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Dear Jemma

INNOVATION IN THE ENERGY RETAIL MARKET

We welcome the opportunity to respond to your consultation on innovation in the energy retail market. At ScottishPower, we are committed to delivering sustainable and innovative energy solutions that benefit our customers and the environment.

The retail energy sector is transforming through digitalisation and integration of a range of low carbon technologies. Suppliers are developing innovative products and services that are accessible and meet the diverse needs of customers, allowing them to benefit from emerging opportunities as we approach market-wide half hourly settlement and demand flexibility services mature. It is important that suppliers and other market participants do not face unnecessary regulatory barriers in helping households to make the transition to greener living while protecting those at risk of being left behind.

Our responses to the stakeholder questions are in Annex 1 to this letter but in summary:

- Of the options outlined in the consultation document, we believe Ofgem should focus its attention on broadening of the derogations regime, as this would allow the regulatory framework to adapt more effectively as the context changes. The other options under consideration risk fragmenting the market by creating a situation where new entrants do not have the same obligations as incumbent suppliers.
- We think there is a strong argument for Ofgem to reform the retail derogations regime to ensure that the majority of licence conditions can be derogated from, with appropriate controls; and only if Ofgem considers such derogations appropriate as the energy system evolves. In cases where other legislation would restrict a derogation (eg requirements directly introduced from Government legislation), or the derogation would not be in consumer interests, Ofgem could simply decline any requests. Ofgem should also consider whether the current derogation regime strikes

the right balance between transparency and confidentiality and whether this could be improved.

- We agree that there are potential benefits to all consumers from enabling new routes to market for innovative propositions. In the interests of competition and maintaining a well-functioning market in the longer term, we consider that this should involve reform to licence obligations for all, rather than “picking winners” via enabling restricted or individual licences.
- Energy suppliers should be able to access any new routes to market for innovative propositions in the same way as unlicensed market participants. We have considerable insight into what our consumers need and we have expertise in designing offers that work for our customers. Maintaining a level playing field allows the best opportunity to get consumers access to services and products that will be of benefit to them.

We appreciate the opportunity to contribute to this consultation and look forward to further engagement on improving routes to market for innovative products and services.

Should you require any further information or wish to discuss our position in more detail, please do not hesitate to contact us.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

INNOVATION IN THE ENERGY RETAIL MARKET - SCOTTISHPOWER RESPONSE

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?

Ofgem identifies three broad categories of innovative products and services currently available or being trialled (paragraphs 3.1 to 3.8):

- tailored or specialist provision of energy to customers such as specialist tariffs and propositions, local tariffs, or energy as a service;
- advisory services, including smart price comparison websites and customer advice services;
- energy management services such as flexibility products and services and behind the meter asset installation and management.

We agree that important innovations are currently underway in each of the areas identified by Ofgem. Some examples of recent ScottishPower innovation in the domestic retail market are detailed below:

- We have teamed up with one of the UK's largest banks, Santander UK, to make adopting green technology more affordable. This collaboration will make it easier for homeowners to invest in sustainable energy solutions such as heat pumps and solar panels, reducing their carbon footprint and their energy bills over the longer term. Santander will offer £500 cashback to its customers who take out a Santander loan to finance projects like heat pumps or solar panels at a market-leading interest rate. ScottishPower will also provide a further £500 credit to those customers' energy accounts when they purchase and install solar panels through ScottishPower.¹ This will offset the initial costs of greener home technology, making it more accessible and affordable. Many households don't have the savings to invest, so enabling them to borrow the money will help them to reduce their energy bills and their exposure to volatile gas prices. ScottishPower also provides the technology and the ongoing support for the sustainable energy solutions. To support this partnership we have also developed a new online customer journey.
- We are rolling out a new and improved Power Saver service,² where customers will be rewarded for shifting their electricity use to times when energy when the grid is less reliant on non-renewable sources. Customers that sign up will effectively enjoy half price electricity on Saturdays and Sundays between 11am and 4pm. They will also have the opportunity to earn rewards if they can respond to real-time notifications, allowing them to take part in demand side flexibility and earn energy credit for shifting their consumption away from peak times.
- We have a particular focus on equitable flexibility - we want all consumers to be able to benefit from innovative products, including those in vulnerable circumstances or who

