Making a positive difference for energy consumers

Consultation

Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation (USO)

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Executive summary

The retail market is changing with increasing adoption of low-carbon technologies (LCTs) such as electric vehicles, batteries and heat pumps. To meet Clean Power 2030 and longer-term decarbonisation and affordability goals, consumers will play a more active role in the energy system through flexibility, shifting when they use or export electricity in response to price signals and system needs.

Ofgem’s Markets Regulatory Vision and Strategy to 2030 identifies innovation and investment as central to achieving these outcomes[1]. We want a retail market that enables innovative business models, promotes consumer participation in flexibility, and supports delivery of a smarter energy system. New supplier propositions could help consumers make better use of LCTs, while supporting lower bills and a lower-cost energy system.

Through stakeholder engagement, we have heard that some aspects of the current licensing framework can make it difficult for suppliers with specialist flexibility and LCT propositions to enter the market. One potential barrier is the Universal Service Obligation (USO) which requires suppliers to offer supply to any domestic customer. This can make it more difficult for suppliers to specialise.

We think specialisation could be positive for consumers, by providing products and services that directly address the preferences of different consumer segments and so drive consumer participation in flexibility, as well as boosting competition in the market leading to better offers becoming available for consumers.

We therefore are consulting on a proposal to exempt all current and future electricity supply licensees from Standard Licence Conditions (SLC) 22.2 and 22.3. This would remove the requirement for suppliers with fewer than 50,000 domestic customers to comply with the USO.

Under this proposal, a supplier below the threshold would not be required to offer supply to all domestic consumers until it exceeds 50,000 domestic customers. All other relevant licence obligations and consumer protections would continue to apply.

We are proposing a 50,000-customer threshold because we consider this a proportionate test-and-learn intervention that reduces barriers to entry and supports innovation, whilst any risks will be minimal.

[1] Ofgem, Markets Regulatory Vision and Strategy to 2030 (2025)

Through this consultation, we are seeking views on:

Questions

Q1. Do you agree with our proposal to exempt suppliers with fewer than 50,000 domestic customers from the USO?

Q2. Do you agree with our assessment of risks, and proposed mitigations?

We invite you to explain your views and provide any evidence, examples, or data that support your response.

Following consultation, we will consider stakeholder responses before deciding whether to proceed to a statutory consultation on licence changes.

1. Case for change

The retail market is changing

1.1. The transition to a smarter energy system is creating new opportunities for consumers to participate in flexibility through technologies such as electric vehicles, batteries and heat pumps. However, recent data suggests that uptake of smart tariffs lags significantly behind the rollout of several million household LCTs, with just 835,000 consumers on smart tariffs[2]. This is a lost opportunity both for consumers and for the efficient operation of the power system. Delivering this transition is likely to require greater innovation in retail propositions to encourage wider consumer participation in products and services that help households use electricity more efficiently.

Supporting innovation and flexibility

1.2. Ofgem's Markets Regulatory Vision and Strategy to 2030 identifies innovation and investment as central to delivering the future retail market. This work on reform to the USO complements other innovation workstreams, including on outcomes-based regulation and consumer-led flexibility (which includes a new regulatory regime for aggregators). Together, these reforms seek to ensure that regulatory frameworks support innovation and consumer participation while maintaining appropriate protections.

[2] Ofgem, State of the energy market: retail highlights (2026), p.21

Stakeholder and innovator evidence

1.3. This consultation builds on our 2024 consultation on innovation in the retail market[3]. Stakeholders highlighted a range of barriers facing innovative business models, including aspects of the licensing framework. Since then, we have been looking closely at our licensing regime, including updating our licence application guidance to provide greater clarity and transparency on how applications for individually modified licences are assessed. We have also worked with the Department for Energy Security and Net Zero (DESNZ) on legislation to strengthen our derogation powers[4] to provide more flexible and timely support to new innovative products and services in the market and collaborated closely with DESNZ on enabling local supply for communities. This consultation considers whether changes to the USO could represent a further step in reducing barriers to innovative retail propositions.

1.4. Through stakeholder engagement and supply licence applications, we have heard concerns that aspects of the current licensing framework can make it more difficult for specialist business models to enter the market. Stakeholders highlighted the burden that some supply licence requirements can place on small suppliers wanting to offer targeted propositions and suggested that greater regulatory flexibility could support innovation and market entry.

