

Supporting innovation in the electricity retail market

Response to Ofgem
consultation



September 2026

Executive summary

We strongly support reforms to enable innovation and high quality market entry, which can ensure more people can access the benefits of low carbon electricity and technologies, and improve competition in a rapidly consolidating market.

The design of the current energy Universal Service Obligation (USO) requirements are not aligned with other essential services sectors like broadband and banking, or energy markets in other countries, and act as a barrier to the development of more specialist energy services. Our research has demonstrated that changes to the USO could reduce energy costs and increase innovation, and found that consumers are open to reforms if vulnerable and default customers across the market remain protected.

As such, **we welcome Ofgem's proposal for exemptions from the USO for smaller energy suppliers**. However, we are concerned that the proposed 50,000-customer threshold may be set too low, potentially limiting investment, consumer access, and growth for specialized services.

We recommend Ofgem raises the threshold or enables growth past 50,000 customers on a non-USO basis where risks are limited. Ofgem should also review regulatory requirements to offer legacy services and participate in certain schemes to ensure these remain proportionate.

It's important that Ofgem closely monitors the services offered by non-USO firms. While they are likely to serve specific consumer segments and offer services with requirements (like specific low carbon technologies, property types etc), Ofgem must ensure they do not artificially or unfairly restricting access to their services. Firms must also remain able to adjust service delivery within their specialised product range to meet the needs of vulnerable customers.

Ofgem refers to these changes as a 'test and learn' approach, recognising they are not an enduring market design. Planning for more fundamental reform of the USO should begin at pace, considering what changes to the consumer journey may be needed. This should include how the cost of providing certain energy services and protections can be shared fairly and in a way that, where possible, incentivises firms to serve a range of consumers.

Reform to the USO must go alongside an acceleration of the shift towards more outcomes-based regulation, which can set clear expectations for a more diverse range of firms and services, as well as reform of the price cap to enable more time of use pricing. Alongside outcomes-based regulation, USO reform can also support coherence between the emerging regulatory regime for flexibility service providers and energy supply.

We set out further detail in response to the consultation questions below.

Consultation response

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

We strongly support reforms to enable smaller and new entrant firms to provide more specialised services. We've argued this is an opportunity to enable innovation and more competition, underpinned by the higher resilience requirements and safeguards against poor conduct introduced after the multiple supplier failures between 2019-2022.¹

Reforming the USO for energy supply will also create more coherence with the emerging regulation of flexibility services which, as a non-essential service, will not require universal access. More coherent supply and flexibility regulation could enable the development of specialised services which combine both services, without these needing to be delivered by incumbent energy suppliers.

Our recent report - [Stuck in the Sandbox](#) - looked at opportunities to reform the retail market. It found that a model where the USO is provided by a smaller number of firms chosen via an auction could reduce prices by positively impacting consumer engagement and innovation, and reducing input costs. Deliberative research with consumers found they were open to reforms whereby the USO is provided by a smaller number of firms, as long as this did not diminish the quality of the USO service.

We are concerned that 50,000 customers may be too low to provide sufficient assurance for entrants to be confident to invest, and that attractive consumer propositions could emerge which quickly hit this regulator-imposed limit, acting as a hard cap on wider access.

Alternatives we think Ofgem should consider are:

- setting a higher threshold across the board
- setting a higher threshold for some aspects of the current USO (eg a higher point at which firms would have to offer services for traditional meters, which will be a declining part of the market in coming years).
- enabling growth beyond 50,000 customers if firms are able to demonstrate that consumer and market risks are not emerging when they undergo their first

¹ Citizens Advice (2023) [Ripping off the band-aids](#)

milestone assessment. Subject to this assurance, Ofgem could derogate firms from the USO until their following milestone assessment at 200,000.

We're also concerned that the current upper limit means an even larger number of rules impacting firms at the same time as they have to offer the USO alongside the wider range of payment methods that come into effect at that point. We've called for Ofgem to review these requirements as part of its review of prescriptive rules and shift to outcomes-based regulation.²

We note that new entrant firms have frequently failed to comply with the existing requirements as they grow, or have acted to avoid customers using these services, which may suggest the current threshold is not set at an appropriate level.

Some elements of these requirements relate to the provision of legacy and declining payment methods like cash and traditional prepay, where the current threshold is unlikely to offer significant consumer value and could be raised significantly. Competition for these services is low and likely to reduce, so price protection is likely to be needed on an ongoing basis, with eventual decisions to close these options. Prepay levelisation should mean that the costs of providing these services continue to be fairly shared between all firms (and consumers).

We also think Ofgem and the Government should review requirements to participate in certain schemes, where firms do not avoid significant costs from non-participation, like the Green Deal, Feed-In Tariff and Smart Export Guarantee. Increasing the thresholds for these to just cover larger suppliers would reduce operational burdens on smaller and specialist firms.

Ofgem should also review elements of the consumer journey which may need to develop to best support a different approach to USO provision. This is particularly related to how continuity of supply is provided at the end of contracts, when people fall into debt and at change of tenancy (CoT). Supplier of last resort processes and customer account acquisitions demonstrate that moving consumers between firms outside of proactive switches can be done safely. However, decisions would be needed on how default suppliers could be selected and how those in debt would be protected and treated fairly.

² Citizens Advice (2026) [Citizens Advice response to Ofgem's Call for Input on Consumer Outcomes](#)

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

We think the biggest risk not included in the consultation is the **threshold being set too low**, either restricting consumer access if attractive propositions emerge and quickly grow to the threshold, or limiting the scope for new entry of specialised products to be viable. As set out above, this could be mitigated by increasing the threshold or creating scope for further growth on a non-USO basis once this is met.

We generally agree with the other risks and mitigations Ofgem has identified:

- **Customer segmentation** - we agree that this is not a risk, but more the natural counterpart of more specialised service provision. Services may require certain characteristics (like specific low carbon technologies, locations, property types etc) to operate, which will also mean they are not available or suitable for some consumers. However, it's important that services do not impose artificial or unnecessary criteria to use their service which unfairly exclude some consumers, and that even within their specialised product range they remain able to address a range of consumer needs. Ofgem should monitor non-USO services to ensure that firms are not contravening requirements to treat customers fairly, including those in vulnerable circumstances.

Over the longer term we anticipate that consumers with low carbon technologies will have access to a wider range of choices and better outcomes in the market. It's important that the Government continues to take action through the Warm Homes Plan to expand access to these technologies for those on low and middle incomes.

Ofgem should also consider how the costs of serving some customers can be recovered in a way that does not discourage provision of services that meet their needs. For example, the levelisation of the Warm Home Discount (WHD) and costs related to prepayment should reduce or eliminate disincentives for firms to serve these customers.

We agree that the proposed 50,000 customer threshold limits risks that some consumers have fewer choices in the short term. As set out above, where some legacy and declining products and services are offered purely because of regulatory requirements to do so an assessment should be made of the proportionality of these requirements and the sustainability of these services.

- **Fair competition** - we agree that the risks are low while a low threshold is in place, and also limited by the existing WHD and prepay levelisations. Ofgem should actively explore if further measures are needed to fairly share the cost of providing other elements of energy services between firms and consumers.
- **Transition to universal service obligations** - as set out above, we think this is a risk because of the clustering of requirements at the 50,000 customer threshold, and that these should be reviewed to ensure they are proportionate.
- **Incentives to avoid crossing the threshold** we support Ofgem's proposal to introduce changes to prevent firms artificially avoiding the threshold. However, as set out above, it should also explore avenues to enable firms to grow beyond the threshold, either across the board or where there is sufficient assurance that consumer/market risks are not emerging.

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