¹ The £500 will be credited to the customer's ScottishPower electricity account within 30 days of their final solar payment being received. This is a limited time offer and may be withdrawn at any time. Terms and conditions apply. For more information see here: [ScottishPower and Santander team-up to make Heat Pumps and Solar Panels more affordable for UK homeowners - ScottishPower](#)

² [Power Saver](#)

have vulnerable characteristics. Customers who may particularly benefit from engagement in demand flexibility services include those not in a position to invest in low carbon technologies, low income and vulnerable customers, and those who are less digitally adept. With that in mind, we are participating in the Inclusive Smart Solutions programme, which aims to enable large-scale widespread electricity system flexibility through smart, flexible, secure, and accessible technologies and markets.³ We will work on a trial of ways to reduce the barriers to participation in conjunction with Equiwatt and Energy Systems Catapult.

- We are also a partner in the Equiflex project, which will promote equal access to flexibility services by building a toolkit to advise stakeholders how they can participate in the flexibility market.⁴
- We have recently implemented innovative solutions to support high quality customer service, including ensuring vulnerable customers are protected as systems evolve. This includes an AI customer insights tool that provides further understanding of customer circumstances, the reasons for phoning us and their end-to-end journey; allows for more efficient and robust analysis of customer interactions; and supports us in identifying further improvement opportunities.

The combined scale of these innovations is substantial, with widespread implementation across Great Britain. The innovation helps us to meet our customers' requirements for sustainable energy solutions, helping them unlock the benefits of digitalisation and technological development while maintaining protections for all of our customers, including those in vulnerable circumstances. The energy market is evolving rapidly, and the scale of innovation that is successful can only be determined with the benefit of hindsight.

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

To meet consumers' needs and achieve net zero, the following retail market innovations should be prioritised:

- Innovation in products and services tailored to meet the needs of customers in vulnerable situations and help them control bills by reducing barriers to participation in flexibility services.
- Innovation aiming to facilitate the transition to low-carbon technologies (exemplified by our collaboration with Santander).
- Flexible solutions designed to meet consumer needs, whether through energy management or customer support. Our Power Saver service is a good example of this.
- Innovation in debt prevention is increasingly important as energy debt has reached an all-time high.⁵ This could take the form of improvements to consumer engagement (such as our new customer insights tool) and improving access to services.

³ [Inclusive Smart Solutions - Energy Systems Catapult](#)

⁴ [SIF Round 3 Project Registration \(energynetworks.org\)](#) and [SP Energy Networks secures £275,000 of funding from Ofgem's Strategic Innovation Fund - SP Energy Networks](#)

⁵ [Debt and Arrears Indicators | Ofgem](#)

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

The introduction of new, innovative products and services will have several positive impacts on consumers, including:

- Cost savings: smart solutions can deliver significant cost savings on energy bills, compared to what they would otherwise be. Some consumers may prefer improved comfort levels.
- Empowerment: access to real-time data, personalised insight and support empowers customers to take control of their energy use.
- Convenience: Smart technologies and integrated platforms make it more convenient for consumers to monitor and adjust their consumption.

However there is a risk that customers who are not in a position to invest in low carbon technologies will be left behind. To maximise these benefits and minimise risks, we recommend the following measures:

- Inclusive access: ensuring that vulnerable and low-income households are not left behind in the transition to a sustainable energy future. This will include careful consideration on allocation of fixed energy system costs among consumers. We look forward to further engagement with Ofgem's broad review of how system costs are recovered from users. As noted in our response to question 1, we have a particular focus on inclusive flexibility and we are developing innovative flexibility services that meet the needs of low income and vulnerable consumers.
- Cybersecurity: ensuring robust data protection measures are in place to safeguard consumer information and maintain trust.
- Regulatory oversight: Implementing clear regulatory frameworks that promote innovation while protecting consumer interests and ensuring fair competition.