1.5. We have engaged with prospective suppliers seeking to offer specialist propositions focused on flexibility, smart technologies, and automated optimisation of household energy use. These stakeholders have argued that the requirement to be capable of supplying all domestic customers from day one can create challenges for specialist business models focused on particular technologies, consumer groups or services. They have suggested that a more targeted approach could reduce barriers to entry while maintaining consumer protections.

International and cross-sector comparison

1.6. Our comparative review suggests Great Britain is unusual in requiring all suppliers to comply with a USO. In many comparable jurisdictions the universal service is delivered through designated default suppliers or similar arrangements that ensure access to supply without requiring every market participant to provide universal service.

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[3] Ofgem, Innovation in the energy retail market (2024)

[4] Department for Energy Security and Net Zero, The Ofgem Review: Final report (2026), p.21

1.7. Other regulated sectors in the UK, such as telecoms and postal services, deliver universal service through designated USO providers operating alongside a wider competitive market. The overarching rationale for this is one of efficiency.

1.8. Experience from the non-domestic energy market suggests that removing universal service requirements can support a wider range of specialist and niche suppliers, enabling providers to tailor their proposition to specific customer segments. However, greater scope for specialisation can also lead to differences in the availability and pricing of offers across customer groups. As the domestic electricity market retains a USO, the non-domestic experience is not directly comparable.

External research

1.9. A growing body of external literature argues that future retail markets will require greater specialisation and innovation.

1.10. Citizens Advice's recent research argued that exempting smaller suppliers from the USO could help enable innovation and specialisation while maintaining wider consumer protections and suggested that broader consideration of universal service arrangements should form part of future retail market reform[5].

1.11. Several commentators, including Stonehaven[6] and Nesta[7], have questioned whether universal obligations should continue to be placed on all suppliers in the same way.

Current regulatory flexibility

1.12. We have considered our existing forms of regulatory flexibility to enable specialised models, including the use of individually modified licences and derogations. These routes can provide an effective route for enabling specific innovative propositions where tailored regulatory arrangements are appropriate.

1.13. However, we have identified a category of propositions that face the same regulatory barrier and would benefit from the same regulatory treatment. Given these shared challenges, we consider that a threshold exemption from SLC 22.2 and 22.3 is a clearer, fairer and more transparent approach. This would establish a permanent and consistently available route for all eligible propositions,

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[5] Citizens Advice, Stuck in the Sandbox: unlocking greater innovation in the energy retail market (2026), p.24.
[6] Stonehaven, Reinventing Retail Energy (2023)
[7] Nesta, Future of energy retail (2024)

providing greater certainty for innovators while reducing the need for case-by-case assessments.

2. Proposal: small supplier USO exemption

2.1. We are proposing a targeted change to the electricity supply licence framework so that electricity suppliers with fewer than 50,000 domestic customers will be exempt from the duty to supply.

2.2. Once a supplier reaches that customer threshold, the duty to offer and supply electricity to all domestic customers under SLC 22 would apply.

2.3. We are focusing on domestic electricity supply only because the innovation and specialisation goal does not apply to gas supply, and licensees do not have a USO for non-domestic customers.

2.4. Suppliers would still need to meet all other applicable requirements, including fit and proper requirements and financial resilience obligations. Price cap rules would also continue to apply to domestic Default Tariff customers under current legislation, regardless of whether a supplier is USO-exempt.

2.5. We may undertake targeted readiness assessments of suppliers benefitting from the exemption. These assessments could draw on information such as suppliers' growth projections and business plans, helping us understand whether suppliers are preparing to comply with the full suite of obligations that would apply once the threshold is reached.

2.6. We propose to implement this change through a licence modification under section 11A of the Electricity Act 1989. Please see Appendix 1 for an illustrative description of the draft text of our licence modification.

Why set a 50,000 domestic customer threshold?

2.7. We have considered a range of potential thresholds and propose 50,000 domestic customers as a proportionate and pragmatic starting point. This threshold aligns with recent supply licence applications from prospective innovators and with Ofgem's existing Milestone Assessment framework[8], while ensuring the exemption from the USO remains targeted at smaller suppliers. The threshold is also consistent with existing regulatory arrangements, such as the obligation to

[8] Ofgem, Milestone Assessment Guidance (2025)

offer a wide choice of payment methods once a supplier reaches 50,000 domestic customers.

2.8. The proposed exemption from the USO would apply to current and future domestic electricity suppliers with fewer than 50,000 domestic customers. While USO-exempt suppliers would not be required to offer a contract to all prospective domestic customers, they would remain responsible for continuity of supply for any domestic customers they serve.

