

Sunsave response to Ofgem consultation

Consultation: Supporting innovation in the electricity retail market: exempting small suppliers from the Universal Service Obligation (USO)

Respondent: Sunsave Group Ltd (trading as Sunsave)

Submitted to: Markets Strategy & Delivery, Ofgem
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Summary

Sunsave welcomes this consultation and supports the proposal in full.

Sunsave was founded in January 2022. We have since raised £27m of equity and government grants, together with a £100m securitisation facility from Crédit Agricole, to scale the UK's first solar and battery subscription covering installation, financing, and monitoring and maintenance. We operate as a low-carbon technology (LCT) installer, an FCA regulated lender, and a DSR (or VPP) provider. Over the past two years our solar and battery subscription product has grown at close to 60% quarter on quarter, and we now serve thousands of homes across England, Wales and Scotland.

We therefore have a feedback loop from consumers who have already invested significant capital in low-carbon technology and who are exactly the flexible, engaged customers the future energy system needs. It has also shown us the gap Ofgem identifies, which is that there aren't enough innovative retail propositions that maximise the value for the household from the low carbon tech investment with the right energy relationship.

The USO is a material deterrent to market entry for the kind of specialist supplier that might close this gap. We support its removal below a threshold, and we believe 50,000 domestic customers is the right level. We agree with Ofgem's assessment of the risks and consider the proposed mitigations proportionate.

We have also provided some further supporting evidence in Annex A, submitted in confidence.

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

Yes. We agree, and we support both the principle and the proposed threshold.

1. The USO imposes a disproportionate build requirement on specialist entrants

SLC 22.2 and 22.3 require a licensee to be capable, from day one, of offering and honouring a Domestic Supply Contract for any domestic customer who asks. In practice that obliges a new entrant to build, before it has its first domestic customer, the systems, processes, commercial arrangements and operational capacity to serve the full range of domestic circumstances: traditional and prepayment metering, non-smart and legacy meter estates, customers without the LCTs the proposition is designed around, and the full spread of billing, debt and vulnerability journeys that come with an unrestricted customer base.

For a specialist entrant, that is a substantial fixed cost incurred to serve customers their proposition may not be designed for, funded before any revenue exists. It is also more than a cost, because it forces a generalist system architecture at the outset. As an example, a supplier optimising around half-hourly settlement, export, battery dispatch and automated household optimisation is asked to build, in parallel, a conventional mass-market supply platform it will not use. That constrains the design choices available to an innovator, not just its budget.

In this way the USO deters new market entrants or innovation, and why Ofgem's diagnosis at paragraphs 1.4 to 1.5 is correct.

2. Consolidation has reduced the innovation pipeline, and entry barriers now compound

Since the 2021/22 crisis the domestic supply market has consolidated significantly. Ofgem's own State of the Market reporting records 23 active domestic suppliers, with the six largest accounting for around 91% of the domestic market. Post-crisis reforms to financial resilience and licence entry were necessary and we support them. But their cumulative effect, alongside obligations such as the USO that are indifferent to a supplier's scale or business model, has raised the effective cost of market entry and resulted in new entrants falling.

The consequence is fewer sources of new propositions in the market. Ofgem's own evidence illustrates the resulting gap: as noted at paragraph 1.1, around 835,000 consumers are on smart tariffs against several million households that have already adopted LCTs.

As an LCT provider, we can say with confidence that this gap is not a consumer appetite problem. Households that have committed several thousand pounds to solar, batteries or an EV have already demonstrated engagement, and in our experience they actively seek tariffs and services that will help maximise the value of that investment. The constraint is on the supply side: there are currently too few propositions built specifically for the growing base of LCT customers and the LCT combinations they might have installed (e.g. a house with solar and battery requires a different tariff to a house with an EV, etc).

The USO is a major barrier to new supply entrants (and the corresponding innovative products they bring) and removing it will spur further innovation and more choice for consumers. We therefore believe it would be a proportionate and well-targeted response.

