



OVO Energy
1 Rivergate
Temple Quay
Bristol BS1 6ED
policy@ovoenergy.com
www.ovoenergy.com

Jemma Baker & Steve Kirkwood
Future Retail Markets & Retail Policy
FutureConsumers@ofgem.gov.uk

By Email Only

22 January 2026

Dear Jemma and Steve,

OVO response to Call for Inputs on Energy Consumer Outcomes and reviewing the Supplier Guaranteed Standards of Performance (GSoP)

Thank you for the opportunity to respond to these calls for input. OVO supports the move to an outcomes based regulatory framework and we welcome Ofgem's open and collaborative approach to date in developing these outcomes.

We believe that moving to an outcomes based framework can deliver significant benefits for customers, suppliers and investors through simplification of the regulatory landscape and improved stability of the framework. Such changes could empower suppliers to deliver demand side interventions to support the net zero transition, all of which would support investability and innovation in the sector, deliver growth and drive improved consumer experience. However, we think that there is still a significant amount of work needed to deliver a complete outcomes framework that can achieve those aims.

It appears from the consultation, and workshops that we have attended, that a bottom-up approach has been taken to developing the outcomes which has led to a large number being included within the RFI and areas of overlap between the 24 outcomes. We recommend that Ofgem takes a top-down approach to developing consumer outcomes, adopting an evidence based approach to the degree of prescription required that is proportionate to the level of customer detriment. This should allow Ofgem to determine what can be delivered by the market, where guardrails are required, and where the regulator needs to be explicit and prescriptive about suppliers' obligations.

Whilst we recognise that there are inherent differences between the sectors, we believe there would be benefit in Ofgem turning to the FCA's Consumer Duty as a starting point, and loose template to guide this work.

We also support Ofgem's intention to review GSOPs to align with consumer outcomes, however we think that it is premature to consider what those changes might be at this stage, and would recommend that Ofgem pause the review of GSOPs until there is more certainty as to the shape and scope of the outcomes framework.

We also note, and welcome, Ofgem's proposed changes to its approach to compliance and enforcement. Embedding and applying this new approach will give suppliers confidence that Ofgem is better equipped to adapt to the more flexible approach to compliance and enforcement that would be needed under an outcomes framework.

Our detailed responses to the consultation questions are provided in:

- Appendix A: Call for Input on Energy Consumer Outcomes
- Appendix B: Call for Input on reviewing the Supplier Guaranteed Standards of Performance.

Should you have any questions please contact policy@ovoenergy.com.

Kind regards,

Nicola Roberts
Senior Regulation Manager, OVO

Appendix A: OVO responses to call for input on Energy Consumer Outcomes

Rationale for consulting

Q1. In your view, what are the key factors we should consider if we are updating our regulatory framework for retail energy suppliers, keeping in mind the balance between our growth and net zero goals, and consumer interest duties?

We support an update of the regulatory framework. The current licence is far too prescriptive for a competitive market, it is likely that this prescription stifles innovation and removes opportunities for diversity of business models. The standard electricity supply licence is currently 611 pages long, the distribution network and transmission standard licence conditions are around half that length and the water sector Instruments of Appointment, which effectively cover the equivalent of generation, networks, and domestic retail are roughly 160-210 pages. Further, the FCA's Principles for Business is 79 pages with the Guidance for the Consumer Duty coming in at 121 pages, and Ofcom's General Conditions of Entitlement are 95 pages. This would strongly suggest that the retail energy framework is over-engineered and in desperate need of simplification.

With the extension of the Growth Duty to Ofgem, alongside net zero and consumer interest duties, and given the efforts needed to deliver demand side flexibility, it is an appropriate time to review the effectiveness of the current framework. We would welcome a move to a model that encourages suppliers to innovate to improve customer service, supports delivery of the transition through a range of approaches that allows for customers to engage at a pace and to a degree that is appropriate for their circumstances, and is less rigid and more agile to adapt to an evolving market.

Alongside protecting the consumer interest, changes to the regulatory framework should seek to achieve the following:

- Simplification - regulatory complexity deters investors and innovation. Complexity also makes compliance harder to achieve, which drives a culture that discourages innovation as suppliers are naturally more cautious.
- Stability - unpredictability and instability in the regulatory framework can inhibit growth, deter investors and make business decision making more difficult. A more stable and predictable approach, both to the framework and compliance and enforcement, will allow suppliers to take business decisions with more confidence, drive more predictable returns thereby unlocking investment into the sector and enable an environment that fosters innovation and growth.
- Empowering suppliers to deliver - retail suppliers are crucial in delivering the net zero transition, supporting consumer adoption of low carbon technology and enabling demand-side flexibility; the regulatory framework should not constrain or slow this process, but should also recognise that customers will move through the transition at varying paces.

Changes to the framework must recognise that whilst consumer protection is at the heart of Ofgem's remit, competition must be allowed to discover and deliver what customers want and need. Therefore **the framework should recognise what outcomes are for the market to**

deliver, which require guardrails to protect consumers, and which need more prescription.

We support the move to an outcomes based framework, but this must come alongside a reduction in prescription within the licence otherwise this is just layering of regulatory frameworks and will not deliver any benefits. Prescription should be reserved for areas where there is evidence of consumer detriment that cannot be addressed through market solutions. Additionally, moving to an outcomes based approach will require Ofgem to reassess its approach to compliance and enforcement to give suppliers confidence that both are aligned.

Q2. Why do you think there is such a divergence of satisfaction rates across different consumer cohorts?