2.9. The 50,000 domestic customer threshold would reflect a supplier that has developed and tested its products/services, established its presence in the market, and grown to a scale where taking on broader consumers is warranted and desirable.

Consumer protections and safeguards

2.10. We recognise potential risks and we consider these risks manageable at the proposed threshold. We are seeking views on whether additional safeguards are required.

2.11. This proposal is intended as a targeted test-and-learn intervention. We would monitor its impact and review the exemption after an initial period, to understand the effect of the USO threshold exemption on innovation and market entry. We would use the evidence gathered to inform future interventions and reforms.

2.12. **Customer segmentation:** our proposal will allow USO-exempt suppliers to focus on particular customer groups, for example, those with a smart meter and LCTs. This could limit the choice of suppliers for some customers, but we consider the likely impact to be limited at the proposed 50,000-customer threshold since consumers would continue to have access to the wider market and the universal service protections would automatically apply once suppliers reach the customer threshold.

2.13. **Fair competition:** applying the USO to some suppliers and not others could result in a more uneven playing field, as costs are higher for suppliers offering the USO. We consider that the level of the proposed threshold adequately mitigates the risk of an unlevel playing field by limiting the scope of the measure.

2.14. **Transition to universal service obligations**: suppliers will need to be able to comply with the USO once they reach 50,000 domestic customers. We will ensure this is the case by monitoring supplier growth and engaging with suppliers approaching the threshold to ensure appropriate operational, financial and compliance arrangements are in place. Our usual compliance and enforcement powers will apply if a supplier were to fail to comply with the USO once they reach the threshold.

2.15. **Incentives to avoid crossing the threshold**: suppliers could seek to remain below the threshold through corporate structures or multiple licences. It is our policy intent that the USO exemption would apply to all electricity licences held by the same ultimate parent. This means that a group holding two licences each with 25,000 domestic customers would have to comply with SLC 22 in the same way that a single licensee with 50,000 domestic customers would. We are aiming to safeguard against this through the drafting of the revised SLC to prevent suppliers from structuring their businesses in a way that artificially avoids the threshold. We are also considering application assessments and monitoring arrangements to ensure the exemption operates as intended and to minimise opportunities for avoidance.

3. Responding to this consultation

Consultation questions

3.1. We welcome stakeholder views and evidence on the following questions:

Questions

Q1. Do you agree with our proposal to exempt suppliers with fewer than 50,000 domestic customers from the USO?

Q2. Do you agree with our assessment of risks, and proposed mitigations?

Please explain your views and provide any evidence, examples, or data that support your response.

How to respond

3.2. We want to hear from anyone interested in this consultation. Please send your response to the team named on the front page of this document.

3.3. We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

3.4. We will publish non-confidential responses on our website.

Consultation stages

Stage 1 – Consultation open: **5 August 2026**	
	We publish this consultation and invite views from suppliers, consumer groups, innovators, stakeholders and interested parties.
Stage 2 – Consultation closes: **16 September 2026**	
	Respondents submit views by the response deadline.
Stage 3 – Responses reviewed: **September – October 2026**	
	We review responses and consider whether changes are needed.
Stage 4 – Statutory consultation: **October 2026**	
	Subject to stakeholder responses and internal approvals,

	Ofgem may proceed to a statutory consultation on the licence modification.

Your response, data, and confidentiality

3.5. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

3.6. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

3.7. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK General Data Protection Regulation", GDPR), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

3.8. If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

3.9. To track the progress of this consultation,

1. Find the web page for the call for input you would like to receive updates on.
2. Click ‘Get emails about this page’, enter your email address and click ‘Submit’.
3. You will receive an email to notify you when it has changed status.

3.10. A consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

Appendix 1: proposed licence change

We propose to introduce a threshold exemption by adding a new SLC22.7(e) clause, which would provide an exemption from the obligations at SLC 22.2 and 3 if there is supply of electricity to fewer than 50,000 Domestic Customers.

It is possible that a company structure could be set up deliberately to circumvent the application of the USO by creating or using a group company structure with multiple licences collectively supplying more than 50,000 Domestic Consumers. This is not the policy intent and further drafting changes could be proposed to cover this

Condition 22. Duty to offer and supply under Domestic Supply Contract

Licensee's obligations

22.1 If the licensee supplies electricity to Domestic Premises, it must do so under a Domestic Supply Contract or a Deemed Contract.