Chapter 4 – Enablers and barriers to innovation

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

We agree with the enablers and barriers to innovation which Ofgem has identified in paragraphs 4.11 and 4.13 respectively. Investors' confidence in investing in the GB energy market relies on a clear, stable regulatory environment. The current regulatory environment has aided in generating investment and improving performance for consumers across the sector.

We also agree that improved price signals and half-hourly settlement reform are key building blocks for a smarter more innovative retail market. There are challenges in unlocking benefits for many low income and vulnerable groups, particularly those who rent, have low digital literacy, or are in debt.

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

Although the regulatory context has improved, as noted above, the biggest barrier to innovation is when SLCs simply don't allow innovation or have an inhibiting effect on potential innovation by making them non-cost effective and so discouraging investment.

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

One example of innovation that is not happening because of regulatory barriers is innovation in multi-rate SVTs. Ofgem recently stated that it has “taken a pragmatic approach to assessing the compliance of more complex SVTs, such as multi-rate tariffs” and that it works with suppliers “to understand the potential for customer detriment and subsequently take a proportional approach to compliance.”⁶ However, this approach is not transparent and the uncertainty it brings is a barrier to innovation in multi-rate SVTs, in a context where suppliers with alternative tariff structures are required under SLC 28AD.32 and 33 to:

- seek a direction from Ofgem (including providing evidence that it is unlikely that any customer will have a consumption level that would mean they incur charges in excess of the Relevant Maximum Charge);
- assess each customer's charges under the tariff within the relevant Charge Restriction Period and pay a rebate to affected customers.

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

Yes, Ofgem should continue to work on improving routes to market, through better clarity around derogations, as outlined in our response to Question 6. A customer-centric approach to routes to market will focus on supporting innovation that delivers value for consumers rather than on opportunities for innovators. With that in mind, Ofgem should be cautious about the risk of alternative routes to market creating an unlevel playing field and placing incumbent suppliers at a structural competitive disadvantage. This would risk the stability and the sustainability of retail markets in Great Britain, jeopardising the investment needed to deliver a more resilient, affordable energy system.

It is critical that Ofgem recognises the current competitive distortions in the market with customer bases of ex-incumbent suppliers and new entrants having very different characteristics and thus materially different proportions of financially vulnerable customers and debt risks. Without significant changes to the market, these financially vulnerable customers will remain with ex-incumbent suppliers. Ofgem should ensure processes are in place to ensure fair cost distribution, where appropriate, through levelisation and reconciliation processes. This is in the interest of consumers as it will maintain energy market resilience.

A regulatory framework that supports a well-functioning retail market is in the interests of consumers. This is a market where suppliers can make a fair margin through sustainable competition and have space to innovate. New routes to market that give a structural advantage to non-incumbent suppliers by facilitating “cream skimming” of customers with a low cost to serve, would not be in the interest of consumers.

⁶ [Standing charges: domestic retail options \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/consult/condomesticretailoptions), para 4.29

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 retail energy sector is changing quickly. This means that the attractiveness of the different routes to market identified by Ofgem (licensed supply, licence lite, licence exempt, white label and sleeving) will depend on the nature of new products and services that companies wish to bring to market and their expectations regarding future opportunities. As a licensed supplier we are not well placed to comment on the attractiveness of other routes to market, other than to note the importance of maintaining a level playing field between companies with a full supply licence and those without.

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 agree that Ofgem should improve routes to market for innovation. We consider that the top priority here should be reform of the retail derogations regime to improve transparency and ensure that licence conditions can be derogated from where this is appropriate. This would facilitate innovation as the technological and regulatory context evolves. The derogations regime would remain within Ofgem's control and broadening it would maintain customer protections and avoid exacerbating competitive distortions.

