

Statutory consultation

Exempting smaller suppliers from the Universal Service Obligation

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Overview: In August 2026, we consulted on proposals to exempt licensed electricity suppliers with fewer than 50,000 domestic customers from the Universal Service Obligation (USO). We have reviewed the consultation responses and considered the evidence and views provided by stakeholders. We continue to consider that a limited exemption from the USO represents a proportionate and effective means of reducing barriers to market entry, supporting innovation, and enabling the development of new business models, while limiting potential consumer risks. In this document, we present a summary of the policy consultation responses and our rationale for moving to the statutory consultation stage. We also describe the change to strengthen the proposal by including a clause to prevent avoidance of crossing the threshold. We are consulting on the proposed modifications to licence conditions set out in the appendix to this document (Appendix 1).

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Executive summary

Background and purpose of this document

In the Ofgem Markets Regulatory Vision and Strategy to 2030, we said that innovation and investment hold the key to delivering a smarter, more affordable energy system¹. We think supplier specialisation could be positive for consumers by providing products and services that directly address the preferences of different consumer segments. This could boost consumer participation in flexibility and contribute to the delivery of clean power. Our initial engagement with potential supply licence applicants revealed that the current USO², which requires suppliers to offer supply to any domestic customer, may be making it more difficult for suppliers to specialise and for new innovative organisations to enter the market. The purpose of this document is to outline our decision in relation to the USO threshold exemption consultation and to consult on our proposed licence amendment.

Our proposal

In August 2026 we consulted on a proposal to exempt all current and future electricity supply licensees from Standard Licence Conditions (SLC) 22.2 and 22.3 if they had below 50,000 domestic customers. This would remove the requirement for suppliers with fewer than 50,000 domestic customers to comply with the USO.

We proposed a 50,000-customer threshold as a proportionate test-and-learn intervention that could reduce barriers to entry and support innovation.

What we heard

Consultation responses broadly supported Ofgem's objective of encouraging innovation and reducing barriers to entry, but views differed on whether a USO exemption is the appropriate mechanism. Respondents were divided on the risks and benefits of supplier specialisation. Supporters were predominantly small suppliers and prospective new entrants, community energy organisations, consumer organisations, charities and industry experts. Some supporters asked us to go further by extending the

¹ [Markets Regulatory Strategy and Vision to 2030 | Ofgem](#)

² In this document, we refer to the provisions of Standard Licence Condition 22.2 and 22.3 (the 'Duty to Supply') as the Universal Service Obligation (USO). Taken together, these provisions oblige the licensee to provide any customer with an offer of an electricity supply contract, and to supply that customer with electricity if they accept the offer.

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exemption beyond 50,000 customers. Larger suppliers and industry bodies generally opposed our proposal, due to concerns about customer 'cherry-picking' and the emergence of a two-tier market. There was, however, broad consensus on the need for robust anti-avoidance measures, monitoring arrangements, and post-implementation review.

Our position

We have considered the consultation responses and we continue to believe that the proposed amendment to the USO is a proportionate means of reducing barriers to entry for innovative suppliers while limiting adverse consumer impact via the 50,000-customer threshold.

Whether or not they supported the USO proposal, most respondents agreed that the exemption would need robust safeguards to prevent businesses or groups structuring their businesses to remain below the threshold. This was a risk we recognised in our original consultation. As a result, we have amended the exemption wording to clarify that the threshold applies to the total customer numbers of all licensees within the same corporate group structure.

Next steps

This statutory consultation runs until 5 November 2026. We plan to publish a decision notice shortly afterwards. If we decide to implement our proposed change, modifications would come into effect not less than 56 days from the publication of the decision notice, subject to any appeals submitted. Applications to the Competition and Markets Authority for permission to appeal must be made within 20 working days of the day after the date of the decision notice.

Please send any responses and questions about this statutory consultation to Tom Handysides, Head of Future Retail Strategy at marketsstrategy&delivery@ofgem.gov.uk.