22.2 Within a reasonable period of time after receiving a request from a Domestic Customer for a supply of electricity to Domestic Premises, the licensee must offer to enter into a Domestic Supply Contract with that customer.

22.3 If the Domestic Customer accepts the terms of the Domestic Supply Contract offered to him under paragraph 22.2, the licensee must supply electricity in accordance with that contract.

22.4 A Domestic Supply Contract must:

(a) be in Writing; and

(b) include all the terms and conditions for the supply of electricity, including:

(i)a term separately identifying the Charges for the Supply of Electricity and the charge for any other good or service to be provided; and

(ii)a term reflecting the provisions of standard condition 24 (Termination of Domestic Supply Contracts) in relation to the ending of the contract in the circumstances set out there.

22.5A Domestic Supply Contract or a Deemed Contract with a Domestic Customer entered into or negotiated on or after the day after the day on which the Electricity and Gas (Internal Markets) Regulations 2011 are made must include:

(a) the identity and address of the licensee;

(b) the services provided, including any maintenance services provided, and any service quality levels that are to be met;

(c) if a connection is required, when that connection will take place;

(d) the means by which up to date information on all applicable tariffs and maintenance charges, including in relation to a Tied Bundle, may be obtained;

(e) any conditions for renewal of the Domestic Supply Contract, including in relation to a Tied Bundle;

(f) any compensation and refund arrangements which apply if contracted quality service levels are not met, including inaccurate and delayed billing; and

(g) information concerning the Domestic Customer's rights as regards the means of dispute settlement available to them in the event of a dispute with the licensee including how dispute resolution procedures can be initiated.

22.6 If a Domestic Premises is in the part of the North of Scotland referred to in an order made by the Secretary of State under section 7B of the Act, the licensee must ensure that the Charges for the Supply of Electricity for the premises comply with that order.

Exceptions to licensee's obligations

22.7 The licensee is not required to comply with the obligations set out in paragraphs 22.2 or 22.3 in any of the following circumstances:

(a) the licensee may breach regulations made under section 29 of the Act if it supplies electricity to the Domestic Premises, provided that it has taken all reasonable steps to prevent such breach from occurring;

(b) without prejudice to paragraph 13 of standard condition 25B, it is not reasonable in all the circumstances of the case for the licensee to supply electricity to the Domestic Premises, provided that, if it is already supplying electricity to the premises, it has given at least seven Working Days' Notice of its intention to stop doing so;

(c) the licensee requires the Domestic Customer to pay a Security Deposit, and he does not do so, except if that deposit is in breach of any of the requirements in paragraphs 3 and 4 of standard condition 27 (Payments, Security Deposits and Disconnections); or

(d) where the licensee is a Non-Green Deal Licensee, the premises of the Domestic Customer are Green Deal Premises, and the licensee reasonably expects that those premises will continue to be Green Deal Premises at the time the licensee expects to begin supplying electricity to the premises.

(e) if it supplies electricity to fewer than 50,000 Domestic Customers or such other number as may from time to time be directed by the Authority

Provision of Domestic Supply Contracts

22.8 If a person requests a copy of any form of Domestic Supply Contract that the licensee may offer under paragraph 22.2, the licensee must send a copy of that form of contract to that person within a reasonable period of time after receiving the request.

Provision of Customer Information

22.9 Where a Domestic Customer requests the licensee to pass on his Historic Consumption Data and/or Supply Number either to the Domestic Customer or to another Electricity Supplier or to any other person, the licensee shall comply with that request free of charge as soon as reasonably practicable.

22.10 For the purposes of this condition:

"**Historic Consumption Data**" means:

(a) except where a Domestic Customer has held his Domestic Supply Contract for less than 12 months, the quantity of electricity supplied to the Domestic Customer's Domestic Premises during the previous 12 months; or

(b) where the Domestic Customer has held his Domestic Contract for less than 12 months, the quantity of electricity supplied to the Domestic Customer's Domestic Premises during the duration of the Domestic Contract.

Appendix 2: privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

None.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically.
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information for more information on how Ofgem processes your data, view our Ofgem privacy policy.

Appendix 3: send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

i. Do you have any comments about the quality of this document?
ii. Do you have any comments about its tone and content?
iii. Was it easy to read and understand? Or could it have been better written?
iv. Are its conclusions balanced?
v. Did it make reasoned recommendations?
vi. Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.