The consultation notes that if Ofgem proceeds to broaden the derogations regime, by expanding its ability to grant derogations and repurposing the regime to more of a focus on supporting innovation, it could expand the list of regulatory requirements that can be derogated from and update the guidance (para 5.19). As noted above, we would support reform to ensure that any licence condition can be derogated from, if Ofgem considers this to be appropriate as the energy system evolves.

We support Ofgem improving transparency by providing more clarity on how derogation applications are to be assessed and what information would be required from applicants. It would be helpful if the guidance covers how consumer protection issues are to be assessed, noting that an overly stringent approach will inhibit innovation in the interest of customers that are in vulnerable circumstances. It is important that there is room for innovation in areas such as inclusive flexibility services.

Any reform to the derogation regime should consider how to mitigate the costs of uncertainty. As innovation by nature involves creativity and the development of new products or services, some level of uncertainty is unavoidable. However, Ofgem is in a position to reduce regulatory risk for investors by providing clarity through both its guidance on derogations and its ongoing engagement, thus reducing potential inhibition on investment.

Ofgem proposes "guardrails" to protect consumers if the reforms under consideration are taken forwards (para 5.55). These are robust assessment criteria, time limits, customer limits and monitoring. We agree that these steps would effectively mitigate the risks of inappropriate use of the derogations regime. An example of proportionate controls working well is Ofgem's recent monitoring of involuntary installation of prepayment meters, which has followed a well-defined and transparent process including weekly meetings and regular case study reporting to allow for close monitoring of the process during its infancy, and less rigorous controls once suppliers have proved their processes to be effective.

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

As noted in our response to Question 9, we consider that there may be benefits from reform of the retail derogations regime to improve transparency and ensure that appropriate derogations are possible. The other options under consideration would facilitate “cream skimming” and risk destabilising the retail energy markets, as well as complicating the regulatory landscape, making it more difficult for Ofgem to ensure consumer interests are protected.

Full licences encourage market participants to invest in the infrastructure and innovation needed to meet regulatory standards. In a market where suppliers compete with licensees who do not have to meet the same obligations, that investment would be more difficult to justify.

Restricted or modified licences may reduce this incentive, potentially slowing down improvements in the energy sector. They also create an uneven playing field, where incumbent suppliers are subject to more stringent requirements and structural disadvantage due to a higher proportion of low income and vulnerable customers. Alternative market routes may affect the predictability and stability of retail markets. As we have seen with the collapse of many energy suppliers, low barriers to entry may facilitate business models that are not in consumer interests.

In terms specific comments on the other options that Ofgem is considering:

- **Restricted licences:** Ofgem should be cautious about the risks of creating a fragmented market where new entrants operate without the same obligations as incumbents. This could lead to a loss of trust from consumers if it results in inconsistencies in service quality. It is also unclear why restricted licences would be beneficial when there is clear evidence that market participants are already able to target specified geographic areas and types of consumer.
- **Individually modified licence:** Similar issues apply as noted above for restricted licences. In addition, there is likely to be a high administrative burden for Ofgem, to ensure compliance and monitoring a variety of individually modified licences.
- **Reform Licence Lite:** There has been little demand for this route to market due to inherent complexity of the arrangements and ongoing resourcing costs.
- **Enable licence exempt supply:** Ofgem notes that only the Government can change who is exempt from requiring a supply licence, and suggests that, in addition to working with the Government on any future work arising from its review of the exemptions regime, it could review the regulatory framework and codes which might be barriers to licence exempt supply. Ofgem acknowledges that licence exempt supply customers are not provided the same level of protection as those supplied by a licensed party. In the interests of transparency, it would be helpful to understand what level of market surveillance Ofgem conducts relating to unlicensed suppliers to confirm if they meet the current requirements to be licence exempt – and whether licence exempt supply has been found to have left consumers vulnerable to poor service. Consumers in vulnerable situations might be particularly at risk if they are served by licence exempt suppliers who may not have the same obligations to identify and support them.