Measuring customer satisfaction across utilities / essential services is more nuanced and complex than in other sectors. It is difficult to disentangle satisfaction with service from other issues such as affordability or broader perceptions around net zero or privatisation, as evidenced by Ofgem's research showing those who are highly financially vulnerable having a satisfaction score that is 17pp behind those doing well financially. Additionally, it is not always clear that customers fully distinguish between different parts of the value chain, so for example dissatisfaction with price can be driven by factors outside the control of suppliers, but that is where the impact on satisfaction scores will manifest.

Divergence across consumer cohorts will be driven in part by the above, but it should also be recognised that different customer groups will have different priorities and value different outcomes. Further, those priorities and values may not be static and customer views will change over time, not entirely driven by supplier behaviour, but also by personal circumstances and external factors such as media coverage. Given this, divergence of satisfaction scores is not necessarily a sign that a particular cohort is being badly served by the retail sector, but Ofgem should seek to ensure that its ongoing consumer research understands the drivers for that divergence.

The Consumer Outcomes

Q3. The Consumer Outcomes have been developed based on what industry, charities, consumer groups and consumers have told us they need to cover. Do you agree that these outcomes cover the most important expectations consumers have of energy suppliers?

Development of consumer outcomes must be rooted in what customers value and prioritise, and we have concerns around the extent of the research that this call for input is based on. Customers' views on such a significant change should not be assessed through a qualitative approach alone and certainly not on the views of only 49 domestic consumers whom the research paper acknowledges had low awareness of the structure of the sector, and it is not clear from the research report that customers became more informed about the roles of different participants in the market through the course of the research.

The research conducted so far, appears to provide only the 'uninformed' viewpoint, which whilst a good starting point, is not sufficiently robust to be able to draw strong conclusions from by itself. For example, some of the spontaneous priorities noted are driven by experiences that are seemingly outside the control of suppliers, i.e., a neighbourhood outage and vouchers provided so the family could order lunch, this is more likely to have been a DNO action than a supplier action, similarly participants wanted to reduce the scope for 'profiteering' but there seems to have been no explanation of the low profit margins in the retail sector. Additionally in the context of participants seeking value for money and guarantees that investment will lead to lower costs, without an explanation of the value chain the research risks conflating consumer priorities and values across generation, networks, and suppliers.

To deliver robust findings that can support development of a consumer outcomes framework more detailed research would be beneficial, research that includes both qualitative and quantitative research, and the structure of which obtains uninformed and informed viewpoints; Ofgem should not underestimate the ability of consumers to understand and engage with complex topics through well developed and structured engagement.

This would provide Ofgem with a strong understanding of what matters most to consumers, what they value, and their relative priorities, and the ability to segment this by different customer cohorts. From here Ofgem can start to build the outcomes framework. Taking the outputs of the research programme and determining which of those outcomes are best delivered by the market and which need greater regulatory oversight. Ofgem should then use an evidence based approach to determine the degree of prescription that is required that is proportionate to consumer detriment.

Q4. Do you think we should streamline or consolidate the Consumer Outcomes further and, if so, which should we prioritise?

Yes, the outcomes should be consolidated and streamlined, 24 outcomes is far too many, in fact this is similar to Ofwat's Final Determination for PR24 which has a similar number of outcomes but covering a much broader range of activities than retail. When comparing the long list included in CFI to other outcomes based frameworks, such as the FCA's consumer duty it is clear that many of the outcomes proposed are at a lower level and potentially more akin to what should be included in guidance.

We also note that a number of the outcomes proposed are either not within, or not fully within, suppliers' ability to control, e.g. the outcomes relating to maintaining security of supply and ensuring the sector is investable.

Furthermore, and as we note in our response to Q1 and Q3 some outcomes will be best delivered by the market, and others through regulatory oversight.

Ofgem should determine whether the scope of regulatory change being sought is limited to consumer outcomes only, or a more broad revision to the framework; the range of outcomes included in the CFI suggests the latter. A top-down approach to developing outcomes,

starting at the highest and simplest level should be adopted. Given the 24 that are included in the CFI we would suggest that at the highest level these could be split into consumer, investor and regulator outcomes.

The current outcomes 21 and 22 could be removed from the consumer framework and investor outcomes developed instead. Outcomes 4 and 5 should also be removed and replaced with a regulator outcome(s) to promote competition and foster a sector that enables diversity of supplier offering so that customers can find products and services that meet their needs, noting that customers are able to vote with their feet and switch suppliers if they are unhappy. Outcomes 18 and 19 are also regulator driven rather than supplier driven and could therefore be included in the regulator outcome part of the framework.

In respect of consumer outcomes we would suggest that Ofgem start with high-level outcomes as per the FCA's Consumer Duty which has only four outcomes and at a high level Ofgem's approach should be similar:

1. Governance of products and services - whilst the financial services sector has a vast array of products and services within its scope, the energy landscape is currently much simpler. However, with the introduction of MHHS and the diversification of offerings required to deliver the net zero transition a similar principle could be relevant for the energy sector. Namely that suppliers should ensure that the design of tariffs and propositions meet the needs of, characteristics and objectives of customers in the target market, and that this is regularly reviewed for long tenure products.
2. Price and value - there is no cap on pricing in the financial services sector, instead there is principles-based regulation to ensure that the price the customer pays for a product or service is reasonable compared to the overall benefits. Value is considered in the round and it is clear that low prices do not always mean fair value. A similar approach could be adopted in the energy sector, moving away from a price cap to a principles-based approach to pricing regulation, which would allow suppliers greater flexibility to offer diverse products to realise the benefits of MHHS and provide services and propositions to deliver the low cost transition, whilst also ensuring that there are a sufficient range of options for those customers who are unable or unwilling to load shift. The FCA has demonstrated that a principles-based approach to pricing has 'teeth', with many regulated companies having to adapt their pricing levels or structures to come into compliance.
3. Consumer understanding - this principle is probably more obviously transferable, ensuring that customers get the information they need, at the right time and presented in a way they can understand, and that comms are tested, monitored and adapted.
4. Consumer support - again it is clear to see how the intent of this principle could be applied to the retail energy sector. Ensuring that customer support is designed with the needs of customers in mind, including those with vulnerable characteristics, and ensuring that customers don't face unreasonable barriers in contacting suppliers, making a complaint, switching tariffs or switching suppliers.

