

Ofgem: Smart Security Electricity Systems (SSES): Implementing the load control licensing regime

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ABOUT STARTUP COALITION

Startup Coalition is the policy voice of UK tech startups and scaleups in Westminster. Since 2010, we have worked to engage on behalf of tech startups in public policy debates in the UK across a range of critical priority issues including access to finance, immigration and skills, and technology regulation.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 4000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem.

The Startup Coalition works directly with the Government across a range of issues. We represent the startup community on the Smart Data Council.

GENERAL REMARKS

Startup Coalition supports the objectives of the Smart Secure Electricity Systems Programme, including strengthening cyber security, protecting consumers, and enabling secure, scalable demand-side flexibility as the electricity system decarbonises. Our members developing and operating domestic flexibility, home energy management, distributed storage, and smart charging technologies recognise the importance of appropriate regulation and are committed to maintaining high technical, operational, and security standards.

However, firms active in these markets have raised concerns that the proposed implementation of the load control licensing regime risks applying enterprise-scale regulatory obligations to early-stage providers controlling relatively small, distributed portfolios of domestic assets. Without sufficient differentiation by scale, system impact, and operational risk, the regime risks creating high fixed compliance costs that act as a barrier to entry and discourage investment in innovative flexibility models.

There remains particular uncertainty around how the regime applies in layered control environments, where multiple entities may be involved in transmitting, interpreting, and executing control signals. Many domestic flexibility providers do not independently determine when or how load is adjusted, but operate within parameters set by licensed aggregators, suppliers, or system operators. If not addressed clearly, the framework risks requiring multiple parties in a single control chain to hold full licences, creating duplicative obligations without corresponding benefits to consumers or system security.

Without proportionate pathways into compliance, there is a risk that capital is diverted away from product development and deployment, slowing innovation and reducing competition in flexibility markets.

Startup Coalition therefore strongly encourages Ofgem and DESNZ to ensure that implementation prioritises proportionality, clarity of regulatory responsibility, and genuinely graduated routes to market. The regime should enable innovators to pilot, scale, and professionalise safely over time, while maintaining robust protections for consumers and system resilience.

CONSULTATION RESPONSE

1. Do you agree that the Licence Policy Principles, as well as Ofgem's Growth Duty, are the correct principles to guide the development of Ofgem's implementation proposals? Please provide reasons for your answer.

Startup Coalition broadly agrees that the Licence Policy Principles and Ofgem's Growth Duty provide an appropriate foundation for the development of implementation proposals. These principles appropriately recognise the importance of consumer protection, system resilience, and effective competition.

However, their practical application will be critical. In order to give meaningful effect to the Growth Duty, implementation must actively prevent unnecessary barriers to entry and avoid imposing uniform obligations on firms with materially different risk profiles. In particular, proportionality must be reflected not only in headline policy statements but in evidential requirements, assurance processes, monitoring intensity, and enforcement practice.

2. Are there other measures Ofgem and DESNZ should consider in order to ensure the regime is proportionate and our approach minimises unnecessary burden? Please provide reasons for your answer.

Further clarification is required on how responsibility is allocated across layered control environments and on what constitutes "load control" in practice.

In particular, the distinction between Load Controllers and other flexibility actors remains open to interpretation. Current framing risks capturing providers based on the sophistication of their optimisation logic rather than on functional outcomes. For example, a device that shifts load based on a simple time-of-use tariff may fall outside the regime, while a device that adjusts schedules dynamically based on wholesale price signals may be captured, despite both delivering demand shifting in practice. This risks biasing the market toward incumbent suppliers offering simple tariff-based solutions, rather than encouraging more advanced optimisation models that may deliver greater consumer and system benefit.

Financial resilience requirements should also be explicitly linked to demonstrable consumer risk. Load control providers, particularly software-led firms, typically do not hold consumer credit balances or wholesale positions. Applying energy supply-style financial thresholds in this context is unlikely to be proportionate.

3. Do you agree with the proposed application form evidence requirements for each area? Please provide reasons for your answer, including any concerns with providing the requisite information and why.

Startup Coalition broadly supports the need for robust evidence in relation to governance, operational resilience, consumer protection, and cyber security. However, we are concerned that current evidence requirements may be overly burdensome for early-stage firms operating at limited scale.

Without flexibility in how evidence may be provided, smaller providers may be required to produce enterprise-grade documentation and assurance before their business models are commercially proven. Ofgem should therefore allow proportionate and alternative forms of evidence for lower-risk applicants, including reliance on existing certifications, staged documentation, and conditional approvals.

4. Do you agree with the proposal for a 12-month transition period? Please provide reasons for your answer.

We agree that a transition period is necessary and welcome the proposal for a 12-month period. However, for many early-stage firms, particularly those entering the market shortly before implementation, this may still be insufficient to build full compliance systems while continuing commercial operations.

We therefore encourage Ofgem to retain flexibility to extend transition arrangements or provide targeted transitional support where firms are demonstrably acting in good faith and progressing toward compliance.

5. Do you agree with our proposed application process for certain licensed suppliers? Please provide reasons for your answer. Note, please refer to the DESNZ Licensing Consultation for a specific question on licence condition derogations.

Broadly, care should be taken to ensure that transitional advantages enjoyed by incumbents do not create structural disadvantages for new entrants seeking to compete in flexibility markets.

6. Do you agree that the proposed application process for certain licensed suppliers should apply to licensed domestic suppliers, and not licensed suppliers who supply non-domestic customers only?

No answer.

7. Do you agree with our proposed application process for non- licensed suppliers? Please provide reasons for your answer.

