

Ofgem - Supporting innovation in the electricity retail market

Exempting small suppliers from the Universal Service Obligation

Individual response - private capacity

14 September 2026

Response to Ofgem consultation published 5 August 2026

1. Respondent context

This response is made in an individual, private capacity. It does not claim first-hand experience as an electricity supplier, innovator, investor, consumer organisation, energy trader, smart-tariff provider or operator of low-carbon technology propositions. The response therefore relies on public regulatory material and clearly hypothetical examples rather than proprietary supplier data or operational experience.

The response is deliberately confined to the proposed exemption from Standard Licence Conditions (SLCs) 22.2 and 22.3 for domestic electricity suppliers below the proposed threshold. It does not treat the exemption as a wider relaxation of consumer-protection, resilience, billing, vulnerability, price-cap or other licence obligations.

2. Executive position

I support the proposal in principle as a targeted test-and-learn intervention, but I would not implement the illustrative SLC 22.7(e) wording in its present form. The case for some general exemption is reasonably persuasive: Ofgem has identified a recurring barrier affecting a class of specialist propositions, and a transparent rule can be fairer and less administratively costly than repeated individual licence modifications. However, the evidence does not establish that 50,000 is an economically optimal threshold, and several important legal and operational states remain under-specified.

- Treat 50,000 domestic customers as a defensible initial regulatory parameter, not as a proven optimum. Retain it only with scheduled evidence review.
- Define precisely when the exemption ceases and the USO becomes legally active. Notification, Milestone Assessment, customer-count crossing and licence applicability are different events.
- Avoid automatic on/off oscillation around 50,000. Once the USO has validly activated, it should normally remain active unless Ofgem approves re-exemption after a sustained structural decline and an anti-avoidance check.
- Define or clearly cross-reference a stable, auditable customer-count methodology and correction process. Do not leave the legal state to an instantaneous or ambiguous count.
- Put corporate-group aggregation in the operative licence drafting, using a competent existing control concept where possible. The present Appendix 1 text does not yet do this.
- Use the existing Milestone Assessment framework as the main readiness mechanism. Add USO-specific evidence to that process rather than creating a parallel assessment regime.
- Make clear that the exemption changes prospective-customer acceptance only. It does not authorise a supplier to shed existing customers who later cease to meet a specialist product characteristic.
- Accept legitimate specialisation, but monitor aggregate effects across the exempt segment so that many small suppliers cannot collectively create material cherry-picking or cost-shifting without visibility.
- For future changes to the numerical threshold, require reasons, evidence, suitable notice and transition proportionate to the fact that the number determines whether a material universal-service duty applies.
- Predefine test-and-learn metrics covering both innovation benefits and consumer, competition, resilience and transition risks.

3. Current regulatory baseline and proposal

Current SLC 22.2 requires an electricity supplier, within a reasonable period after a request from a Domestic Customer, to offer a Domestic Supply Contract; SLC 22.3 requires supply if the customer accepts that offer. Current SLC 22.7 contains specific exceptions but no general small-supplier threshold exemption. Ofgem proposes to add SLC 22.7(e), exempting a licensee if it supplies electricity to fewer than 50,000 Domestic Customers, or another number directed by the Authority.

There is already a 50,000-customer threshold elsewhere in the supply licence. SLC 27.2(b) exempts a supplier below 50,000 Domestic Customers from the SLC 27.1 requirement to offer a wide choice of payment methods. The current Milestone Assessment framework also uses 50,000 and 200,000 domestic-customer thresholds. Suppliers must notify Ofgem when there is a reasonable prospect that they will imminently reach, or at the latest when they reach, the threshold; the framework applies to organic growth, mergers and acquisitions, customer-book purchases and other circumstances. Once the 50,000 threshold is reached, SLC 28C generally requires a pause in domestic-customer onboarding while any necessary Milestone Assessment is conducted, unless Ofgem directs otherwise.

The Milestone Assessment is already designed to test operational and financial capability, systems, customer service, vulnerability processes, governance, outsourced functions, tariffs, purchasing strategy, threshold-linked regulatory obligations and continuity planning. That makes it the natural mechanism for USO readiness rather than a new, parallel bureaucracy.