The numbered outcomes included in the CFI are at a level below the headline outcomes above, more similar to the rules and guidance in the FCA framework. The Consumer Duty is a good starting point from which Ofgem could adapt its approach. Indeed we have previously shared a paper that sets out how the Price and Value outcome could be applied to the energy sector, and we include that paper at Appendix C for reference.

Under each high level outcome, Ofgem should set out what suppliers are obligated to do, with the level of prescription included within the obligation based on evidence of consumer detriment (as per the FCA's Rules) and guidance that sets out how a supplier could meet and evidence that they are meeting the outcome. The balance between rules and guidance for each outcome should be proportionate to the potential detriment or harm and as a principle should be no more prescriptive than it needs to be.

As regards prioritisation of the outcomes, we are concerned that Ofgem are suggesting a piecemeal approach to adopting and introducing outcomes based regulation and we are not clear that this is the best way to adapt the framework. Whilst there will need to be some prioritisation of which outcomes are developed first we think that the best approach is to work with suppliers to develop the complete framework, so that the interactions and overlaps between rules and guidance under all the outcomes can be understood, and then launch the outcomes based framework in totality.

Q5. Do you agree with the explanations provided of the Consumer Outcomes in the appendices of this call for input? Do they help you understand the intent of the outcomes?

Whilst the explanations are helpful in understanding Ofgem's intent behind these outcomes, as noted above we believe that Ofgem should adopt a different approach to developing the outcomes framework that provides both rules and guidance for each high level outcome.

Q6. Why do you think these outcomes are not materialising consistently for all consumer groups given that they are in line with our existing rules?

We are not clear what is meant by this question as there is no evidence provided within the call for input and would request that this is shared with suppliers to support our thinking in this area. We would also expect that any evidence that demonstrates risk of consumer harm or detriment could be used to identify the level of prescription required as part of a top down approach to setting consumer outcomes.

Q7. Do you think some outcomes are more important for consumers than others?

Yes, of course some outcomes will be more important for consumers than others and we suggest in our response to Q3 how Ofgem could understand this, however as noted above we are not convinced that it would be beneficial to use this prioritisation to adopt a piecemeal approach to implementing an outcomes based framework.

Q8. Do you see an opportunity for outcomes, though not necessarily the Consumer Outcomes set out in this call for input, to be applied to wider market participants? Who should they apply to and why?

We would expect Ofgem to take a consistent approach to regulating any and all market participants whose activities could be undertaken by suppliers, it would not be appropriate to have a two-tier approach to regulation.

How could Consumer Outcomes be delivered?

Q9. Do you have a preferred approach among those outlined below or should we retain the current framework? Do you have an alternative suggestion? Please explain your reasoning.

Moving to an outcomes based framework must be accompanied by a reduction in prescription, both within the licence and other existing guidance. Our initial view is that consumer outcomes should replace existing licence conditions, with guidance provided separately, akin to the FCA handbook guidance.

Whilst we agree that Ofgem should monitor key performance indicators to assess performance, this should be proportionate to the risk of consumer detriment associated with each outcome, and could be published in the same way that retail market indicators are at present. Ofgem could also look at the approach taken by Ofwat to performance commitment reporting that underpins their outcomes framework and seeks to ensure that key metrics are reported on a consistent basis across the sector. Alongside other publicly available metrics such as the Citizens Advice Star Rating and the Which ranking this would provide a holistic view of supplier performance that enables consumers to compare the relative performance of suppliers. This approach could also be used to identify performance issues that could indicate that further evidence as to how a supplier is meeting a given outcome should be requested, potentially through a targeted supplier-led outcomes report, e.g. where Ofgem are concerned that a supplier's performance is an outlier or there has been a significant deterioration in performance.

Therefore, a supplier-led outcomes report could be a complementary approach to KPI monitoring or could be a suitable alternative as per the FCA's approach to monitoring the Consumer Duty. We note that suppliers currently provide evidence of their performance against the Energy UK Vulnerability Commitment which could also be a useful template.

We would be keen that any move to consumer outcomes should not increase the regulatory reporting burden and therefore any reporting requirements should not be additive and Ofgem's market data improvement project should reflect any changes to the regulatory framework.

a) What level of action/intervention do you feel would be proportionate to drive up customer service in the non-domestic sector? Does it differ from domestic?

No response, OVO does not serve the non-domestic sector.

Q10. Do you think a voluntary approach – where suppliers make a public commitment to deliver the Consumer Outcomes without formal regulatory change could be effective? What conditions would need to be in place for this to work?

No. A halfway house approach is unlikely to be successful. If there is no formal regulatory change then the prescriptive rules within the licence would still apply meaning there is little or no point in suppliers also agreeing to voluntary outcomes. There would be no scope for suppliers or customers to benefit from a move to outcomes in these circumstances. If Ofgem are suggesting that suppliers who agree to the voluntary outcomes receive derogations from some licence conditions we would be concerned that inconsistency of approach could undermine consumer trust and confidence in the sector. All suppliers and relevant market participants should be required to adhere to the same expectations and regulatory framework.