1. Consultation responses and our assessment

Overview of responses

- 1.1 We received 33 responses to the consultation. The non-confidential responses are published here: [Supporting innovation in the electricity retail market | Ofgem](#). We received responses from nine suppliers with more than 50,000 customers, two industry bodies, seven small suppliers and prospective entrants, three community energy organisations, four consumer and charitable organisations, five industry expert organisations and three individuals.
- 1.2 19 respondents supported the proposal, eight of those supporting subject to suggested changes, and 14 opposed it. Support was strongest among small suppliers and prospective entrants, community and local energy organisations, and industry experts. Opposition was concentrated among larger suppliers and industry bodies.

What respondents thought of our proposal

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

- 1.3 Supporters were predominantly small suppliers and prospective new entrants, community energy organisations, consumer organisations, charities and industry experts. They argued that the USO creates a disproportionate barrier to entry for specialist suppliers and innovative business models. They considered the exemption would support innovation, competition, and market entry.
- 1.4 Respondents supporting the proposal with adjustments generally agreed with the principle of the exemption. Some proposed arrangements for crossing the 50,000-customer threshold and anti-avoidance measures, and some indicated a preference for increasing the 50,000-customer limit.
- 1.5 Respondents opposing the proposal were predominantly suppliers with more than 50,000 customers and industry bodies. They argued that there is insufficient evidence that the USO is a material barrier to innovation or market entry. Many pointed to innovative tariffs and flexibility propositions already available in the market and argued that other barriers may be more significant.

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Our response

- 1.6 We have considered the consultation responses and continue to believe that the proposed exemption is a proportionate means of reducing barriers to entry for innovative and specialist suppliers. While some respondents questioned whether the USO is a significant barrier, responses from prospective entrants indicated that it can constrain the development of specialist business models by requiring small suppliers to offer supply to any customer from day one. Prospective entrants told us that this inability to focus their offer on innovative specialist products in their initial growth phase was preventing them from entering the market.

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

- 1.7 Some respondents agreed that we had identified the right risks and considered the proposed 50,000-customer threshold a proportionate means of limiting them.
- 1.8 Others considered the risks understated, particularly in relation to 'cherry-picking' and customer segmentation, competition impacts, and the potential emergence of a two-tier market. Large suppliers and industry bodies argued that these risks would create competitive asymmetry and potentially limit access to new, additional, innovative services for vulnerable or higher-cost-to-serve customers.
- 1.9 There was broad agreement that robust anti-avoidance measures would be required if the exemption were introduced. Many respondents also called for clear success measures, monitoring arrangements, and review mechanisms.

Our response

- 1.10 We recognise the concerns raised regarding customer segmentation and competition impacts. Having considered these risks, we remain of the view that they are appropriately constrained by the 50,000-customer threshold and supported by safeguards, such as monitoring and review. We have strengthened the wording of our proposed licence changes to prevent companies from avoiding crossing the threshold through using multiple licensed entities.
- 1.11 The remainder of this section summarises the key themes raised by respondents and our assessment of each.

Key themes and our response

The USO is a barrier to innovation and new market entry

- 1.12 Supporters of the proposal agreed that the current USO imposes barriers to market entry by imposing disproportionate cost, as well as operational and compliance burdens, on specialist suppliers. The exemption was seen as having the potential to enable innovative business models focused on EVs, batteries, flexibility, social housing, local energy and community energy. This view was common among small suppliers and prospective entrants, community energy organisations, and industry experts.

Our response

- 1.13 These responses were in line with our original proposal and consultation.

Challenging the evidence that the USO is a key barrier to entry

- 1.14 Responses revealed that prospective entrants regard the USO as a significant barrier. These organisations argued that the USO places an additional burden on potential new suppliers because it requires them to invest in broad operational capability before the supplier has had the chance to test its propositions, and without the ability of larger suppliers to spread fixed costs across many accounts. Others suggested that requiring a business with a niche to serve the entire national domestic market is at odds with the needs of the customers it is designed to serve. Respondents also pointed to the rapid growth in uptake of low-carbon technologies over recent years, highlighting a clear gap in innovative retail propositions which allow consumers to maximise the value of their investments.
- 1.15 Large suppliers and industry bodies argued there is insufficient evidence that the USO is preventing innovation or entry of new suppliers. Many pointed to existing innovative tariffs already available in the market. Some suggested that other barriers, such as the price cap, smart meter deployment and consumer engagement, were more significant barriers that needed tackling.