A significant current-reference point is that the Milestone Assessment guidance treats a threshold as a first crossing for notification purposes: if a supplier later falls below a threshold, it does not notify again on re-crossing. That existing treatment does not itself decide how the proposed SLC 22 exemption should behave, but it shows why the licence should make the post-crossing state explicit rather than rely on inference.

There is also an important existing licence bridge at the threshold. Under current SLC 28C.4, from the earlier of the relevant Milestone notification or the supplier reaching the threshold, and unless Ofgem directs otherwise, the licensee must pause entry into new Domestic Supply Contracts (subject to stated exceptions) until the Milestone Assessment is complete. To the extent SLC 28C.4 applies, the licensee is expressly not obliged to comply with SLC 22.2. The statutory consultation should therefore map the proposed SLC 22.7(e) against this existing pause rather than create a second, overlapping transition mechanism.

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

Direct answer: Yes, in principle, but only subject to material drafting and implementation safeguards. I support a targeted exemption as a test-and-learn measure, and I regard 50,000 as a defensible starting point, but not as a threshold that should operate through the present illustrative wording without clarification.

4.1 The case for a general exemption is stronger than the case for repeated case-by-case exceptions

SLC 22.2 and 22.3 can constrain a supplier whose commercial proposition is genuinely designed around a particular technology or operating model. An EV-optimisation proposition, for example, may be designed around smart charging, automation and a customer technology stack that cannot sensibly be offered to every domestic household. Where the same barrier recurs across multiple credible propositions, a published class rule can be more transparent and more equal in access than requiring each entrant to secure a bespoke licence modification.

That does not mean the USO is merely an inconvenience. Universal service is a significant consumer-access obligation and a source of cost asymmetry. The justification for the exemption therefore depends on keeping it bounded to suppliers that are genuinely small, maintaining all other protections, and testing whether specialisation produces real consumer or system benefits rather than simply enabling selective acquisition of cheaper customers.

Illustrative scenario - EV-only proposition. A supplier offers a tariff integrated with managed EV charging and declines an applicant who has no EV. The exemption can enable a coherent specialist proposition. The consumer should nevertheless be told clearly that the rejection relates to this product or supplier eligibility, not to eligibility for electricity supply generally.

Illustrative scenario - smart-meter-only proposition. A household cannot yet obtain a functioning smart meter and therefore cannot use the supplier's proposition. The exemption may make this specialisation possible, but the supplier should state the technical eligibility criterion before the consumer invests time in an application.

The proposed legal test is size-based, not innovation-based: the consultation would exempt all current and future electricity supply licensees below the threshold. That simplicity is a strength because it avoids subjective case-by-case judgments about whether a proposition is sufficiently innovative. It also means the review must test uses of the exemption that have little or no innovation rationale, rather than assuming that every exempt supplier is an innovator.

Illustrative scenario - conventional small supplier uses the exemption. A 35,000-customer supplier with no specialist technology proposition begins declining applicants with higher expected service costs while remaining below the threshold. A subjective innovation gateway would undermine the simplicity of the class rule, but this use should be visible in Ofgem monitoring because it tests whether the exemption is producing innovation or simply selective acquisition.

4.2 The 50,000 threshold is a pragmatic starting point, not a demonstrated optimum

Ofgem gives three main reasons for 50,000: it aligns with recent innovator applications, it aligns with the first Milestone Assessment threshold, and it is consistent with other threshold-based obligations such as SLC 27.

Those are reasonable operability reasons. They do not show that 50,000 is the welfare-maximising point or that a supplier at 49,999 creates materially different USO risk from one at 50,001.

I would therefore retain 50,000 as an initial test-and-learn threshold rather than propose another number without evidence. The threshold should be reviewed against observed market behaviour, including how many suppliers use the exemption, whether genuine propositions launch, how many approach or cross the threshold, and whether the exempt segment creates material distributional or competition effects.

Illustrative scenario - supplier deliberately stops at 49,000. A mature supplier pauses acquisition indefinitely at 49,000 customers because the exemption is commercially valuable. That behaviour is not necessarily unlawful avoidance, but if it becomes common it would be relevant evidence that the threshold is shaping market structure rather than merely supporting early-stage innovation.