Q11. Could a more outcomes-based regulatory framework benefit the supply market? Do you think this kind of approach could unlock innovation and growth? Please provide examples.

Yes. See our response to Q1.

Q12. Are there specific licence conditions where less prescription could benefit the retail market without compromising consumer protection? a) For suppliers: are there any areas where you find guidance helpful or unhelpful?

We do not believe that taking a bottom-up approach is helpful when thinking about or designing an outcomes framework. The current licence should not be the starting point for change. Ofgem should take a top-down approach that starts with no prescription and then following a review of evidence of consumer detriment, apply a proportionate level of prescription to mitigate risks to consumers.

Q13. Are there areas where prescriptive rules should remain in place? If so, why?

There will undoubtedly be areas where prescriptive rules are required and this should be determined as per our response to Q12.

Q14. What factors should we consider to determine whether specific rules are best delivered through prescription, principles or outcomes?

We would expect Ofgem to take an evidence based approach to determining this, based on consumer detriment or harm, and if we take a high level approach to outcomes, there may be varying approaches within each. Those best delivered by the market (e.g. responsive customer care, clear apps etc.) should be covered by outcomes, where greater consistency is required, e.g. complaints handling, then regulatory guardrails are required which still allow for some diversity of approach but within clear boundaries, and where there is a need for legal certainty or risk of significant consumer harm then there should be a greater deal of

prescription. Ofgem should ensure that there is limited intervention in the first two categories and a resistance to knee-jerk responses to headlines, a balance that we feel Ofcom strikes well and that Ofgem should seek to replicate.

Q15. Which of the monitoring approaches we outline below would be the most effective for monitoring supplier performance against the Consumer Outcomes? Are there alternative approaches? Please provide evidence.

See response to Q9.

Q16. How do we best measure our success as to whether we have:

- a) Improved consumer outcomes and achieved our ambitions for customer service and**
- b) Reduced regulatory burden and encouraged growth and innovation**

Monitoring of KPIs will provide evidence of whether expected outcomes are being met and where improvements have been made for both compliance with outcomes and for effectiveness of the framework as a whole. We would caution against rushing to judgement within the first 12 months of implementation as changes of approach will undoubtedly need time to bed in.

Q17. Is there anything Ofgem can do to improve how we work and engage with you as a stakeholder on retail energy supply policy and regulation?

We would hope that through the development and implementation of consumer outcomes, Ofgem will continue to take an open and collaborative approach with suppliers, and we would like to see this extended to the development of consumer research in this space. We have appreciated the workshops that have preceded this call for input and would like to see this continue as it allows for suppliers to have more frequent updates on how Ofgem's thinking is developing. However, workshops and other engagement must not replace the proper consultation process, of CFI (where needed), policy consultation, and statutory consultation as these are key pillars of the process that enable suppliers to give formal and structured feedback at key development points.

Appendix B: OVO responses to call for input questions on reviewing supplier GSoPs

Role

Q1. Do you have any views on how the GSOP should be used to deliver good consumer outcomes as part of our wider regulatory toolbox?

With the ongoing development of the Consumer Outcomes workstream, it is unclear how progressing a review of specific-GSoPs without a clear understanding of the wider regulatory approach and outcomes to be delivered, will be meaningful or beneficial. We note that the intent and direction of the Consumer Outcomes project is to consider how to move towards principles-based regulation, rather than implementing specific prescription. There is a risk that any changes introduced for GSoP, if actioned ahead of completion of the Consumer Outcomes piece, would lead to re-assessment and re-work with further implementation costs and potentially deliver a detrimental outcome for customers. This would not meet the proposed objectives set out by Ofgem for the GSoP mechanism in this call for input.

We would urge Ofgem to complete its work on the Consumer Outcomes workstream as we expect this to deliver a robust set of outcomes that meets customer values and what matters most to them. At this future stage, the role of GSoPs could be evaluated and assessed against this new regulatory framework to ensure there is clarity, alignment and delivery of positive outcomes for customers and suppliers.

Q2. Do you have any comments on our proposed objectives for the GSOP mechanism?

In addition to our comments for question 1, we note that the proposed objectives do not acknowledge that suppliers may not be able to independently or directly meet GSoP requirements. This is an important development in the energy landscape and must be considered as part of any mechanism to improve performance and positive customer outcomes.

Q3. Do you have any comments on our proposed criteria for the design of any new Guaranteed Standards, or how we intend to use the criteria?

We consider that the proposed criteria for the design of any new Guaranteed Standards seems too early, when the Consumer Outcomes framework has not been fully developed and implemented.

Q4. How effective is the current GSOP framework and individual standards in delivering good consumer outcomes? Please provide evidence where possible.

We would welcome further analysis of the current GSoP framework and individual standards from a consumer perspective to gain insight into how this delivers good consumer outcomes. We also note that there are new Smart GSoPs that have yet to be implemented and embedded into supplier processes - there should be further assessment of the cost vs

benefits of these new performance standards, to understand if they deliver the desired consumer outcomes and supplier performance.

Scope

Q5. Do you have any views on what would determine if a GSOP or a licence condition is the best tool to improve supplier performance?

As with our responses to the earlier questions, we note that the assessment of the role of GSoPs seems presumptive when there is still further work required to develop and deliver the Consumer Outcomes project. This should be evaluated once there is a robust set of outcomes that have been delivered and embedded in supplier processes.

Q6. Are there any supplier service areas where it would be appropriate for us to explore new GSOPs, or move an existing licence condition into the GSOP framework?