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

As noted in our responses to Questions 9 and 10, a wider review of licence conditions and whether they are suitable for derogation or not would be beneficial. Ofgem states in the consultation that if it were to expand the licence conditions that are capable of being derogated from, it would not do so to all, with the argument being that the licence conditions include “important consumer protections that all customers should receive”.

While we do not disagree that this statement is likely true, the nature of innovation is that it is likely to be a proposal that no one had considered to be appropriate in the past, but where circumstances may have changed in some way. Given that Ofgem can simply not offer any derogations where they do not deem them to be appropriate, and where they do, there are additional protections that Ofgem can place within any derogation direction (including time limitation, restricted numbers of customers, alternative protections and robust monitoring), in our view, there is a strong argument that derogation powers should be added to all licence conditions. We understand that this may not be feasible as some licence conditions come from Government legislation. However, as noted above, we do not consider that it should be assumed that consumer protection is automatically a defining factor in assessing which SLCs should be given a derogation provision. An overly stringent approach to consumer protection risks inhibiting innovations that would further the interests of consumers in vulnerable circumstances.

While we believe Ofgem should consider allowing for derogations from the majority of licence conditions as we set out above, we have set out below specific licence conditions where we consider there could be benefit if Ofgem were to prioritise these ahead of wider changes across all licence conditions, alongside developing a robust process for assessing derogation requests.

- We agree with Ofgem that there could be benefits in allowing derogations from SLC 27 (‘Payments, Security Deposits, Disconnections and final Bills’), in relation to current limitations in relation to the use of alternative payment methods by suppliers, and consider there to be a case to extend this to SLC 28 (Prepayment meters)
- Similarly, we agree with Ofgem’s assessment that it should be able to assess derogation requests from SLC 22 (Duty to offer and supply under Domestic Supply Contract), and consider there is also a case to extend this to SLC 24 (Termination of Domestic Supply Contracts)
- We note that Ofgem has included SLC 23 (Notification of Domestic Supply Contract terms) within Appendix 3 as already including derogation provisions, however we think this is limited only to SLC 23.3, and consider Ofgem should extend the provision to the entirety of SLC 23
- Recognising the importance of development of tariffs, products and services that support the delivery of net zero, we think there could be a case for including derogations provisions within SLC 21 and SLC 21D (Fuel mix disclosure arrangements / Tariffs with environmental claims), to mitigate potential unintended risk in how these innovative tariffs, products and services are communicated to customers and other external stakeholders
- We note that there are currently no derogation provisions within SLC 7, 7A and 7D which cover the non-domestic specific licence conditions. While there are less constraints within these licence conditions meaning the barriers to innovation may be less, we consider these to be areas that may benefit from inclusion of a derogation provision

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

Reforming data sharing regulations to ensure that suppliers can access and use consumer data with appropriate privacy protections could enable development of personalised energy services and products. Enabling consumer response in the market requires access and consent to use supplier's data; we should ensure that access to this data is not a barrier for market participants. As referenced in our response to Ofgem's 'Consumer Consent Solution Consultation', we may have reservations about the scale of response needed to address this, but we agree a solution should be implemented to allow for safe, seamless data sharing.

**INNOVATION IN THE ENERGY RETAIL MARKET – CONFIDENTIAL ANNEX OF
INNOVATIONS RESTRICTED BY THE REGULATORY FRAMEWORK**

This annex sets out some high level details of innovative products, services and processes proposed by ScottishPower, but where the regulatory framework in place at the time prevented or severely restricted the proposal.

