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To: Markets Strategy & Delivery
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Dear Markets-Strategy-Team,

We would kindly like to respond to your current consultation on the exemption for small suppliers from the Universal Supply Obligation.

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

We fully agree with the proposal. It fosters much-needed innovation within an increasingly concentrated retail electricity market, in which the five largest suppliers hold around 90% of domestic supply.

Today a great deal of value sits unused in customers' homes. For example, of the 200,000 to 300,000 home batteries we estimate are installed in the UK, we believe only 5 to 10% are properly optimised against local generation, wholesale prices, network charges and flexibility markets. The tariffs available today do not capture the full value of these assets, and they are often too complex for customers to judge. As a result, customers are underusing assets they have already paid for, and the system is missing flexibility it badly needs.

Specialist propositions are the natural way to close that gap. Innovation in technology, operations and product design, aimed squarely at customers with flexible assets, could deliver tariffs that are both cheaper and simpler for households, and release the flexibility the UK electricity system needs.

However, innovation requires focus. The entry barriers into the UK retail electricity market are already extremely high. The Universal Service Obligation places an additional burden on new entrants, for a customer segment they are not focusing on. For innovators, USO compliance is not a marginal cost but it would essentially mean building parallel technical and process capabilities, for example to serve traditional meters and to hedge uncontrollable load.

The proposal lets innovators concentrate fully on their model in the initial phase. The 50,000 limit strikes a good balance between promoting that innovation and keeping the playing field even.

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

We fully agree with the assessment of risks and proposed mitigations. We welcome the 50,000 customer threshold as a pragmatic way to mitigate risks while promoting much-needed innovation.

I confirm this response may be published on Ofgem's website.

Kind regards,
Clemens