We note that some of the example supplier service areas provided in the call for input are duplicative of the work that DESNZ is undertaking relating to the Fairer, Faster Redress and Energy Ombudsman project. We are pleased to see that Ofgem recognises this and will work with DESNZ to ensure that the most effective mechanisms are introduced.

The supplier service areas should be assessed as part of the post-implementation of the Consumer Outcomes and reporting that may arise, to ensure any new proposals are evidence-based and will support positive customer outcomes.

Q7. Should any of the current GSOPs be removed, or replaced with a licence condition to better achieve its policy aim?

We consider that it is too early to assess whether any of the current GSoPs should be removed, or replaced with a licence condition. This should be evaluated once there is a robust set of outcomes that have been delivered and embedded in supplier processes, as part of the Consumer Outcomes workstream.

Q8. Should we consider expanding the GSOP mechanism to cover non-domestic customers, or a sub-section of non-domestic customers? If so, which existing or potential future standards would be most appropriate?

No response, OVO does not serve the non-domestic sector.

Design

Q9. Do you have any views on what the underlying rationale for the payment level and mechanism should be to best achieve the GSOP objectives?

We believe that the existing underlying rationale for the payment level and mechanism is reasonable, as set out in the document - this is to compensate solely for inconvenience.

Payments should also incentivise suppliers to improve performance and this must be considered when reviewing changes to payments.

Q10. Do you have any views on specific changes to the payment mechanism we should consider, including the examples included in this paper?

Introducing Inflation-based uplift mechanisms seems reasonable, and ensures that the financial incentive and compensation will be consistent over time. However, we would suggest that these uplifts should only be enacted once the effect of inflation has broken through a threshold, e.g. £5 increments, to retain simplicity and reduce administrative burden.

Q11. Are there any issues we should consider with introducing repeat payments for ongoing breaches?

Proposals for introducing repeat payments for ongoing breaches should be evidence-based on the duration and extent of the performance failure. In addition, the failure of events and activities that are outside of a suppliers' control should not be placed onto suppliers directly. Fully placing the burden on failures on Suppliers to pay for in terms of GSOP payments. We recommend that these scenarios should be out of scope, such as those involving the DCC. Ofgem's previous Impact Assessment for the proposed Smart-related GSoPs did not consider the additional costs to manage the fault arbitration. For example, where it is currently difficult to identify root causes and fixes for non-operating meters.

This approach would also require changes to the customer journey, additional reporting and supplier processes to be set up for the new data elements, arbitration, customer engagement and redress to customers. These will result in significant costs across industry and therefore should be fully reflected in the associated Impact Assessment by Ofgem.

Q12. Are there any issues we should consider with introducing variable payment levels for different consumer groups or severity?

No response, OVO does not serve the non-domestic sector.

Q13. Are there any specific changes to the current set of exemptions that we should consider?

Any specific changes to the current set of exemptions should be evidence-based and ensure that the GSoPs continue to deliver their intended objective. However, we consider that this should only be evaluated once the work on the Consumer Outcomes has been completed, and it is clear and unambiguous on what would be required for future GSoPs.

Q14. Are there any specific changes to the target levels of existing standards that we should consider?

Any specific changes to the target levels of existing standards should be evidence-based and ensure that the GSoPs continue to deliver their intended objective. However, we consider that this should only be evaluated once the work on the Consumer Outcomes has been completed, and it is clear and unambiguous on what would be required for future GSoPs. We note that this could be developed in the future as a collaborative activity with suppliers to enable assessment of the existing standards.

Operation

Q15. Are there any improvements we can make to the way we collect data from suppliers specifically on their compliance with the GSOP?

We have no suggested improvements on the collection of data at this stage. However, we would welcome engagement on determining the future reporting requirements at the point the review of GSoPs has commenced.

Q16. Are there any additional risks that we should consider when exploring our approach to monitoring and ensuring supplier compliance with the GSOP?

Based on the information provided in the call for input, we do not believe there are any additional risks that should be considered in the approach to monitoring and ensuring supplier compliance with the GSOP.

Q17. Is there a need for any supporting guidance, either aimed at suppliers or consumers, to improve the effectiveness of the GSOP?

Supporting guidance can be useful in ensuring that there is consistency in a supplier's approach to interpreting and implementing the relevant GSOP. It could also aid consumer advocacy groups' understanding of GSoPs.

Q18. Is it important that consumers are aware of GSOPs? Why?

We consider that suppliers are in the best position to be making consumers aware of GSoPs at the point that it is identified that compensation is required.

Q19. Are there any actions that Ofgem or suppliers should take to improve consumer awareness of the Guaranteed Standards?

This is an area that can be considered once the work on reviewing the Consumer Outcomes has completed, and the GSoPs are reviewed to determine their effectiveness and the ongoing requirements for this mechanism.

CONSUMER DUTY BASED PRICING REGULATION FOR DOMESTIC ENERGY - FAIR VALUE

Background

The price cap was introduced as a temporary measure, and has faced some challenges keeping up with changing market conditions through and since the energy crisis of 2021-22. Ofgem is open to exploring reforms or alternatives to the cap, including a more principles-based approach. This paper draws on the experience of the FCA's Consumer Duty to outline how a similar regime could work in retail energy.

What are the advantages of moving towards a Consumer Duty approach to price regulation, and why now?

Setting and operating the price cap is becoming increasingly costly and administratively burdensome, for both Ofgem and suppliers, and is set to become even more complex when MHHS is implemented. It is therefore an appropriate time to consider whether there are alternative approaches to protect customers from price exploitation; supporting and encouraging engagement in the market and load shifting for those customers who are able to and protecting those who aren't.