3. The USO's protective value at this scale is limited, and is better delivered by suppliers with reach

SLC 22.2 requires a supplier to offer a Domestic Supply Contract. It does not require a supplier to offer any particular tariff, price, payment method or service on request. Suppliers already differentiate extensively through tariff eligibility criteria, credit assessment, payment method availability, metering requirements and marketing.

The practical protection the USO delivers to an individual consumer is therefore already narrow: it guarantees the availability of an offer from a supplier that consumer would, in most cases, have no reason to approach. When this relative benefit is set against the barrier it creates for new supplier entry, it would clearly make sense to remove the USO at this scale.

There is a further important point. The USO exists to protect consumers who might otherwise struggle to secure supply. Whether that protection is real depends not just on an offer existing somewhere in the market, but on whether the consumers who need it will find the supplier making it.

Larger suppliers are better placed on both counts. They have the financial resources to build and operate the products and processes required to meet universal service obligations, and they can do so at a lower unit cost than a new entrant can. They also have the brand recognition and market reach to be found by the consumers universal service is designed to support. A small new entrant has neither. Its USO offer would exist on paper, but the groups the obligation protects have no particular reason to be aware of it, so it is unlikely to be taken up.

Spreading the obligation thinly across every licensee, including those with no realistic prospect of serving those consumers at any scale, therefore delivers weaker protection than concentrating it where there is greater financial capacity and consumer reach. This is the same efficiency rationale Ofgem identifies in telecoms and postal services at paragraph 1.7, and in our view there are similarities in domestic electricity supply.

4. The 50,000 threshold is set at the right level

We agree with 50,000 and would not raise or lower it at this stage. Our rationale:

- **It is de minimis in market terms.** Against approximately 30.4 million domestic electricity customers in Great Britain, a supplier at the threshold would account for around 0.16% of the market. Any consumer-choice or competitive-distortion effect would therefore be correspondingly small.
- **It is coherent with the existing framework.** As Ofgem notes at paragraph 2.7, 50,000 already marks the point at which the wide-choice-of-payment-methods obligation applies, and it sits with the Milestone Assessment framework. Using this established threshold avoids introducing a new and arbitrary boundary into the licence terms which would come with further administrative effort.
- **It is large enough to be commercially meaningful.** A threshold materially below 50,000 would not permit a new proposition to reach the scale at which unit

economics, operational learning and access to capital can realistically be demonstrated. The exemption would then be of little practical use, and the reform risks not achieving its objective of incentivising innovation and new supplier entry.

- **It is small enough to be genuinely test-and-learn.** At this level Ofgem retains full optionality to adjust, extend or withdraw the exemption in light of evidence, without having created a large exempt segment in the meantime.

Ofgem should keep the threshold under review as part of the post-implementation review at paragraph 2.11, and consider whether it should rise if the evidence shows that specialist suppliers are stalling at the boundary rather than growing through it or any other effects become apparent.

More broadly, specialist innovation of this kind is not possible under the USO, but becomes possible once a supplier has the scale to absorb the incremental cost of universal service alongside it. A threshold exemption feels like the right answer. It is not a permanent carve-out, but a defined period in which a new model can be built and proven, ending where the business is large enough to carry the obligation without the obligation having prevented that business from existing in the first place.

5. This is consistent with international and cross-sector practice

We agree with the analysis at paragraphs 1.6 to 1.7. GB's approach of applying a universal service duty to every licensee, rather than to designated providers, is unusual both internationally and by comparison with telecoms and postal services. Those sectors demonstrate that universal service and a diverse competitive market are compatible, provided the obligation sits where it can be discharged efficiently. Ofgem's proposal is a positive step in that direction, and consistent with the point at section 3 above: universal service is discharged most effectively by suppliers with the resources and reach to deliver it.

6. A general exemption is preferable to case-by-case derogation

We strongly agree with paragraphs 1.12 to 1.13. Individually modified licences and derogations are inherently uncertain, slow and opaque from an applicant's perspective. That uncertainty has to be priced into investment decisions taken well before a licence application is submitted, which is precisely when it does most damage to the entry decision (and ultimately innovation and competition in the market from new suppliers).

