

The MCS Foundation's response to Ofgem's consultation: Supporting innovation in the electricity retail market

Available at: [Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation \(USO\)](#)

The MCS Foundation

Our vision is to make every UK home carbon-free. The MCS Foundation helps drive positive change to decarbonise homes heat and energy through our work programmes, grants and advocacy. We support engagement programmes, fund research and facilitate innovative solutions to drive widespread adoption of renewables to help achieve a net-zero future. In addition, the Foundation oversees the [Microgeneration Certification Scheme \(MCS\)](#) which defines, maintains and improves quality standards for renewable energy at buildings scale.

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Summary

The MCS Foundation strongly supports the proposal to exempt suppliers with fewer than 50,000 domestic customers from the Universal Service Obligation (USO) to support greater competition and innovation in the energy retail market. At present the USO acts as a barrier to innovation, by requiring every energy supplier to provide standardised products to all households. This limits the option of specialised offerings, where a company can target a specific, niche group.¹

We see this reform as an important prerequisite, alongside Market Wide Half-Hourly Settlements, to supporting a greater number of smart time-of-use (ToU) tariff products and services in the retail market. We believe that this could in turn help to incentivise a greater number of households to sign up to these tariffs and use their electricity more flexibly.

However, whilst reform in the retail market is an important part of the solution, we do not believe that these reforms in isolation will be able to unlock the full potential of consumer-led flexibility. There are a wide range of barriers currently limiting uptake of smart tariffs and consumer flexibility, which are separate of the challenge of limited products in the market. These include lack of awareness and understanding of ToU tariffs, an inability of some households to shift usage away from peak periods, the perceived lack of sufficient financial incentive, lack of interest and competing priorities, and the complexity of tariffs.² Ofgem needs to work with the Department of Energy Security and Net Zero (DESNZ) and the National Energy System Operator (NESO) to ensure that a

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https://assets.ctfassets.net/mfz4nbgura3g/5iJF33AqIn70QvSgQwKC8u/a8f77eea2e39eff93dbcffb91f2efa87/PUBLIC_stuck_in_the_sandbox.pdf

² <https://mcsfoundation.org.uk/wp-content/uploads/2025/08/MCSF-Engaging-households-in-DSR-Report-2025-final-1.pdf>

comprehensive approach is taken to engage households in domestic flexibility. We believe this framework should factor in the following five key pillars:

- **Trust**
Engagement must be grounded in clear consumer protections and good customer service. Trust is fragile and hard-won—people need to feel confident that they’re being treated fairly and have recourse if things go wrong.
- **Equity and inclusion**
Demand side response must be accessible to all—not just the most digitally savvy or financially secure. That means tailored engagement, targeted support for low-income households to access enabling technologies, and protections for those unable to participate.
- **Empowering engagement strategies**
One-size-fits-all approaches don’t work. Households need tailored, empowering engagement—delivered through trusted messengers, timely advice, and face-to-face support—especially at key decision points like low-carbon technology installation.
- **Messaging and communication**
Communication should be clear, benefit-focused, and consistent across all actors. Messaging must reflect people’s diverse values and priorities, avoiding jargon and making the benefits of DSR feel tangible and personally relevant.
- **User-centred design**
DSR products and services must be simple, intuitive, and co-designed with users.

Questions

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

The MCS Foundation strongly supports the proposal to exempt suppliers with fewer than 50,000 domestic customers from the USO to support greater innovation and competition in the energy retail market.

As we move away from a system dominated by dispatchable fossil fuels towards a distributed renewables-based system, low-carbon flexibility is going to become increasingly valuable. A decarbonised power system will see more frequent and longer periods of excess renewable power generation³ and storing this is key to a cost-effective transition in the power sector. Furthermore, electrifying our heating and transport has the potential to double or even triple the peak demand on local distribution networks.⁴ Low-carbon solutions are therefore needed to address this new challenge.