Moving to a Consumer Duty type approach that is based on the principle of fair value would remove the administrative and regulatory burden of price cap setting and would be more responsive and adaptable to changing market conditions. This 'fair value' approach would be applied not only to default tariffs, but to all suppliers' propositions and would therefore ensure that the regulatory framework allows suppliers to develop innovative tariffs for all customers whilst providing appropriate levels of regulatory oversight to support intervention as needed for unfair pricing practices.

Additionally, this type of approach would also reduce the risk held by suppliers as a result of the current prescriptive nature of the price cap by removing the risk of large numbers of customers moving onto the price cap during wholesale price spikes. Reducing these risks should enable lower capital requirements and a lower cost of capital, which in turn should bring lower costs for consumers.

What could the approach look like and how effective could it be?

The FCA's Consumer Duty takes an outcomes/principles-based approach to regulation of pricing in the financial services sector. The FCA's overarching philosophy is that prices are for the most part set in competitive markets by the balance of supply and demand, but that the regulator should have power to intervene when market forces drive outcomes that are notably unfair - for example price-walking (aka 'loyalty penalty') in general insurance, or 'sneaky' fees and charges on investment products.

The FCA's Price and Value Outcome of the Consumer Duty could be adapted to form the basis of a similar approach for domestic retail in the energy sector. The principles have resulted in real change to the approaches taken by firms in the financial services sector with many updating their approach to pricing, including OVO's own boiler service business, which is regulated as an insurance business. We have introduced monitoring of a range of consumer outcomes (e.g. claims ratios), and are proactively updating our pricing in 2025 to reduce average year-on-year price increases for loyal customers. This will affect the profitability of our book, but will align us more closely with Consumer Duty principles, and will make our products more affordable for many customers. We have also taken action on our legacy products based on the Consumer Duty, reminding customers of their ability to switch to more up-to-date offers.

Some firms have changed their approach on a reactive basis, following intervention from the FCA. Multiple firms paused the sale of Guaranteed Asset Protection (GAP) insurance in 2024 for example, after data showed that only 6% of the amount customers paid in premiums was paid out in claims.

Changes have happened elsewhere in financial services too. The FCA reviewed the assessments of cash savings firms, addressing its concerns linked to interest rate changes which were outside of the firms' control. The UK base rate had risen sharply from 0.1% in December 2021 to 5.0% in July 2023. This prompted concerns over whether firms were passing this rise through to savers. The selected firms had, on average, passed through only 28% of the base rate rise, compared to an average of 80% between 2004 and 2009.

The regulator made it clear that it would expect a higher pass through to customers, along with:

- a reduction in the proportion of easy access accounts with very low interest,
- firms reviewing savings rates quickly following base rate changes going forward, and
- the difference in rates between existing and new products continuing to narrow¹

The regulator's follow up in 2024 showed an improvement in interest rates paid to customers following its publication and work with firms in 2023².

Elsewhere in the financial services industry, the Consumer Duty principles caused St James's Place to cut fees for loyal customers, announce plans to restructure its fees, and scrap early withdrawal penalties. This change took place despite SJP being able to demonstrate customer satisfaction, given its 95% customer retention rate.

We would like to see a general move to principles or outcomes based regulation in the energy sector, and an associated removal of prescription from the licence. The FCA's experience with the Consumer Duty shows that this approach can be used for pricing and value as well as customer service standards.

¹ [FCA.org.uk - Price and Value Outcome: Good and Poor Practice update](https://www.fca.org.uk/pricing-and-value-outcome-good-and-poor-practice-update)

² [FCA.org.uk - update on cash savings - September 2024](https://www.fca.org.uk/cash-savings-update-september-2024)

This approach to pricing regulation would provide a framework more supportive of diversity of service offerings, tariff differentiation, specialism, and innovation, relative to the current, highly prescriptive approach to pricing. It would also allow the regulator to monitor customer outcomes more systematically and take a more targeted and risk-based approach to tackling customer detriment/harm through compliance and enforcement activity.

Under MHHS a customer's consumption profile will be a significant driver of the costs of providing energy to a specific household. Suppliers will need to find ways to reflect those costs in their pricing in a variety of ways that allow them to recover the costs of providing energy to specific customer cohorts, that reflect observed behaviour and encourage behavioural change, and that involve an appropriate degree of tariff complexity for that customer cohort. A variety of offers in the market should support customer choice (as is the case with for example broadband packages), E.g. some customers will want to retain a single unit rate pricing structure that is easy to understand whilst recognising that the way they consume energy means this may be higher or lower than other customers pay, while other customers will want to be more actively engaged and seek out time of use tariffs that provide more immediate price signals that they can respond to.

A price cap would stifle this diversity and potentially result in poorer customer outcomes and detriment for some cohorts of customers. A Consumer Duty type approach to price and value, by contrast, places less constraint on pricing structures, allowing suppliers to discover how different customer cohorts prefer to pay, while allowing the regulatory backstop powers to intervene in instances of clearly unfair pricing.

Introduction

Moving to a principles based approach will give suppliers greater flexibility and could encourage more engagement with the market, through switching tariff or supplier, as suppliers are able to offer a wider range of differentiated products and services that enable the benefits of MHHS to be realised and enable suppliers to support customers with appropriate decarbonisation products facilitating a low cost transition.

Suppliers will have more scope to innovate knowing that the costs and benefits of that innovation can be fairly reflected in propositions.

A principles based approach would provide a regulatory framework that nurtures diversity of supplier business models, and would allow suppliers to offer the best range of tariffs and propositions for their customer bases.

