets or customer types. Ofgem should seek to reduce complexity, but take great care not to erode consumer protections, create an uneven playing field or destabilise the existing supply market in seeking to improve routes to market.

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

We support Ofgem's intention to explore improvements to routes to market for products and services that do not require legislative or significant industry system change. However, several of the options presented in this consultation have been extensively explored by Ofgem before and discounted as not offering best outcomes for consumers (i.e. extending derogations, using restricted licences, using individually modified licences and improving Licence Lite). It is not clear from the consultation whether Ofgem has found evidence that the underlying issues with these options have changed to merit detailed reconsideration.

Also, Ofgem suggests developing these options could support the evolution of 'specialist suppliers'. It would be useful to understand more about what Ofgem means by this concept. There may be a risk

⁵ [Supporting retail innovation: Policy consultation on ability to provide derogations from certain standard licence conditions; and, granting supply licences for specific geographic areas or premises types | Ofgem](#)

of creating an uneven playing field, and of fracturing the market if a proliferation of ‘specialist suppliers’ choose not to serve certain markets or customer types. The current domestic and non-domestic supply licences do provide a clear foundation identifying which licence obligations apply to which sector. Introducing further complexity could risk confusion and consumer detriment and would potentially require significant industry change.

With regard to the risks and benefits of each option Ofgem presents, our views are as follows:

- Reform of derogations regime (to expand/ refocus derogations to grant relief from specific SLCs): As per our answer to Q8, we believe there is strong value in maintaining a common rulebook for market participants. As per our answer to Q9, we believe this could be managed better by Ofgem via bolder moves toward principles-based supply license conditions. Derogations remove obligations in specified circumstances and to a specified extent, and as such are not designed to provide a permanent solution. There is a risk that increased use of derogations could lead to more complexity and confusion for industry and consumers, with the specified aspects of derogations becoming lost and therefore undermining the licenses.
- Enable restricted licences (via better guidance) and/or redefine restricted licences to facilitate new products/ services: Whilst improved guidance is always welcome to support those who may wish to utilise the existing restricted licence option, it may undermine the market to redefine restricted licences especially to facilitate new products and services. It would be useful to understand what kind of scenarios Ofgem envisages with this option.
- Enable individually modified licences (via more/ better guidance on application criteria): Whilst improved guidance is always welcome to support those who may wish to utilise the existing individually modified licence option, it may undermine the market to create more of these. There is a risk that increased use of individually modified licences could lead to more complexity and confusion for industry and consumers. It would be useful to understand what kind of scenarios Ofgem envisages with this option.
- Enable licence exempt supply (via review of the regulatory framework and industry codes): As per our answers to Q6, Q9 and Q11, the complexity of the regulatory environment deters innovation amongst providers and causes confusion amongst consumers. Licensed exempt supply adds an additional layer of complexity. As such it may be useful for Ofgem to provide more guidance around the existing exemptions framework. Ofgem should take great care not to erode consumer protections, create an uneven playing field or destabilise the existing supply market in seeking to improve routes to market for licence exempt supply.

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

We do not suggest any licence conditions for reform. As per our answers to Q6, Q9 and Q10, the complexity of the regulatory environment deters innovation amongst providers and causes confusion amongst consumers. Ofgem should seek to reduce complexity but take great care not to destabilise the existing supply market in seeking to improve routes to market. We suggest that should any licence

conditions be considered for change, these must follow the principles-based approach rather than introduce further prescription that could narrow opportunities for innovation.

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

As above in Q11, we suggest Ofgem should refrain from introducing any further prescription to the energy supply licences.

We also suggest that Ofgem could utilise this opportunity to increase transparency of the Innovation Link feedback services and publish the guidance it gives to market participants on how to navigate the retail market. Ofgem mentions in the consultation that the Innovation Link is providing a lot of feedback on licence exemptions currently. Increased transparency of Ofgem's work in the Innovation Link could enable other market participants to be 'fast followers' of innovation, ultimately increasing the potential for further innovation.