

marketsstrategy&delivery@ofgem.gov.uk

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

We submit the following response to the Supporting innovation in the electricity retail market consultation.

The Centre for Sustainable Energy (CSE) is a charity supporting people and organisations across the UK to tackle the climate emergency and end the suffering caused by cold homes. We do this by sharing our knowledge, practical experience and policy recommendations.

For over 40 years, we have supported people to take effective action on energy in their homes. Our research and analysis focus on making the energy system greener, smarter, and fairer. Through our advice line, home visits and one to one support, we support around 20,000 people a year to reduce their bills and make their homes more energy efficient.

We deliver fuel poverty services for two of the electricity network operators and six local authorities. Through these services we support thousands of people on low incomes who often have multiple vulnerabilities. Our response draws directly on our considerable experience of supporting vulnerable consumers in managing their energy bills and in resolving problems they have with their energy suppliers.

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

Yes.

We agree with your assessment of how the energy market is changing. The rapid uptake of low carbon technologies and flexibility have resulted in the rapid emergence of innovative offers that support consumer participation in flexibility and the transition to a smarter energy system. We recognise that the current licensing framework may make it difficult for some niche suppliers to enter the market and offer targeted products and services.

We are therefore broadly supportive of measures that reduce unnecessary barriers to entry for innovative suppliers. The exemption can support local supply offers, it can support

alternative business models including community energy groups interested in retailing their energy to domestic consumers.

Having stated this, support for innovation must be balanced with consumer protection and fairness. CSE's research¹ has shown that fairness is not emerging naturally from the developing smart energy market and that benefits remain unevenly distributed across different household types. Innovative products and services are concentrated on consumers with smart technologies and higher incomes, while other consumer groups benefit less from market developments. There is a danger that the exemption will increase this risk.

We therefore support targeted and time-limited exemption from the Universal Service Obligation (USO) as a test-and-learn intervention. If implemented, it should be accompanied by robust monitoring and evaluation to assess whether it delivers meaningful innovation, increases consumer choice, and supports participation in flexibility services.

We would therefore encourage Ofgem to monitor carefully whether the exemption results in reduced choice or poorer outcomes for consumers who are less attractive to specialist suppliers, and additionally what happens to new entrants who then exceed 50,000 customers.

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

No.

It is not clear how Ofgem will ensure that the proliferation of new entrants and niche services will drive good outcomes for all consumers segments, rather than just continue to improve offers for those already well served. We have evidence from our research of two specific risks around uptake that could be overcome but won't be without appropriate mitigating action. These are not considered in the document

Risk 1: Increased market complexity without increased consumer support

Our research shows there is a segment of LCT asset owners with high flex potential, but low smart energy capabilities who struggle to access the right tariffs and services & need support to sign up. There is a risk that increased niche offers drives increased complexity making it even harder for those with limited smart energy capabilities to find and take up the right offer or combination of offers. Smaller, niche suppliers are likely to focus on those customers that are easiest to serve and fail to support uptake of their products by wider segments. There is still no way for customers to independently compare smart tariffs. There is not enough support for the advice sector to upskill and deliver independent advice to get customers onto the right option or combination of options.

Mitigating action: Ofgem must ensure that it is easy for consumer to compare offers and support the provision of smart energy advice. This should be provided through the warm homes agency.

¹ [Smart and Fair 2024–2026 summary report](#) -

Additionally smart energy advice should be provided whenever a low carbon technology is installed, to ensure that customers are able to derive the full benefits from it, and access the appropriate tariffs and flexibility offers for that technology.

Risk 2: Lack of market oversight allows a concentration of innovation around specific segments widening the existing innovation gap and financial inequality.

Our smart and fair research has shown that some consumer segments have a high flex potential but from assets that are not well served by the market. Innovation focuses on EVs, ASHPs and batteries, while storage heaters and hot water tanks are overlooked. This means there is flex potential that is not being converted into flex delivered. In theory, the removal of the USO could drive innovation to these niche areas, but Ofgem doesn't have the oversight to check. And if not, Ofgem creates appropriate incentives or safeguards to drive innovation towards smaller segments that need it.

Mitigating action: Ofgem MUST monitor participation in the smart market by consumer segment to demonstrate that the market is serving all segments, is converting flex potential into flex delivered, and can target innovation where it is needed to deliver good outcomes for all consumers and maximising the flex delivered from existing assets.