Overview

A fair value principle is about more than price. Below we set out how Ofgem might require suppliers to assess value, drawing on the FCA's guidance in this area. Where a supplier fails to make a robust assessment of value, the regulator would have grounds to take action against them.

The focus of the principle should be ensuring the price paid is reasonable compared to the overall benefits of the tariff/proposition. Value should be considered in the round and not just be about low prices. Price should be considered in assessing fair value, but not at the expense of other factors. It is also important to remember that customers are ultimately responsible for the choices they make around energy tariffs and a fair value principle would not mean that a customer would be made whole if they picked the wrong tariff for them.

The expectation isn't that suppliers would only offer propositions at low prices, but there would be recognition that there are products (and services) that might cost more for customers that still provide value if the price reflects their quality and benefits.

Propositions that are likely to offer fair value will be:

- designed to meet the needs of a target market (for example EV drivers who charge at home),
- transparently sold (ie no sneaky fees and charges, and customers are given sufficient information to understand their tariff before entering a contract),
- where customers are still able to exercise choices to switch or exit (ie no excessive lock-ins), and
- where customers are properly supported (for example with data showing their usage patterns).

In other words, propositions where customers will receive benefits, have appropriate information about the benefits and limitations of the product/service, and have the option to pick a different product if they prefer.

However, meeting the above does not always mean that the fair value principle will be met, suppliers should still consider other factors, including the following:

- Are there elements of the pricing structure that could lead to foreseeable harm? (for example is it overly complex for the target market's needs or ability to respond or creates a greater risk of a customer going into debt)
- Are there fees or charges or rates which appear unjustifiably or unreasonably high compared to the benefits of the product and other similar tariffs (either offered by that supplier or by other suppliers)?
- Should / have any changes in the benefits of the proposition be reflected in the price?
- Should / have any material changes to assumptions that underpinned pricing be reflected in changes to the price (e.g. changes in third party costs)?

Assessing value

In order to assess the value of their propositions, suppliers should consider the benefits and costs of their propositions as they are designed and brought to market. For each proposition, this should include:

- The benefits that will be provided to the customer, or could be expected as part of the product. This includes the inherent value of energy supplied over different

periods of demand, customer services and support, access to digital and physical technologies, simplicity/complexity, and any wider benefits (e.g. those associated with supporting the transition to net zero such as renewable only products).

- Any benefits that are limited or not provided to the customer.
- The cost to the supplier of developing and delivering that proposition to the customer.
- The expected total price that customers will pay, including fees and charges over the tenure of the tariff.

Suppliers could also demonstrate that the tariff offers fair value by comparing it to similar offerings across the market. This assessment could include:

- Cost of developing, bringing tariffs to market and operating those tariffs - differences in these costs would be expected across suppliers and would explain why similar products are priced differently
- Tariffs and charges for comparable products and whether the supplier's offering is a significant outlier. If this is the case the supplier would need to confirm they are confident that the price is reasonable compared to the benefits received.
- Whether other tariffs offered by the supplier are priced significantly lower with similar or better levels of benefit
- Any accrued costs and / or benefits of the particular product/tariff

Assessment of fair value could also include customer research or testing, or use internal data to assess the value against benefits, but shouldn't rely on an individual customer to determine if a tariff is fair. For example, as part of our Consumer Duty work on our boiler service offer, we undertook some research into consumer understanding of the product to satisfy ourselves that our customers understood what they were buying, and made some improvements to our documentation as a result.

Suppliers can use their judgement to determine the appropriate factors to use in value assessments but they must be able to demonstrate that there is a reasonable relationship between the tariff/charges and the associated benefits.

For longer-term tariffs, e.g. FTCs of 2 years or more and default SVTs, suppliers could be required to conduct regular value assessments and where the tariff no longer provides fair value, take mitigating action e.g. through amending the tariff to improve value or providing redress. An example of this might be where in setting a tariff assumptions are made that cease to be accurate during the life of the tariff which result in the product no longer offering fair value - e.g. unanticipated reductions in third party costs.

Assessment of fair value should take place during the design of propositions and before any tariffs are offered to customers, and should ensure that the tariff represents fair value for a foreseeable period - this is likely to vary depending on the tenure of the tariff, and might be different for FTCs vs SVTs. Suppliers would need to be able to evidence Board review and approval of fair value assessments, and while the assessments will remain internal in the main, they should be readily available to the regulator on request.

Where bundled services are sold, or tariffs have a type of use bolt-on, or are contingent on the take up of another service (e.g. boiler cover) the supplier should conduct a fair value assessment for each component, and for the package overall. Suppliers should be able to demonstrate that they have made this assessment and that the relationship between the price and benefits is reasonable.

The principle is based on reasonableness and the nature of the value assessment, and the data and insight that suppliers use to inform their assessment will vary depending on the type of tariff / product, and the size of the supplier.

Assessments of value should be based on the principle of 'fair bet' - was the price a fair bet at the time the customer locked it in. For example, an FTC offered at one point in the year may be higher than a similar product offered later in the year if the underlying wholesale price has fallen in the meantime. This would not mean that the earlier tariff is poor value for money. Rather the value assessment should take into consideration responsible risk management, so could include an assessment of whether a supplier has a reasonable and prudent hedging strategy.

Suppliers should assess the benefits that the target market of customers can expect from a proposition at the design phase and ensure the proposition meets the needs, characteristics and objectives of the target market. For example, a tariff that rewards load-shifting will be suitable for customers who are in a position to change their consumption patterns.

