

Energy UK response to Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation

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Submitted via email to marketsstrategy&delivery@ofgem.gov.uk

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.

From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility, while working to serve customers and meet their evolving needs.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders.

We are equally committed to our team and are proud to be recognised as a 'Platinum' Investors in People employer.

Executive summary

Energy UK welcomes Ofgem supporting innovation and investment to meet longer-term decarbonisation and affordability goals but **does not think that exempting small suppliers from the Universal Service Obligation (USO) is an effective way to do this.**

Innovative retail and flexible service provider propositions play an important role in supporting the adoption and optimisation of low carbon technologies (LCTs). The market is already delivering a range of propositions, demonstrated by significant growth and take-up of EV and smart heating propositions, and increasing interoperability of tariffs.¹ We have encouraged Ofgem to revise how it reports on flexible tariffs and propositions,

¹ [LCP Delta, Beyond Tariffs: GB Household flexibility market monitor, December 2025.](#)

as its State of the Market reports do not capture the full range of innovative offers available to customers (for example where extra savings are offered on particular days, or those by independent aggregators). Nevertheless, we agree it is important that Ofgem considers barriers to market for innovative players and products.

Investors choose to participate in a highly regulated market if there is a clear ability to scale, alongside stable and predictable regulation. These proposals improve neither of these conditions. We encourage Ofgem to prioritise moving faster on improving access to flexibility markets, so that the value of flexibility can be passed through to customers. More generally, Ofgem should focus on the high costs to operate in the UK relative to other retail energy markets, overly stringent price regulation, and a lack of clarity about how market design will support behaviour change and equitable outcomes in a smart energy system.²

Instead, Ofgem's proposals will allow a subset of suppliers to cherry-pick customers who are the least expensive to serve. Any innovation interventions should be more inclusive and clear about how they enable more products that meet customers' needs. Indeed, innovation does not only occur at the fringes of the market, nor does innovation at the fringe necessarily prove scalable without scope for a sustainable model.

We are also concerned about the evidence base for the proposal and the risk of unintended consequences. The current proposal is focused on facilitating entry for a small number of specialist suppliers. While improving access to the market is important, excluding some customers from a right to supply through the USO without tackling the underlying challenges provides an unsustainable entry into the market. It also risks consumer trust and confidence in receiving supply offers for very uncertain benefit.

Finally, removing the USO for new entrants also does not guarantee that they will innovate, as the exemption is so broad.

Given our concerns, **we strongly encourage Ofgem to explore alternative approaches that more directly target barriers to market entry and innovation.** This could include:

- A more comprehensive review of the experience of gaining an energy supply licence (alongside its work to develop an outcomes-led approach to regulation).
- Moving faster on improving access to flexibility markets.
- Revising reporting on innovative offers in the market, so that Ofgem has a robust evidence base that can establish what further policy interventions are necessary.

If Ofgem is minded to continue this workstream, **we recommend that it considers a more limited pilot or time-bound trial**, and that there are strong protections around how the derogation is used, to stop it being exploited or gamed. This should include a cap on exemptions and checks to ensure it is actually being used for innovation.

² Simone Rossi, CEO of EDF UK, evidence to Energy Select Committee, 15th October 2025.

The voice of the energy industry

Further, we would encourage Ofgem to assess the impact of this change on customers, before a more enduring change is implemented.

If you would like to discuss anything noted in this response in more detail, please do get in touch.

Sincerely,

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Consultation response

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

As noted in our Introduction, we have strong concerns with this proposal.

1. Lack of evidence

There is no clear evidence demonstrating that the USO represents a material barrier to market entry or innovation. We question whether the consultation sufficiently establishes the problem it is seeking to solve, as suppliers can already develop targeted propositions through existing arrangements, and independent aggregators can operate in the flexibility side of the market. Many innovative or specialised products are already tailored to specific customer groups, including those with smart meters or LCTs, or living in social housing, without requiring a broader exemption from universal service requirements.