Households have the potential to minimise the strain on the power grid by shifting energy consumption to periods of lower peak demand, known as demand-side response (DSR). This reduces the wholesale cost of electricity by encouraging more energy use when production costs are low, such as times of abundant wind, and encouraging reduced energy use when production costs are

³ <https://auroraer.com/wp-content/uploads/2022/02/Aurora-Report-Long-Duration-Electricity-Storage-in-GB.pdf>

⁴ <https://ukerc.ac.uk/publications/electrified-heat-and-transport-energy-demand-futures-their-impacts/>

high, such as peak demand times (5-7pm on weekdays). According to modelling, unlocking domestic flexibility is a triple win:⁵

1. **It reduces energy bills** – A household participating in demand-side response could save up to £375 per year on energy bills in 2040. Even those who are not participating will still save £105 per year, due to the reduced cost in wholesale prices.
2. **It reduces carbon emissions** – Without household flexibility, we would need to build the equivalent of four new gas-fired power stations to meet peak electricity demand in 2040, at the cost of £2.5 billion alongside the associated carbon emissions.
3. **It has wider system benefits by minimising the amount of network reinforcement needed** – Overall energy system savings could reach £14.1 billion by 2040. The reduction of energy demand during peak times minimises costly upgrades to the networks, which could reach almost £1 billion.

The uptake of smart flexible low carbon technologies represents an important opportunity for households. Microgeneration technologies allow households not only to consume electricity, but also to generate and store it—transforming them into “prosumers” who can contribute energy back to the grid.⁶ In addition, these technologies, in particular battery storage and electric vehicles (EVs), give households more capability to engage with how and when they use electricity – in other words, participate in DSR.⁷ There is growing research into the potential flexibility that heat pumps and other forms of low-carbon heating can provide.^{8 9 10} This marks the emergence of ‘energy citizens’—active, rather than passive, participants in the energy transition¹¹ and a key component of a more flexible, decentralised system. In addition, as technology progresses and the automation of microgeneration technologies and EV charging becomes more widespread, households won’t need to actively flex to be able to participate.

MCS data shows an upward trend in the uptake of certain microgeneration technologies. Domestic battery storage installations have continued to increase from 4,894 installations in 2023, to 19,585 installations in 2024 and 41,020 installations in 2025. In the first six months of 2026, the number of installations has already reached over 45,000 installations, exceeding the total number of installations in 2025.¹² Furthermore, in the first six months of 2026, there have been over 175,000 solar PV installs logged in the MCS data dashboard.

And yet, despite the growing number of microgeneration technologies being installed in the UK – technologies that increase households’ ability to use their electricity more flexibly – the uptake of

⁵ https://www.cornwall-insight.com/wp-content/uploads/2023/08/The-power-of-flex-Rewarding-smarter-energy-usage-1.pdf?utm_source=website&utm_medium=website

⁶ [Flexibility: Literature review on concepts, modeling, and provision method in smart grid - ScienceDirect](https://www.sciencedirect.com/science/article/abs/pii/S0959652616316456)

⁷ <https://mcsfoundation.org.uk/wp-content/uploads/2025/08/MCSF-Engaging-households-in-DSR-Report-2025-final-1.pdf>

⁸ <https://commercial.nationalgrid.co.uk/projects/equinox-equitable-novel-flexibility-exchange>

⁹ <https://www.centrefornetzero.org/papers/heatflex-the-untapped-potential-of-automated-heat-pump-flexibility>

¹⁰ <https://innovation.ukpowernetworks.co.uk/projects/neatheat>

¹¹ <https://www.sciencedirect.com/science/article/abs/pii/S0959652616316456>

¹² <https://datadashboard.mcscertified.com/InstallationInsights>

smart tariffs remains very low. The recent Ofgem Market report found that the uptake of smart ToU tariffs in the domestic retail market is currently at 2.8%.¹³

Research by The MCS Foundation found that almost half (47%) of households with a low-carbon technology, including solar PV, battery storage, heat pumps, and EVs, were still on a standard tariff.¹⁴ This is despite the fact that these households are amongst those most able to benefit from ToU tariffs. For example, modelling found that a heat pump tariff can save a household £600 per year, even if they don't use their heat pump flexibly.¹⁵

Policy and regulation to encourage greater uptake of these smart tariffs are necessary, including reform to the retail market to support more innovation and competition.