Different propositions will provide different benefits. This could be different service levels or payment options, or different approaches to simplicity vs complexity - e.g. single rate vs ToU, or could involve suppliers actively managing flexible demand on behalf of customers (e.g. OVO's Charge Anytime EV tariff), or services with bundled offers, load-shifting incentives etc. All of these would be considered to have fair value for the target market where there is a reasonable relationship between the benefits received and the overall price paid.

The price charged to customers

In assessing fair value, the supplier should consider all the costs that the customer may be charged over the lifetime of the tariff, including:

- Exit fees - suppliers should be able to demonstrate that these are fair and reflect the underlying costs of terminating the contract
- Contingent charges, e.g. for late payments
- Non-essential paper billing (e.g. for non-psr customers)
- Costs of bundled products

Different outcomes for different customer groups

One of the most difficult questions in regulation of pricing in competitive markets is under which circumstances is it reasonable or 'fair' for suppliers to charge different prices to different customer groups - whether this reflects cost to serve or willingness to pay. A Consumer Duty type approach could allow Ofgem to set out explicitly the factors it would

consider in assessing whether cost-reflective pricing and/or price discrimination (charging different amounts to customers who cost the same to serve) is fair.

For example, Ofgem might consider it reasonable to charge different prices depending on:

- Usage patterns, to encourage load-shifting
- In-home assets (eg heat-pump, EV, solar panel, battery) to encourage investment in green home technology by home owners and landlords
- Payment type, to encourage payment by DD or pre-pay, thus reducing credit risk

Whereas it might not consider it reasonable to charge different prices depending on:

- Geographic location (eg remote rural or island customers)
- Vulnerability, even where associated with higher cost-to-serve (eg PSR customers)
- Tenure (eg charging more to sticky or loyal customers with a low ability or propensity to switch)

Suppliers should be able to differentiate propositions by the benefits provided to customers but they should consider whether the differentiation is reasonable, e.g. is there sufficient variation in the benefits to justify differentiated pricing.

Some customer groups are at more risk of harm. Customers in vulnerable circumstances may be more likely to be disengaged and at risk of poor value. Suppliers should take extra care in dealing with vulnerable customers and should be able to demonstrate to Ofgem that the price for a tariff or proposition represents fair value for different groups within the target market, including those in vulnerable circumstances.

Data and monitoring

Suppliers, and indeed Ofgem, could use the following types of data to monitor whether they meet the fair value principle, much of which is already available to Ofgem through existing regulatory reporting and insight:

- Expected price paid by customers over the life of the tariff
- Profitability data - revenue and profit margins
- Customer complaints
- Customer research, surveys, NPS, third party ratings
- Data around customer behaviour, including retention rates
- Contact data, e.g. average speed of answer, call abandonment rate, app/website outages
- Comparable products offered by other suppliers
- Variation between FTC and SVT pricing
- Feedback from PCWs and CCGs

What should suppliers be able to demonstrate to Ofgem

In addition to the fair value assessments that suppliers would undertake. Ofgem could, like the FCA, mandate the reporting that is required in order to support the regulator's ongoing monitoring.

Suppliers could be required to demonstrate the following:

- That the supplier has considered all the relevant factors and data as part of the fair value assessment.
- How the supplier has benchmarked the price of its tariffs and products against similar propositions from other suppliers (or against a cost-reflective price benchmark, eg calculated along the same lines as the cap)
- That the the supplier has considered that the tariffs/propositions are fair value for different groups of customers, including vulnerable customers
- If different prices are charged to different groups of customers for the same/similar propositions that this is justifiable and demonstrably fair for each customer group.
- Any mitigating action that has been undertaken as a result of initial or ongoing fair value assessments.
- How ongoing fair value assessments are conducted, what data and intelligence is used for monitoring purposes and what action is taken as a result.

In financial services, each regulated firm submits data to the FCA linked to price and value, alongside other themes. Insurance intermediaries, for example, are required to submit the General Insurance - Value Measures Report annually. The reporting periods run from 1 January to 31 December, and must be submitted by 28 February (see the Appendix for an example report).

The metrics to be provided are determined by the FCA. All firms within the same category will answer the same reports, submitted via the regulator's online portal, which allows for certain automatic checks on data completeness and integrity.

The FCA will commonly follow up with firms directly in the event of any perceived anomalies, or submissions which represent a concern. More broadly, the FCA uses the data to ensure that firms are complying with its requirements across the industry and that the market is operating well.

This reporting schedule helps the regulator monitor pricing and take action where it is required, affording firms the flexibility to price within Consumer Duty principles.

Appendix

General Insurance - Value Measures Report (example data)	
Please confirm the reporting firm understands that the FCA produces and publishes guidance that contains the value measures data submitted	Yes
Please confirm that the reporting firm has informed any other firm to whom the data relates that the FCA publishes the guidance	Yes
Product Category	Home emergency (stand-alone)
Five largest distribution arrangements	CORGI HomePlan Ltd, OVO Energy Ltd
Number of policy sales to UK consumers	250,000
Total retail premiums (written)	£50,000,000
Number of claims registered	100,000
Average number of policies in force	250,000
Claims frequency ³	45
Number of claims where all or part of the claim has been accepted and a pay-out has been made (and the claim is closed at the year-end)	100,000
Number of claims rejected in the year	2,500
Claims acceptance rate	98%
Total claims pay-out cost (for claims where all or part has been accepted, payout has been made, and the claim is closed at the year-end)	£18,000,000
Average claims pay-out	£200
Amount that top 2% of claim pay-outs are above	600
Number of claim walkaways	1,250
Number of claim complaints	2,500
Claim complaints as a % of claims	2.5%

³ This is a percentage calculated as the number of claims registered, divided by the average number of policies in force over the preceding period.