

Response to Ofgem consultation: supporting innovation in the electricity retail market – exempting small suppliers from the Universal Service Obligation

To: Tom Handsides, Markets Strategy & Delivery, Ofgem

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Consultation: Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation (USO), published 5 August 2026

Confidentiality: This response is not confidential and may be published in full.

Introduction and about Alfred

Alfred Electricity & Gas Limited is a new domestic dual-fuel supplier entering the GB market in October 2026, holding an Ofgem supply licence granted in July 2026. Our proposition is at-cost energy with a flat monthly membership fee: app-first, smart-meter-first, and MHHS-native from day one, with a fully half-hourly settled portfolio and no legacy non-half-hourly systems. Because we are building a lean, digitally efficient and segmented operating model, we are able to pass through savings to the customers our model is designed to serve.

We welcome the opportunity to respond, and we support the proposal. We set out below why we consider a threshold-based exemption from SLC 22.2 and 22.3 to be a proportionate, pro-competition and pro-consumer intervention, and where we think the design can be strengthened. We have limited our answer to matters of policy principle and market structure, and have not included any commercially sensitive information.

Response to Question 1 – Do you agree with the proposal to exempt suppliers with fewer than 50,000 domestic customers from the USO?

Yes. We agree with the proposal to exempt electricity supply licensees with fewer than 50,000 domestic customers from the duty to offer and supply under SLC 22.2 and 22.3, implemented through the proposed new exception at SLC 22.7(e).

The USO is a genuine day-one barrier for specialist entrants. The duty to offer supply to any domestic customer on request means that, from the moment it begins trading, a new supplier must be able to serve every domestic customer archetype – every meter type, payment method,

communication channel and vulnerability need. For a large incumbent spreading fixed costs across millions of accounts this is immaterial. For a sub-scale entrant it is a substantial fixed cost imposed before the supplier has built a customer base over which to spread it. This is the same "disproportionate fixed cost falls on small suppliers" logic that government and Ofgem have repeatedly accepted when scaling other supplier obligations to size – for example the environmental and social schemes, where obligations attach only once a supplier reaches defined size thresholds.

New-entrant innovation is structurally scarce, and the market needs it. The domestic market has consolidated substantially through the 2020s, with exits far outweighing entries: industry analysis puts the market at 19 fully licensed domestic suppliers in 2026, with further consolidation in prospect that could leave five suppliers serving more than 90% of the market. Very few new suppliers have fully launched since 2023. In that context, measures that lower proportionately the barriers facing credible new entrants are one of the few available levers for restoring competitive intensity and innovation to the domestic market.

Specialisation is pro-consumer, and the exemption protects it. Ofgem's own case for change is that specialisation lets suppliers directly address the preferences of different consumer segments and drive participation in flexibility. We agree. Alfred's model is to serve a smart-metered, flexibility-capable segment extremely well and at low cost. The USO, applied from day one, works against that by requiring us to divert scarce early-stage capital into building cost-to-serve capability for archetypes we are not yet designed to serve – capability that adds cost to every member's bill without improving the service we offer the members we do have. The exemption protects the savings a focused entrant can deliver to its target customers, which is precisely the innovation dividend Ofgem is seeking. This is also well timed: with market-wide half-hourly settlement due to complete migration across 2026–27, the scope for genuinely differentiated, smart-first, time-of-use propositions is greater than at any previous point, and it is new entrants that tend to drive that innovation.

The 50,000 threshold is coherent with the existing regime. We agree with Ofgem that 50,000 domestic customers is a sensible, pragmatic level because it already carries regulatory meaning. It is the first milestone-assessment threshold under SLC 28C (the point at which a supplier must notify Ofgem and pause onboarding for an operational-capability and financial-resilience assessment), and it is the point at which the SLC 27.1 obligation to offer a wide choice of payment methods begins to apply. Aligning the USO exemption with these existing 50,000-customer staging posts keeps the licensing framework internally consistent and gives innovators a single, predictable point at which the "full-service" obligations converge.

Response to Question 2 – Do you agree with the assessment of risks and proposed mitigations?

Broadly yes. We think Ofgem has identified the right risks and that they are manageable at the proposed threshold. We support the safeguards Ofgem proposes to retain, and we offer specific points on threshold design.