4.3 The statutory consultation should define a threshold state machine

The final licence text should distinguish at least four states: below-threshold exemption; approaching-threshold readiness and notification; threshold crossing; and post-activation status. The current consultation says that the USO would apply once the threshold is reached, while the illustrative SLC 22.7(e) is drafted as a continuing condition - the licensee is exempt if it supplies fewer than 50,000 Domestic Customers. Read literally, that wording could allow the exemption to reappear whenever the count later drops below 50,000. Ofgem should decide this policy point expressly.

Illustrative scenario - 49,999 to 50,001 through ordinary onboarding. A supplier starts the day with 49,999 customers and completes several ordinary switches. The licence should state which event makes the USO legally active and whether customer onboarding should already have paused under SLC 28C before that point.

Illustrative scenario - threshold reached while Milestone Assessment is unfinished. The supplier notified Ofgem early, but the assessment remains open when the threshold is reached. Current SLC 28C.4 already provides an important bridge: unless Ofgem directs otherwise, it pauses entry into new Domestic Supply Contracts and expressly disapplies SLC 22.2 to the extent the pause applies. The statutory consultation should explain how cessation of the proposed SLC 22.7(e) exemption interacts with that bridge, including any offers already made and the operation of SLC 22.3, so that the transition is explicit rather than left to inference.

Illustrative scenario - 50,010 then 49,500 through normal churn. A supplier crosses the threshold and the USO activates, then loses 510 customers through normal churn. Automatic re-exemption would make a material licence duty oscillate with ordinary customer movement. A one-way activation rule would be more stable, with any later re-exemption available only through a defined Ofgem route after a sustained structural decline.

Illustrative scenario - momentary intra-day crossing. Customer gains and losses briefly put the supplier above 50,000 for two hours. If the legal state changes continuously in real time, compliance becomes unstable. The statutory consultation should specify a stable measurement convention rather than leave the issue to instantaneous counts.

4.4 Customer-count measurement and correction need express treatment

The operative drafting uses the defined term Domestic Customers, while Milestone Assessment guidance also refers operationally to domestic customer accounts. The statutory consultation should say which source and measurement convention control USO eligibility, how frequently the count is assessed, and how corrections are treated. The same methodology should support licence-level and any corporate-group aggregation so that different datasets do not determine different legal states.

Because SLC 27 and SLC 28C already use the same 50,000-Domestic-Customer concept, the starting presumption should be to reuse the existing authoritative counting convention unless the USO policy genuinely requires something different. A new USO-only count would create avoidable risk that the same supplier is above one 50,000 threshold and below another on the same facts.

Illustrative scenario - one customer, multiple domestic premises. A person is responsible for supply at more than one Domestic Premises. If existing licence administration already determines how that situation is counted for SLC 27 and SLC 28C, the USO exemption should use the same rule or cross-reference it rather than create a new interpretation for SLC 22.

A stable daily or other specified operational measure is likely to be more administrable than continuous instantaneous measurement, but Ofgem should test this with supplier data before prescribing the convention. The key requirement is legal certainty, auditability and prompt detection of a material crossing.

Illustrative scenario - data correction reveals an earlier crossing. A reporting error understated customer numbers and a later reconciliation shows that the supplier crossed 50,000 the previous week. The corrected record should not silently rewrite the evidence state. Ofgem should define how correction affects prospective compliance, whether any prior breach is assessed by reference to what the supplier reasonably knew, and when the corrected legal status takes effect.

Illustrative scenario - pending switches. Several thousand consumers have accepted offers but supply has not yet transferred. The counting methodology should use the legally relevant customer state rather than an ad hoc commercial pipeline measure.

4.5 Corporate-group aggregation should be in operative text, not only policy narrative

Ofgem states that two licences under the same ultimate parent, each with 25,000 domestic customers, should be treated like one supplier with 50,000. I support that anti-avoidance objective. However, Appendix 1 expressly says further drafting is still needed, and the illustrative SLC 22.7(e) contains no group rule. This is too important to leave to guidance or general policy intent.

The statutory consultation should use an established legal or licence concept of control where possible, define the aggregation event and effective date, and avoid aggregating genuinely independent businesses merely because they share an investor, service provider or technology platform.