PowerUp

ScottishPower's PowerUp tariff was an innovative way for customers to purchase their energy. It allowed them better control of their energy spend by buying gas and electricity in packages covering days of consumption in advance via an app.⁷

Our development of this tariff was during 2015 when innovation was severely restricted predominantly by the prescriptive licence conditions implemented in 2013 and 2014 as part of the Retail Market Review (RMR). These licence conditions did/do include derogation provisions and therefore ScottishPower submitted derogation requests to Ofgem in early 2016 to allow us to offer PowerUp to our customers. There was a wide range of licence conditions which presented challenges to this innovative offering including the following:

- SLC 1: Definitions
- SLC 22A: Unit Rate and Standing Charge Requirements
- SLC 22B: Restrictions on Tariff Numbers and Tariff Simplification
- SLC 22C: Fixed Term Supply Contracts
- SLC 23: Notification of Domestic Supply Contract terms
- SLC 24: Termination of Domestic Supply Contracts
- SLC 31A: Bills, statements of account and annual statements
- SLC 31B: Tariff Information Label

We were aware during this derogation process, that Ofgem was consulting on changes to the RMR licence conditions that would remove the constraints we were facing, and this process concluded in time to allow ScottishPower to launch PowerUp without the need for a derogation. However, the existence of the derogation provisions within the relevant licence conditions was a real enabler of the development of this innovative tariff.

Targeted Sales and Marketing Offers

The RMR licence conditions also introduced significant constraints on the type and range of rewards and benefits suppliers could offer to customers, with SLC 22B covering the approach to offering tariff, discounts, reward point schemes and bundled products. In particular, the rules largely required that every such benefit be available to all customers across GB on the basis of the same terms and conditions. Arguably most innovation is likely to be offered at least initially to only a small group of customers, and therefore this broad obligation presented challenges to suppliers in innovating.

As with PowerUp, Ofgem's removal of the majority of these rules during 2016 removed the constraints, but again, the presence of derogation provisions may well have supported innovative benefits and rewards being offered to customers in advance of the formal regulatory process and could have played a role in supporting Ofgem's decision to remove these rules.

⁷ [ScottishPower launches PowerUp: A new way to buy energy - ScottishPower](#)

Change of Tenancy Proposal

We have recently engaged with Ofgem regarding a proposal that would support earlier engagement by customers within the home move process. Our proposal would use encourage engagement from customers from their move in date, ensure customers get the support they need as early as possible and also reduce the build-up of unpaid charges and work to. While we have received interest from across Ofgem in our proposal, our proposal seeks to switch premises to prepayment where there is no engagement, which we think would be considered under SLC 28 as an Involuntary switch to prepayment and therefore where the new significant constraints presented on use of Involuntary PPM prevent us in implementing this process under the current licence conditions. As SLC 28 does not have a derogation provision, Ofgem has confirmed that it is not able to engage with us further on our proposal under the current regulatory framework.

We see the potential for significant benefits for consumers for our proposal. The current “Home Move” process leaves too many customers on the most expensive payment method and tariff; and without additional support that may be required depending on customer’s circumstance, including PSR services, financial support options and energy efficiency measures. On average, it takes [X] days for ScottishPower to be notified of a Home Move, and [X]% of home move notifications are delayed for both “move in” and “move out” customers, which makes it difficult for suppliers to offer the most appropriate level of support.

ScottishPower’s proposal seeks to prompt earlier engagement from customers to support:

- A better understanding of customer circumstances and needs, including for premises with a PPM assessment of safe and practicable use
- Customers choosing the best tariff and payment method for their circumstances
- Customers accessing additional support options they are eligible for (both directly from the supplier or through relevant third parties)
- Mitigation of unpaid charges building up.

As we have shared with a number of areas within Ofgem, we think that with some additional protections in place including for example introducing a no standing charge prepayment tariff, the benefits outweigh the risks of our proposal and we consider a pilot via a derogation would have allowed the benefits to be tested in a controlled process. From our conversations with other stakeholders, including within Ofgem and consumer groups, there seems to be positive interest in assessing our proposal and we continue to welcome engagement from Ofgem on how we could work together to consider options through which we could progress it as a pilot.

ScottishPower
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