Providing a route for non-licensed suppliers is essential to enabling innovation in flexibility markets. However, the application process must reflect the distinct risk profile of load control providers compared to energy suppliers.

Many flexibility startups operate as software and optimisation platforms layered on top of existing supply arrangements. They do not typically manage customer credit balances or long-term energy contracts. Applying similar financial and governance thresholds to those used in supply licensing risks creating unnecessary barriers to entry.

8. Do you agree that the proposed application process for different types of applicants is proportionate and reflects the SSES purpose and Licence Policy Principles? Please provide reasons for your answer.

In practice, proportionality will depend on how discretion is exercised. Ofgem should ensure that application assessment is sensitive to scale, portfolio size, and system impact, rather than relying solely on formal organisational maturity.

9. Do you agree that our proposed timelines for licence application processing are reasonable? Please provide reasons for your answer.

We broadly consider the proposed timelines reasonable. However, delays in licence determination can create material financial risk for venture-backed firms operating on limited runway. Ofgem should prioritise predictability and early engagement during the application process, particularly for new entrants.

10. Do you agree with our proposal that tacit authorisation should not apply to the load control licence? Please provide reasons for your answer.

No answer.

11. Should Ofgem reconsider the question of tacit authorisation in future? Please provide reasons for your answer.

No answer.

12. Do you agree with the proposed approach to compliance-related monitoring? Please provide reasons for your answer.

Startup Coalition strongly supports a genuinely risk-based and proportionate compliance approach. Monitoring intensity should reflect portfolio size, system impact, and compliance history.

Uniform supervisory expectations across all licensees would undermine proportionality and disproportionately burden startups operating at limited scale.

13. Do you agree with the proposed approach to market insights-focused monitoring, and are there any additional market indicators we should consider tracking? Please provide reasons for your answer.

In addition to operational metrics, Ofgem should monitor indicators relating to market concentration, barriers to entry, and innovation diversity. It will be important to assess whether the regime unintentionally consolidates flexibility markets among incumbents.

14. Are the proposed RFIs proportionate and manageable? Please provide reasons for your answer.

While RFIs are a necessary supervisory tool, cumulative reporting obligations may impose significant internal resource burdens.

15. Please estimate the costs for your organisation for responding to the proposed RFIs. In the impact assessment accompanying the DESNZ Licensing Consultation government estimated indicative costs of approximately £7,000 to £24,000 per annum. Is this estimate appropriate? Please provide reasons for your answer.

The estimated cost range of £7,000 to £24,000 per annum may underestimate the true cost for early-stage firms when accounting for internal staff time, legal review, cyber assurance support, and board-level governance requirements. For smaller firms, the effective burden may represent a meaningful proportion of operating expenditure.

16. Do you agree with our proposed risk-based and proportionate approach to compliance under the load control licensing regime? Please provide reasons for your answer.

Yes. A genuinely risk-based approach is essential to maintaining innovation and competition. This should be embedded consistently across supervision, enforcement, and reporting requirements.

17. Are there additional factors we should consider when determining the level of compliance engagement for different types of licensees (eg new entrants vs licensed suppliers)? Please provide reasons for your answer.

Yes. Factors such as firm age, funding stage, portfolio growth trajectory, and dependency on third-party platforms should be considered alongside traditional risk metrics.

18. Do you support the proposal to use informal account management relationships to support licensees into compliance in the early years? Please provide reasons for your answer.

No answer.

19. Do you agree with the proposed priority areas for compliance engagement? Please provide reasons for your answer.

We broadly agree with the proposed priorities, provided they remain focused on material risks to consumers and system stability rather than formalistic compliance issues.

20. Do you agree with our proposal to align enforcement under the load control licensing regime with Ofgem's existing enforcement approach, outlined in the Enforcement guidelines? Please provide reasons for your answer.

Yes. Alignment promotes consistency and legal certainty. However, enforcement should prioritise remediation and improvement for early-stage firms acting in good faith.

21. Do you agree with our proposed enforcement approach for multiple licence holders?

We would like to caution that group-level compliance structures should not be used to impose disproportionate obligations on small subsidiaries or acquired startups.

22. Are the regulatory requirements for different types of Load Controller sufficiently clear? Please provide reasons for your answer.

Further clarity is needed, particularly in relation to intermediated and API-based control models.

23. Do you agree with the proposed approach to cyber security assessments for load control licence applications? Please provide reasons for your answer.

No answer.

24. Do you agree with the proposed approach to cyber security monitoring and compliance? Please provide reasons for your answer.

No answer.

25. What would you suggest is a reasonable equivalent of a CRA Audit? Please provide reasons for your answer.

No answer.

26. Do you agree with the inspection process outlined for the cyber security of below 300MW Load Controllers? Please provide reasons for your answer.

No answer.

27. Do you agree with our proposed approach to licence modifications? Please provide reasons for your answer.

No answer.

28. Do you agree with our proposed process for the transfer of a load control licence? Please provide reasons for your answer.

No answer.

29. Do you agree with our proposed approach to extending/restricting a licence? Please provide reasons for your answer.

No answer.

30. Do you agree with our proposed approach to revocation of the load control licence, including our proposal to include a revocation item on the basis of failure to comply with the NIS regulations? Please provide reasons for your answer.

No answer.

31. Do you agree with our proposed approach to cost recovery for the load control licensing regime? Please provide reasons for your answer.

Cost recovery mechanisms must not impose flat or high minimum fees that disproportionately affect smaller providers.

Tiered fee structures linked to controllable load or customer numbers would better reflect actual system impact. Without such differentiation, cost recovery risks functioning as a structural barrier to entry in emerging flexibility markets.