Consumer protection. We do not regard this proposal as a weakening of consumer protection, for three reasons:

- *Access to supply is preserved market-wide.* A customer that a below-threshold supplier chooses not to serve retains full access to the rest of the market, including large suppliers that remain bound by the USO and the price-capped default tariff. The exemption removes an obligation on individual small suppliers; it does not remove any customer's ability to obtain supply. The immediate practical impact is also small: only a handful of existing suppliers sit below the proposed threshold, and the measure is designed principally with prospective entrants in mind. This is materially different from licence-exempt supply – where the concern, which we share, is loss of regulatory oversight of the customers who are taken on. That concern does not arise here, because exempt suppliers remain fully licensed and regulated in respect of every customer they serve.
- *Protections scale in automatically.* The USO re-attaches in full at 50,000 domestic customers, and Ofgem retains its usual compliance and enforcement powers if a supplier fails to comply once over the threshold. We support this automatic, rules-based trigger, and we support Ofgem's proposal to run targeted readiness assessments (drawing on growth projections and business plans) so that a supplier is prepared for the full suite of obligations before it crosses the line.
- *Protections for customers actually served are untouched.* Every obligation that protects the customers a supplier does take on continues to apply below the threshold – including SLC 0 (treating domestic customers fairly), the Priority Services Register (SLC 26), deemed-contract protections (SLC 7), continuity of supply, price-cap protection for default-tariff customers, and the supplier of last resort safety net. We support retaining all of these in full for exempt suppliers, and we read the consultation as proposing exactly that.

Fair competition. We agree that applying the USO to some suppliers and not others creates some asymmetry in cost, and that limiting the exemption to sub-50,000 suppliers keeps that asymmetry small and time-limited. We would add that the current position is not a neutral "level playing field" either: a uniform day-one obligation is regressive by size, because it is far cheaper per customer for incumbents to discharge. Proportionate scaling corrects an existing distortion rather than creating a new one.

Resilience. We encourage Ofgem to frame this reform as consistent with, not in tension with, the post-crisis financial-resilience regime. The National Audit Office found that between July 2021 and May 2022, 29 energy suppliers failed, affecting nearly four million households, and the Public Accounts Committee put the cost dealt with through the supplier-of-last-resort process at around £2.7 billion, or roughly £94 per household. Those failures were driven principally by weak financial resilience and unhedged exposure to wholesale volatility. But a contributing structural feature was a market that let sub-scale suppliers take on universal-service commitments they were not operationally or financially ready to honour. Right-sizing obligations to scale – while retaining fit-and-proper requirements, the operational capability principle (SLC 4A), the financial responsibility principle (SLC 4B) and milestone assessments (SLC 28C) – supports a more resilient market, not a weaker one.

Anti-avoidance. We support Ofgem's stated intent that the exemption apply at the level of the ultimate parent, so that a group cannot split 50,000-plus customers across multiple licences to remain exempt. This is the right principle and it protects the credibility of the threshold. We would support making this explicit in the licence drafting rather than relying on monitoring alone.

Implementation points

We ask Ofgem to address three design points before proceeding to statutory consultation:

1. **Avoid a cliff edge.** As drafted, all USO obligations switch on in a single step at 50,000 customers. This risk is well established: in its June 2011 response on raising the environmental- and social-scheme thresholds, DECC agreed with respondents that a cliff-edge threshold can act as a barrier to growth whatever level it is set at, because breaching the threshold incurs the cost of compliance across the whole of the supplier's customer base. The scale of the step should not be underestimated: Cornwall Insight has previously estimated that, under the original Energy Company Obligation threshold of 250,000 customers, a supplier crossing the threshold needed to grow to around double that size to neutralise the step change in costs it triggered. With several requirements converging at 50,000 customers, a supplier may need to scale substantially beyond the threshold to absorb the transition – creating both a growth disincentive below the line and a viability risk just above it. We recommend Ofgem mitigate this with either (a) a defined notice and transition period that begins when a supplier reasonably expects to reach the threshold – which could dovetail with the SLC 28C milestone-assessment notification that is already triggered at 50,000 – or (b) explicit confirmation that a supplier crossing the threshold has a reasonable, specified period to achieve full USO compliance, rather than being obliged from the moment the 50,000th customer is onboarded.
2. **Define the counting unit precisely.** The consultation refers to "domestic customers", but the licence measures supplier size in several different and not wholly consistent

ways: the milestone-assessment and payment-method thresholds are counted per fuel and per licence; the environmental and social schemes combine a domestic-customer headcount with a supply-volume test; and older schemes counted customer accounts, with a dual-fuel customer counted as two. Ofgem should state explicitly whether the 50,000 is counted by customer account, by domestic customer (person or premises), or by meter point (MPAN), and how dual-fuel and multi-premises customers are treated. Clarity here is essential both for compliance and to make the parent-level anti-avoidance rule workable.

3. **Set out transitional arrangements.** Ofgem should confirm the mechanics for a supplier that crosses the threshold and then falls back below it (for example through churn), and how parent-level aggregation interacts with acquisitions and portfolio transfers.

Feedback on the consultation document (Appendix 3)

We found the document clear, well-reasoned and balanced, and the conclusions reasonable. The electricity-only scope, the international and cross-sector comparison, and the illustrative draft licence text in Appendix 1 were all helpful.

We would be glad to discuss any aspect of this response.

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