Currently, large energy suppliers have 92% of all domestic electricity and gas companies. Between 2018 and 2026, 54 energy suppliers have ceased operations,¹⁶ and there are now fewer firms in the market, resulting in less competition. The risk of this is that there is no incentive for energy suppliers to provide new offerings, which ultimately limits differentiation between services and products.¹⁷ As a result, there are not enough smart ToU products and offers out there to suit everyone. Regulatory action is needed in order to allow for more innovation, fairer competition and reduced incumbency bias.¹⁸

The limited number of market participants at present is exacerbated by the Universal Service Obligation (USO) that prevents businesses entering the market whose business model is based on specialisation – being able to offer niche products. We therefore strongly support exempting suppliers with less than 50,000 customers. We think this is an important step in supporting greater innovation and product offerings in the market.

However, whilst we fully agree with the proposed reform, encouraging more households to sign up to ToU tariffs and participate more broadly in flexibility will require a comprehensive approach. As we outlined in our report and in our response to the DESNZ consultation on *Proposals seeking views on the best approach to consumer engagement for consumer-led flexibility*, we believe that consumer engagement should be based on five key pillars:

- **Trust**
Engagement must be grounded in clear consumer protections and good customer service. Trust is fragile and hard-won—people need to feel confident that they're being treated fairly and have recourse if things go wrong.
- **Equity and inclusion**
DSR must be accessible to all—not just the most digitally savvy or financially secure. That means

¹³ <https://www.ofgem.gov.uk/sites/default/files/2026-01/State-of-the-Market-Energy-Retail-Highlights-January-2026.pdf>

¹⁴ <https://mcsfoundation.org.uk/wp-content/uploads/2025/08/MCSF-Engaging-households-in-DSR-Report-2025-final-1.pdf>

¹⁵ <https://www.nesta.org.uk/blog/can-time-of-use-tariffs-make-heat-pumps-cheaper-to-run/>

¹⁶ <https://www.purelyenergy.co.uk/energy-hub/energy-suppliers-which-have-gone-bust-from-2018>

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https://assets.ctfassets.net/mfz4nbgura3g/5iJF33AqIn70QvSgQwKC8u/a8f77eea2e39eff93dbcffb91f2efa87/PUBLIC_stuck_in_the_sandbox.pdf

¹⁸ <https://mcsfoundation.org.uk/wp-content/uploads/2025/08/MCSF-Engaging-households-in-DSR-Report-2025-final-1.pdf>

tailored engagement, targeted support for low-income households to access enabling technologies, and protections for those unable to participate.

- **Empowering engagement strategies**
One-size-fits-all approaches don't work. Households need tailored, empowering engagement—delivered through trusted messengers, timely advice, and face-to-face support—especially at key decision points like LCT installation.
- **Messaging and communication**
Communication should be clear, benefit-focused, and consistent across all actors. Messaging must reflect people's diverse values and priorities, avoiding jargon and making the benefits of DSR feel tangible and personally relevant.
- **User-centred design**
DSR products and services must be simple, intuitive, and co-designed with users.

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

Yes.

- We agree that one of the key risks is that a business could seek to gain several licenses in order to stay below the threshold. We also agree the proposed mitigations to prevent this, including that the USO exemption would apply to all electricity licences held by the same ultimate parent.
- We agree that customers of the USO exemptions should be entitled to robust safeguards to ensure that they are protected.
- We agree that these suppliers should still meet other applicable requirements, including fit and proper requirements, financial resilience, and price cap rules.