Illustrative scenario - two licences under one parent. A group operates two electricity supply licensees with 25,000 customers each. Aggregation should prevent the group obtaining two exemptions simply by splitting customers between licences.

Illustrative scenario - three brands under one parent. A parent operates separate EV, heat-pump and mainstream brands through different licensees. Product differentiation can remain legitimate, but the group customer count should not be fragmented to preserve the USO exemption.

Illustrative scenario - common minority investor without control. Two genuinely independent suppliers share the same minority investor but neither controls the other. Aggregating them solely because of common investment would be over-inclusive and could penalise ordinary capital structures.

Illustrative scenario - parent acquisition causes immediate crossing. A 15,000-customer supplier is acquired by a parent that already controls a 40,000-customer licensee. The statutory drafting should state whether group aggregation changes eligibility at completion and how readiness is handled when the threshold is crossed non-organically.

Illustrative scenario - change of ultimate parent without customer transfer. Two licensees remain operationally unchanged, but a corporate acquisition places them under common control and their combined domestic customer count exceeds 50,000. The aggregation rule should identify when the change of control alters exemption status and should support pre-completion engagement where the transaction is known in advance.

4.6 Existing-customer continuity should be explicit

The consultation correctly states that exempt suppliers remain responsible for continuity of supply for domestic customers they already serve. That principle should remain prominent in the statutory consultation. The exemption should permit selection of prospective customers; it should not become a separate power to terminate or disadvantage an existing customer because that customer later ceases to fit the original segment.

Illustrative scenario - existing EV customer sells the vehicle. A customer joined an EV-focused supplier and later sells the EV. The USO exemption does not itself authorise the supplier to end the existing supply relationship. Any contractual change or termination must comply with the ordinary licence and contract rules.

Illustrative scenario - existing customer becomes vulnerable. A customer of a specialist supplier later enters vulnerable circumstances. The exemption from SLC 22.2 and 22.3 does not disapply the supplier's other vulnerability and support obligations.

4.7 Conditions for proceeding

- Retain 50,000 as the initial threshold but describe it as a test-and-learn starting point and set a scheduled evidence review.
- Define the legal activation event separately from Milestone notification and assessment.
- Adopt one-way USO activation after a valid first crossing, with a defined route for Ofgem-approved re-exemption after sustained structural decline where appropriate.

- Define the authoritative customer-count methodology and correction process.
- Put group aggregation and the relevant control concept into the licence modification itself.
- Use Milestone Assessment as the principal readiness mechanism and include USO readiness in the evidence set.
- Confirm explicitly that the exemption has no independent effect on existing-customer continuity or other consumer-protection duties.
- Provide a proportionate process for any future change to the threshold number.

5. Question 2 - Do you agree with Ofgem's assessment of risks and proposed mitigations?

Direct answer: Partly. I agree with the main risk categories, but the proposed mitigations are not yet complete enough for statutory licence drafting. The largest gaps concern threshold-state stability, customer-count measurement, corporate-group aggregation, readiness, aggregate competition effects and the process for future threshold changes.

5.1 Customer segmentation and access

Some customer segmentation is not a side effect of the reform; it is the mechanism by which specialist propositions become possible. The regulatory objective should therefore be to distinguish legitimate specialisation from opaque cherry-picking, not to require every exempt supplier to recreate universal service through safeguards.

Eligibility criteria should be objectively connected to the proposition and communicated before application. Ofgem should monitor whether exempt suppliers systematically use hidden cost-to-serve screens unrelated to the stated innovative model.

Illustrative scenario - heat-pump proposition and a renter. A tenant cannot install the qualifying heat pump and is not eligible for the specialist product. That exclusion may be inherent in the proposition. The relevant mitigation is transparent eligibility and continued access to the wider USO market, not forcing the specialist supplier to serve every household.

Illustrative scenario - hidden cost-to-serve screen. A supplier publicly states that it serves EV households but also rejects technologically eligible customers in expensive service locations using an undisclosed cost screen. That behaviour is analytically different from genuine product specialisation and should be visible through complaints, monitoring or ordinary conduct supervision.

Illustrative scenario - eligibility criterion changes. A supplier changes its future proposition from smart-meter households to EV households. Prospective consumers should receive clear updated eligibility information; existing customers should not be treated as automatically ineligible for continued supply.

