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Response to: Supporting Innovation in the Electricity Retail Market: Exempting Small Suppliers from the Universal Service Obligation (USO)

About the Respondent

I am the co-founder, CEO and Chief Architect at UrbanChain Ltd. I work closely with organisations developing innovative local energy, flexibility, community energy and place-based energy solutions. My experience includes working with local authorities, housing providers, communities and commercial partners seeking to deliver consumer benefits through local generation, flexibility services and innovative energy market arrangements.

Through this work, I have observed that many innovative projects do not seek to become licensed suppliers. Instead, they seek a regulatory framework that enables them to deliver value to consumers while maintaining appropriate consumer protections and existing supplier relationships.

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

I **support Ofgem's objective** of reducing barriers to innovation and enabling new entrants to develop innovative energy propositions. However, **I do not believe that a supplier-level threshold of 50,000 domestic customers is the most effective mechanism for achieving that objective.**

The proposal assumes that supplier size is an appropriate measure of innovation. In practice, customer numbers are not the right proxy for innovation potential. **Innovation occurs at project level and within specific customer propositions, not at the level of a supplier's overall portfolio.**

Different projects have very different characteristics and customer volumes. A community energy scheme, housing association initiative, local flexibility market or place-based energy programme may each require a different scale to become viable.

For example, housing associations may seek to deliver energy-related benefits and flexibility services to thousands of tenants. For example, one client has approximately 13,000 tenants. The objective of such organisations is generally not to become a licensed supplier. Instead, they seek to partner with specialist market participants capable of delivering innovative services while managing the regulatory and operational responsibilities associated with energy supply.

Similarly, local authorities in our portfolio may wish to establish local energy markets that support fuel-poor households while also enabling staff and residents to participate in flexibility and local generation-sharing arrangements. In our experience, local authorities are often reluctant to become licensed suppliers because of the regulatory complexity, commercial exposure and operational obligations that supplier status introduces.

The same challenge exists in community energy projects, particularly in deprived communities where local capacity and resources are limited. While these communities are often well placed to benefit from local generation and flexibility initiatives, very few organisations are willing or able to take on the role of supplier. At the same time, vulnerable consumers must continue to benefit from appropriate protections within the regulatory framework.

A further example is rural and town-based communities seeking to share the value of local renewable generation and flexibility between neighbouring participants. **These projects are typically modest in scale individually yet collectively have the potential to make a meaningful contribution to decarbonisation, energy affordability and consumer engagement.**

The common feature across all these examples is that each individual project serves substantially fewer than 50,000 customers. However, **a specialist market participant that develops the systems, expertise and operational capability required to support multiple projects could rapidly be constrained by a supplier-level customer threshold.**

As a result, the proposal risks creating an unintended consequence whereby the organisations best equipped to support innovative projects are discouraged from scaling and replicating successful models across multiple communities.

I therefore believe that a customer-count threshold is not the right proxy for innovation and that Ofgem should consider **alternative approaches**, including:

- Applying eligibility criteria at project level rather than solely at supplier level.
- Creating a dedicated pathway for approved innovation, community energy, housing association and flexibility-focused projects.
- Assessing eligibility based on innovation outcomes and consumer benefits rather than customer numbers alone.

Such an approach would better align with Ofgem's stated objective of supporting innovation, flexibility and specialised market propositions while preserving appropriate consumer protections.

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

I broadly agree that the risks identified by Ofgem are relevant and manageable, and I welcome the proposed mitigations. However, I believe the consultation does not fully address what is likely to be the most significant barrier facing innovative energy business models.

The key issue is not whether an organisation can become a licensed supplier, nor whether it is exempt from the Universal Service Obligation.

The key issue is whether the regulatory framework enables innovative market participants to create value for consumers without requiring those consumers to switch supplier.

In practice, many consumers choose not to switch supplier for reasons that are unrelated to the attractiveness of an innovative proposition. These can include:

- Existing debt arrangements with their supplier.
- Trust and familiarity with an established provider.
- Satisfaction with existing customer service.
- A belief that they already have a competitive tariff.
- Reluctance to engage with the switching process.

As a result, innovative projects can face significant barriers if participation depends on a customer changing supplier.

Across local authority initiatives, community energy projects, housing associations and local energy schemes, the objective is rarely to become a supplier. Instead, organisations are seeking to:

- Reduce fuel poverty.
- Share the benefits of local generation.
- Enable participation in flexibility services.
- Support investment in low-carbon technologies.
- Increase consumer engagement in the energy transition.
- Deliver local economic and social value.

Many of these objectives can be achieved without replacing the consumer's existing supplier relationship.

I therefore encourage Ofgem to consider a regulatory framework that enables innovative market participants to settle volumes and allocate value to consumers without requiring supplier switching.

Future market arrangements should support models in which multiple parties can contribute value within the same property. For example, a customer may continue to receive retail supply from their chosen supplier while simultaneously participating in:

- A local energy sharing scheme.
- A community energy programme.
- A flexibility aggregation service.
- A local authority energy initiative.
- A housing association-led energy scheme.

To facilitate this, future settlement arrangements should be capable of distinguishing and allocating electricity volumes and value streams between multiple market participants associated with the same property.

This would allow consumers to retain the supplier relationships they trust while enabling innovative providers to create additional value and deliver benefits that may not be achievable through traditional supplier-led models alone.

Such an approach would increase participation, reduce barriers to innovation and better reflect the decentralised and flexible energy system that Ofgem's wider market reforms are seeking to enable.

Conclusion

I strongly support Ofgem's objective of encouraging innovation and specialisation in the retail electricity market.

However, I believe the consultation focuses too heavily on supplier status as the primary mechanism for innovation.

The most important issue is not how many customers an innovative supplier can serve before becoming subject to the Universal Service Obligation. The more important question is how the regulatory framework can enable innovative projects and consumer participation regardless of whether supplier switching takes place.

I therefore encourage Ofgem to consider a framework that:

- Focuses on projects and consumer outcomes rather than supplier size alone.
- Supports community energy, housing association, local authority and place-based energy initiatives.
- Enables innovative providers to deliver benefits without requiring supplier switching.
- Develops settlement arrangements capable of recognising and allocating value between multiple participants operating within a single property.

Such an approach would more effectively support innovation, flexibility, consumer engagement and local energy participation while maintaining robust consumer protection and market integrity.

Yours sincerely,
Dr Somayeh Taheri | UrbanChain Ltd