A clear, published exemption gives entrants the ability to plan against a known rule, which a derogation does not.

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

Yes. We agree with Ofgem's assessment and consider the proposed mitigations proportionate to the risks at the 50,000 threshold. We do not consider additional safeguards necessary.

We comment on each risk in turn.

Customer segmentation (paragraph 2.12)

We agree the impact is limited, for three reasons. First, consumers retain access to the whole of the rest of the market, including every supplier above the threshold. Second, as noted above, segmentation already occurs through tariff design and eligibility, so the marginal change is smaller than it may appear. Third, universal service protections re-attach automatically at 50,000, so the exempt population is self-limiting by design.

Segmentation here is largely the design rather than an unwanted side effect. For example, a proposition designed around solar, battery and EV households delivers more value to those households than a generalist tariff does, and the flexibility it unlocks can lower system costs to the benefit of all consumers, including those who never take the product.

Fair competition (paragraph 2.13)

We agree that the threshold adequately mitigates this risk. The residual asymmetry runs strongly in the opposite direction: suppliers above the threshold retain very substantial advantages in scale economies, cost of capital, brand recognition, customer acquisition cost and data. A cost differential applying to around 0.16% of the market is not a material distortion of competition.

We also note the point at paragraph 2.4 that the price cap continues to apply to Default Tariff customers regardless of exemption status, which further limits any competitive advantage available to an exempt supplier.

Transition to universal service obligations (paragraph 2.14)

We support monitoring and engagement with suppliers approaching the threshold, and we support the targeted readiness assessments proposed at paragraph 2.5. A supplier growing towards 50,000 has every commercial reason to want a constructive relationship with Ofgem on this point.

Two practical suggestions, offered in support of the proposal rather than as conditions on it:

1. **Publish expectations early.** Clear guidance on what “USO-ready” looks like, covering the operational, systems and financial capabilities Ofgem expects to see and the point in a supplier’s growth curve at which it expects to see them, would let entrants build the requirements into their plans from the outset (rather than only discovering them near the threshold). It would also make readiness assessments faster and less burdensome for both sides.
2. **Consider a defined implementation window on crossing.** A specified period after crossing 50,000 within which full USO compliance must be achieved would remove any incentive for a supplier to slow or manage its growth at the boundary. Without it, there is a mild but real cliff-edge effect. A defined window, coupled with Ofgem’s existing enforcement powers if it is missed, would address that at no cost to consumer protection.

To be clear, we do not believe either of these points is a reason to delay or narrow the current proposal and could be refined and implemented in future.

Incentives to avoid crossing the threshold (paragraph 2.15)

We support Ofgem's stated policy intent that the exemption apply at ultimate parent level, so that group structures cannot be used to hold multiple sub-threshold licences. This is the right approach and straightforward to state in the licence. Ofgem may want to carry the aggregation principle into the SLC 22.7(e) drafting explicitly rather than leave it to be inferred.

Aggregation at ultimate parent level is sufficient. Further machinery is not necessary at this stage, and we would caution against complex additional tests: they would add assessment burden and uncertainty for legitimate applicants in order to guard against a narrow risk that an aggregation clause already addresses.

Review and evidence (paragraph 2.11)

We welcome the test-and-learn framing. Ofgem should commit to a review at a defined point and publish learnings. We suggest three years from implementation, which allows an exempt entrant to complete a meaningful growth cycle. That evidence would be valuable to the wider retail reform programme, including the outcomes-based regulation and consumer-led flexibility workstreams referred to at paragraph 1.2.

Conclusion

We believe removing the USO for small suppliers would reduce barriers to innovative entry and the proposal is proportionate and well-targeted. We would encourage Ofgem to proceed to statutory consultation.

We have also provided further supporting evidence in Annex A, submitted in confidence.

Appendix: feedback on the consultation document (Appendix 3)

We are happy to give feedback on the consultation document itself.

We found it clear, appropriately concise, and balanced in its conclusions. We appreciated the proposed drafting at Appendix 1, which gives clarity on how the change would be implemented and let us comment on it directly at this pre-statutory stage.