Ofgem should also distinguish eligibility for the exemption from actual reliance on it. A sub-threshold supplier may choose to continue offering supply broadly and only later begin using SLC 22.7(e) to decline otherwise eligible applicants. For monitoring purposes, Ofgem should consider a light-touch first-reliance notification, or equivalent use of existing supervisory information, so it can distinguish suppliers that are merely eligible from suppliers that are actually using the exemption. This should be notification, not a new approval gateway.

Where a supplier relies on the exemption to decline a request, the consumer should receive a clear, concise explanation of the relevant product or supplier eligibility criterion. The communication should make clear that the consumer has not been found ineligible for electricity supply generally. This can improve transparency without recreating the USO for the exempt supplier.

Illustrative scenario - supplier begins relying on the exemption at 40,000. A supplier has voluntarily accepted a broad customer base for several years, then launches a narrower proposition and starts declining some new applicants while still below 50,000. A first-reliance record would tell Ofgem when the regulatory exemption became operationally material without requiring retrospective approval.

Illustrative scenario - rejected applicant receives an opaque message. A technologically ineligible applicant is simply told that the supplier will not offer a contract. A short explanation that the supplier is operating a specialist proposition below the USO threshold, together with the objective eligibility criterion, would reduce confusion and complaints without forcing the supplier to accept the customer.

5.2 Fair competition requires aggregate as well as supplier-level monitoring

A 50,000 threshold limits the size of each exempt licensee or group, but it does not cap the combined share of many exempt suppliers. If numerous sub-threshold specialists collectively dominate profitable customer segments, the distribution of USO costs could become more material than Ofgem's supplier-by-supplier framing suggests.

Ofgem should therefore monitor the exempt segment in aggregate using information it already holds where possible: number of exempt licensees and groups, customers served, principal eligibility segments, concentration, threshold behaviour and evidence of systematic cost selection. New reporting should be added only where existing data cannot answer a decision-relevant question.

Illustrative scenario - many exempt suppliers dominate one niche. No individual supplier exceeds 50,000, but several exempt firms collectively serve most customers in a high-value technology segment. The effect on universal-service suppliers could be materially greater than any single licence suggests.

Illustrative scenario - supplier freezes growth near the threshold. A supplier repeatedly slows marketing at 48,000 to 49,000 customers to preserve its exemption. The conduct may be rational under the rule, but persistent patterns would be relevant to whether the threshold is distorting competition and whether the review should refine the regime.

5.3 Transition and readiness should be integrated with the existing Milestone Assessment

Ofgem should not create a separate USO-readiness bureaucracy. Current Milestone Assessments already examine operational capacity, IT and billing systems, customer service, vulnerability, governance, outsourced functions, financial resources and readiness for threshold-linked obligations. The statutory consultation should state that USO readiness is considered within, or in coordination with, that framework.

USO-specific readiness would include the ability to accept a wider range of domestic customer profiles, configure acquisition and eligibility systems appropriately, support the payment methods and service processes that become relevant at scale, and operate customer-service and compliance arrangements without a discontinuity at crossing.

Illustrative scenario - rapid viral growth. A specialist tariff grows from 20,000 to 48,000 customers in a few weeks. The existing requirement to notify when there is a reasonable prospect of imminently reaching the milestone should trigger early engagement before the supplier is at the legal edge.

Illustrative scenario - readiness weakness found before the threshold. A Milestone Assessment identifies that customer-service systems cannot yet support the wider customer profiles that will need to be accepted after USO activation. An onboarding pause and targeted remediation can address the problem before the licence duty becomes active.

Illustrative scenario - offer made before the onboarding pause, accepted afterwards. A supplier offers a Domestic Supply Contract shortly before SLC 28C.4 begins to apply, and the customer accepts while the Milestone Assessment pause is in force. The statutory consultation should confirm how the prohibition on entering new Domestic Supply Contracts, the temporary SLC 22.2 relief and the proposed USO threshold interact in this edge case.

Illustrative scenario - supplier operationally ready but financially stressed. The supplier can technically comply with SLC 22 but has emerging financial resilience concerns. The answer should come from the existing Financial Responsibility and supervisory framework rather than duplicating the entire resilience regime in a USO-specific test.