Our response

- 1.16 We recognise that the USO is not the sole barrier to entry, and we have work underway to address other barriers. We also have other routes for businesses to request regulatory flexibility, including derogations, individually modified

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licences and sandboxes³. We consider that the evidence provided by prospective entrants confirms the case for addressing this issue while continuing to explore wider retail market reforms.

Customer cherry-picking and two-tier market

- 1.17 Most respondents accepted that greater customer specialisation would occur. The principal disagreement was whether this represented a consumer and competition risk or an intended innovation benefit. Larger suppliers and industry bodies were concerned that USO-exempt suppliers would 'cherry-pick' lower-cost, more technology-enabled consumers, with higher-cost and more vulnerable consumers becoming concentrated among larger suppliers. These respondents argued this could reduce choice for consumers, as they may not be able to access new innovative products and tariffs. There is a risk that the higher costs of serving these customers may also be passed on to customer bills.
- 1.18 Linked to this, these respondents argued that allowing suppliers undertaking similar activities to operate under different regulatory obligations could create an uneven playing field. In their view, the exemption would provide smaller suppliers with a regulatory cost advantage while they competed with USO-obligated suppliers for the same customers, creating a two-tier market.
- 1.19 Some respondents recognised that segmentation might happen, however, said that it is an important driver of innovation and important for the development of specialised products and tariffs. Some recognised the potential risk but considered the 50,000-customer threshold a sufficient constraint on material consumer and market harm.

Our response

- 1.20 We consider that enabling specialisation in a supplier's early growth phase is justified to support entry into the market and drive a focus on innovative products that can benefit customers, especially those with low carbon technologies such as smart meters, batteries and heat pumps. This will ultimately improve the range and quality of products available to all consumers. Uptake of low carbon technology, and innovative products to support their operation, not only directly benefits those households who use them, but can also indirectly benefit the wider customer base: estimates vary, but a recent report concluded that around 40% of the benefits of installing

³ [Innovation | Ofgem](#)

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solar and a battery accrue to wider society through reduced system costs, lower carbon emissions and improved utilisation of the electricity system⁴.

- 1.21 Existing suppliers with established customer bases and a range of tariffs can already target specific customer groups through product design, eligibility requirements and marketing, while retaining the capability to serve any domestic customer. The proposed exemption provides a limited additional flexibility to allow small entrants to develop a genuinely specialist operating model and proposition without first establishing the capabilities required to serve the entire domestic market. We accept that USO-exempt suppliers may target customers with particular low carbon technologies, who may typically be lower-cost-to-serve, but we consider this risk is justified by the interests of consumers, growth and net-zero, particularly with the 50,000-threshold limiting the materiality of the risk.

Strong consensus around anti-threshold avoidance measures

- 1.22 A diverse set of supporters and opponents of the USO proposal agreed that if an exemption were introduced, it would need robust safeguards to prevent organisations structuring their businesses artificially to remain below the threshold, for example, one parent company establishing multiple subsidiaries each holding a separate supply licence subject to the 50,000 threshold but, in aggregate, supplying more than the threshold.

Our response

- 1.23 We recognised this as an important concern in the consultation and stated our intent to incorporate an appropriate safeguard into the licence amendment to prevent suppliers from avoiding crossing the 50,000-customer threshold. We have therefore amended the exemption wording to clarify that the threshold applies to the total customer numbers of all licensees within the same corporate group structure. The effect is to prevent a group from establishing multiple licensed entities which would have the effect of subverting the intention of the threshold. This is outlined in Section 2, and in Appendix 1. We are seeking feedback on this change through our statutory consultation on the draft licence condition.

⁴ Centre for Net Zero, [Trial on impact of solar and battery storage in households](#) (2026), p.4.