At the same time, we acknowledge that for new entrants, the supply licencing process can be a laborious journey, limiting the speed at which new entrants can be brought into the market. We encourage Ofgem to more comprehensively review the experience of gaining an energy supply licence, to ensure it is fit-for-purpose to encourage innovation and investment.

Separately, we challenge Ofgem's assumption that new market entrants would solve the issue of uptake of smart tariffs lagging the rollout of LCTs. Ofgem's research finds that for those households unlikely to switch to a time-of-use tariff, the main barriers are uncertainty about guaranteed savings, inertia, lack of awareness and understanding, and perceived insufficient savings to make it worthwhile.³ These barriers cannot be solved by new market entrants alone.

Further, we question whether the proposed exemption would necessarily deliver the innovation Ofgem anticipates. While specialist suppliers may emerge, there is no guarantee that the exemption will result in genuinely innovative LCT-focused propositions, rather than simply allowing new entrants to make a business model out of cheaper cost to serve customers that end up on default arrangements. We believe Ofgem needs to demonstrate a clear link between the proposed exemption and outcomes it wishes to see, before moving forward with any proposal of this type.

2. Risk of unintended consequences

We are also concerned about the potential unintended consequences of weakening the principle of universal service. Exempting certain suppliers from the obligation to serve all customers may create incentives to focus on lower-cost, lower-risk customer segments,

³ Ofgem, Tracking energy consumers' use of low carbon and flexible products and services: 2025, May 2026.

while avoiding customers who are more expensive or complex to serve. For example, low-income households, customers in debt and those with more complex support needs.

This could lead to cherry-picking and issues of fairness and the future distribution of costs across the market. For example, leading to market distortion, where suppliers continuing to operate under the full USO face higher costs and greater obligations than exempt suppliers, creating an uneven competitive environment. Any concentration of higher-cost customers among a smaller pool of suppliers could also increase costs for those suppliers and, ultimately, for customers.

We note that in the consultation paper, Ofgem recognises these potential risks, considers them manageable at the proposed 50,000-customer threshold, and seeks views on whether additional safeguards are required. If Ofgem is minded to proceed with the proposal, we would encourage a cap on the number of exemptions, and scrutiny on how these are used. Otherwise, this change may lead to significant sleeving of supply to avoid costs. Further, Ofgem should closely monitor and review this exemption, to address any customer or market detriment.

3. Impact to consumer trust and confidence

We are also concerned that this proposal could impact consumer trust and confidence in the market. A key strength of the retail market is the principle that customers can access supply irrespective of their circumstances. Any move perceived as allowing suppliers to select only certain customer groups risks undermining confidence in the market and weakening public support for the wider energy transition.

Our recommendations

Given our concerns, we strongly encourage Ofgem to explore alternative approaches that more directly target market barriers to entry. For example, a more comprehensive review of the experience of gaining an energy supply licence, moving faster on improving access to flexibility markets, and working with the Government to make sure all LCTs are smart enabled. We also encourage Ofgem to revise its reporting around innovative tariffs and products in the market, to build an evidence base which can inform its understanding on what further policy interventions are necessary.

If Ofgem is minded to continue this workstream, we recommend that it considers a more limited pilot or time-bound trial and that there are strong protections around how the derogation is used to stop it being exploited or gamed (including a cap on exemptions and checks on how these are used). Further, we would encourage Ofgem to assess the impact of this change for customers, before a more enduring regulation is implemented.

Question 2: Do you agree with our assessment of risks, and proposed mitigations?

Addressed in Question 1. Additionally, if Ofgem is minded to proceed with this proposal, the draft standard licence conditions wording needs revising to mitigate the risk of

supplier groups having multiple exemptions through different entities, despite being within the same corporate group.

Further, Ofgem has also not considered what will happen if a customer moves into a property served by the exempted supplier but does not have the same characteristics as the previous customer, or if a customer's characteristics with an exempted supplier change. For example, if a customer no longer has an electric vehicle, or falls into debt, they may no longer meet the requirements of the exempted supplier. It is unclear practically what would happen, and how Ofgem would be confident that customers would be adequately protected.