5.4 Acquisitions, customer-book transfers and group restructurings need a non-organic crossing rule

The Milestone Assessment guidance already applies to mergers, acquisitions and customer-book purchases. The proposed USO regime should use the same principle: non-organic growth cannot be treated as if the supplier had months to approach the threshold gradually.

Illustrative scenario - customer-book acquisition. A supplier with 20,000 customers acquires a book of 40,000. The transaction would take it immediately above the proposed threshold. Readiness, group counting and the legal activation date should be addressed before or at completion, not only after the new customers have transferred.

Illustrative scenario - intra-group customer-book transfer. A parent shifts 10,000 customers from one licensee to another immediately before a threshold. If group aggregation is drafted correctly, the transfer is neutral for exemption status and cannot be used to reset the group below 50,000.

5.5 Future changes to the threshold require predictable change control

Appendix 1 would permit the Authority to direct "such other number" from time to time. Regulatory flexibility is useful, but the threshold determines whether a material universal-service duty applies. A future material change should therefore be supported by reasons and evidence, suitable consultation or notice, and a transition proportionate to the direction of change.

Illustrative scenario - threshold raised to 75,000. A supplier with 60,000 customers already has the USO. The rule should say whether the existing duty remains active or whether the supplier can seek re-exemption. Automatic disappearance of the duty would recreate the same instability as ordinary customer-count decline.

Illustrative scenario - threshold lowered to 25,000. A supplier with 40,000 customers becomes newly in scope because Ofgem lowers the threshold. Immediate activation could create a readiness cliff. A defined notice and transition period should allow the supplier to comply before enforcement exposure begins.

5.6 Existing protections and supplier failure

The exemption must remain narrow. The consultation correctly states that all other applicable licence obligations continue, including financial resilience requirements, and that current price-cap rules continue for relevant default-tariff customers. An exempt supplier should not be described or treated as being in a general sandbox.

Illustrative scenario - specialist supplier failure at 30,000 customers. An exempt supplier fails while serving 30,000 customers. The USO exemption does not remove consumer-continuity or Supplier of Last Resort protections. The event should nevertheless feed into the test-and-learn review because a high failure rate among exempt entrants would weaken the consumer-benefit case.

Illustrative scenario - price-cap customer at exempt supplier. A relevant customer remains protected by the applicable price-cap framework even though the supplier is exempt from SLC 22.2 and 22.3. The exemption should not be communicated as a broader relaxation of price protection.

5.7 Test-and-learn should be falsifiable

Ofgem proposes to monitor and review the intervention after an initial period. That review should use pre-announced metric families so that the policy can be continued, refined or withdrawn on evidence rather than narrative impressions.

Metric family	What should be tested
Innovation and entry	Specialist applications, actual launches, proposition types, time to market, and evidence that the USO was a material barrier rather than merely one factor.
Consumer adoption	Customers served, participation in relevant flexibility or low-carbon propositions where measurable, switching and retention where informative, without assuming causation.
Consumer protection	Complaints, eligibility disputes, vulnerability/service issues, continuity outcomes and supplier failures, adjusted for scale where possible.
Competition	Aggregate exempt-customer share, segment concentration, evidence of systematic cost-to-serve selection and effects on universal-service suppliers.
Threshold integrity	Approaches and crossings, time from notification to readiness outcome, onboarding pauses, post-crossing compliance incidents and fall-below cases.
Anti-avoidance	Group aggregation cases, restructurings and customer-book transfers suggesting either artificial fragmentation or over-inclusive drafting.
Resilience	Operational and financial milestone findings, failures and emergency interventions, including whether existing mechanisms proved sufficient.
Administrative burden	Ofgem and supplier burden of a general exemption compared with individual licence-modification or derogation routes, without unsupported cost estimates.

Metric family	What should be tested
Exemption reliance and transparency	Number of suppliers actually relying on the exemption, first-reliance timing, broad categories of eligibility criteria and rejection/complaint patterns, while avoiding unnecessary case-level reporting.

Illustrative scenario - high entry but high failure rate. The exemption produces several launches but an unusually high incidence of supplier failure. Entry alone would not establish success; the evidence might support stronger readiness safeguards or a narrower regime.