The 50,000 threshold and the ‘cliff-edge’ problem

- 1.24 Potential new suppliers and other respondents highlighted that the 50,000-customer threshold may create an incentive for new entrants to stop growing at 50,000 customers or cause difficulties for these new entrants when they become subject to the USO after passing the threshold. The suggested solutions from respondents included transition/grace periods, and notifications and support from Ofgem for licensees approaching the threshold.

Our response

- 1.25 As set out in our [Milestone Assessment Guidance](#), since April 2022, all supply licence holders have been required to pause domestic customer onboarding once they reach the 50,000 and 200,000 domestic customer milestones while we conduct any necessary Milestone Assessment.
- 1.26 The threshold of 50,000 domestic customers is also the existing threshold under SLC 27.1 which requires suppliers to provide customers with a wide choice of payment methods, including cash and prepayment meters. If we implement the exemption, we will update the Milestone Assessment approach to include ‘USO readiness’, adding it to the list of considerations in section 3 of the existing guidance⁵. 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.
- 1.27 We monitor supplier growth and engage with suppliers approaching the threshold to ensure appropriate operational, financial, and compliance arrangements are in place.

Strong demand for monitoring, review, and success metrics

- 1.28 Both supporters and opponents requested clarity on what success looks like for the proposed change, what will be measured, when the review will occur and whether the policy can be reversed.

Our response

- 1.29 We already monitor the growth in customer numbers for suppliers with fewer than 50,000 customers, and engage with suppliers as they approach the threshold. Our monitoring and compliance activity relating to this exemption

⁵ Ofgem, [Milestone Assessment Guidance](#) (2025), p.12.

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will form part of our wider monitoring and compliance approach, including other regulations that take effect at the 50,000-customer mark. including obligations relating to payment methods and elements of the financial resilience framework.

1.30 We will evaluate the effectiveness of the USO exemption. Success measures will include:

- Evidence of specialised new entrants,
- Growth of innovative tariffs/products and
- No evidence of threshold avoidance behaviours.

1.31 We plan to conduct an evaluation two years after implementation, which would inform any changes to the exemption.

2. Proposed Licence Modification

- 2.1 We propose a change to the electricity SLC 22.7 to exempt electricity suppliers with fewer than 50,000 domestic customers from the duty to supply.
- 2.2 Suppliers would still need to meet all other applicable requirements, including consumer protection, 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.
- 2.3 We propose that the 50,000-customer threshold would apply to the total customer numbers of all licensees within the same corporate group structure. The effect is to prevent a group from establishing multiple licensed entities to avoid crossing the threshold for compliance. To this end, we have drafted the clause under SLC 22.7 to clarify that the threshold applies to the licensee and any affiliates. See Appendix 1 for full details.
- 2.4 We welcome views on the proposed licence drafting. Any representations with respect to the proposed licence modification must be made on or before 5 November to Tom Handysides, Head of Future Retail Strategy at marketsstrategy&delivery@ofgem.gov.uk.

Appendix 1 – Draft of proposed modification to SLC 22

Statutory consultation as required by section 40B Electricity Act 1989 which sets out the procedures for prescribing or determining standards of performance.

We propose to introduce a threshold exemption by adding a new SLC 22.7(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.

We have drafted SLC 22.7 to clarify that the threshold applies to the licensee and any affiliates.

Draft supply licence conditions

Deletions are shown in strikethrough and new text is double underlined. We have only shown those licence conditions where modifications are proposed.

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.

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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); (d)

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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; or

(e) if the total number of Domestic Customers supplied electricity is fewer than 50,000 Domestic Customers or such other number as may from time to time be directed by the Authority. In determining the total number of Domestic Customers for the purposes of this sub-paragraph (e), account must be taken of Domestic Customers supplied by the licensee, its Affiliates, and any parent undertaking or subsidiary undertaking of the licensee within the meaning of Part 38 of the Companies Act 2006.

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 notice on consultations

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:

Unless you indicate otherwise, we may make your response, as provided, available online. If you indicated to us that your response is confidential, we will not publish it online and nor will we share your personal data with any other organisations.

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

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Your personal data will be held for as long as an audit trail on decision-making relating to the questions discussed in this document should reasonably be available.

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, click on the link to our "[Ofgem privacy promise](#)".