Illustrative scenario - applications rise but products do not launch. More licence applications are submitted, but few specialist propositions reach the market. Application numbers alone should not be counted as realised consumer benefit.

6. Consolidated recommendations for the statutory consultation

1. Proceed to statutory consultation on a sub-50,000 exemption, but do not use the current illustrative SLC 22.7(e) wording without further drafting.
2. Retain 50,000 as the initial test-and-learn threshold unless new evidence supports a better number; do not present it as economically optimal.
3. Define the authoritative customer-count source, measurement frequency and correction process.
4. Separate Milestone notification/readiness from the legal event that activates SLC 22.2 and 22.3.
5. Use one-way USO activation after first valid crossing, with an Ofgem-controlled re-exemption route for sustained structural decline if justified.
6. Put corporate-group aggregation in the licence text using an established control concept where possible.
7. Specify how acquisitions, mergers and customer-book transfers affect exemption status and readiness before transaction completion where practicable.
8. Use existing Milestone Assessment, Operational Capability and Financial Responsibility mechanisms before creating any new reporting or readiness process.
9. State explicitly that the exemption concerns prospective-customer acceptance and does not create a new termination right for existing customers.
10. Require transparent, proposition-linked eligibility criteria where specialisation is used, while recognising that the legal exemption is size-based and should not depend on a subjective innovation approval test.
11. Consider a low-burden first-reliance notification, or equivalent use of existing supervisory information, so Ofgem can distinguish suppliers that are merely eligible for the exemption from those actually using it to decline applicants.
12. When the exemption is relied upon to decline a prospective customer, require or clearly expect a concise explanation of the relevant eligibility criterion and make clear that the refusal does not mean the consumer is ineligible for electricity supply generally.
13. Reuse, or clearly cross-reference, the existing SLC 27/SLC 28C customer-count convention for the USO threshold wherever possible, rather than creating a parallel 50,000-customer measure.
14. Monitor the exempt market in aggregate as well as supplier by supplier.
15. For a future threshold direction, require reasons, evidence, proportionate notice and transition, plus clear treatment of suppliers whose USO has already activated.
16. Publish a scheduled test-and-learn evidence review using both benefit and risk metrics.
17. Use existing supervisory data wherever possible and add reporting only where a specific evidence gap remains.
18. Distinguish enforcement for failure to prepare while approaching the threshold from failure to comply once the USO is legally active.

7. Closing observation

A small-supplier USO exemption can be a proportionate way to test whether specialisation supports useful retail innovation without weakening the universal-service guarantee for the market as a whole. The strongest case for proceeding is not that regulation should be relaxed for its own sake, but that the same recurring barrier can be treated transparently for all genuinely small suppliers while the rest of the consumer-protection framework remains intact.

The main work still required is therefore not a larger policy redesign but precise state and transition drafting: who is below the threshold, how the count is established, when the USO activates, how the existing SLC 28C.4 Milestone pause interacts with that activation, whether the exemption can later switch off, how groups are aggregated, how non-organic growth is treated, when suppliers actually rely on the exemption, and how readiness is demonstrated before the duty becomes live. If those points are resolved and the test-and-learn review is genuinely evidence-based, the proposal is worth proceeding with.

8. Selected authoritative sources

- [Ofgem, Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation \(5 August 2026\)](#)
- [Ofgem, Supporting innovation in the electricity retail market - consultation page](#)
- [Ofgem, Electricity Supply Standard Licence Conditions, consolidated to 1 August 2025](#)
- [Ofgem, Milestone Assessment Guidance \(20 November 2025\)](#)
- [Ofgem, Operational Capability and Financial Responsibility Principles guidance \(20 November 2025\)](#)
- [Ofgem, Markets Regulatory Vision and Strategy to 2030 \(18 November 2025\)](#)
- [Ofgem, Innovation in the energy retail market consultation \(2 October 2024\)](#)
- [Ofgem, Supply licence application improvements \(2026\)](#)
- [Citizens Advice, Stuck in the Sandbox: Unlocking greater innovation in the energy retail market \(2 July 2026\)](#)
- [Ofgem, Supplier financial resilience report 2026 \(9 June 2026\)](#)