REGEN

Consultation response

Exempting small suppliers from the Universal Service Obligation (USO)

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About Regen

Regen provides independent, evidence-led insight and advice in support of our mission to transform the UK's energy system for a net zero future. We focus on analysing the systemic challenges of decarbonising power, heat and transport. We know that a transformation of this scale will require engaging the whole of society in a just transition.

Regen is a membership organisation with over 200 members who share our mission, including clean energy developers, businesses, local authorities, community energy groups and research organisations across the energy sector. We manage the Electricity Storage Network (ESN) – the industry group and voice of the grid-scale electricity storage industry in GB.

In 2025, we conducted a rapid evidence assessment for Consumer Scotland on the impacts, challenges and opportunities for consumers within the future GB retail energy market.[1] The body of work examined emerging solutions for ensuring the transition works in the interests of consumers directly. This consultation response draws on the findings from this research, as well as input from our members.

[1] https://www.regen.co.uk/insights/supplying-justice-how-the-retail-market-can-support-a-fast-and-fair-net-zero-transition

Summary and recommendations

We welcome this proposed intervention to exempt small suppliers from the Universal Service Obligation as a useful step to support innovation in the retail market.

The retail energy market in Great Britain is expected to undergo significant changes to support consumers in the transition to a net zero energy system. Through this transition, consumers will increasingly engage with new smart tariffs and services, data and digitalisation, consumer protection, and technological and business model innovation for a low-carbon future.

In our report Power of Places: a vision for local energy in the UK, Regen argued that currently the UK retail market and energy system is largely agnostic to scale and place.[1] Energy supply companies operate almost exclusively national operations without consideration of where people are based, the local context they live in, and without engagement with place-based needs or initiatives. In that report we supported innovation in the retail market structures with scope to enable local energy supply options by focusing on a spatial or geographical layer.

We feel that this exemption will play a part in both encouraging innovation and competition in the retail market and should be focused on local and community energy.

Although the consultation highlights a supplier focusing on particular customer types, we recommend that this innovation be focused on local area and community products that could, for example, include island suppliers – such Scottish Islands or constrained areas. Rather than growing into new large suppliers, these may remain below the threshold by limiting customers to those in a particular geography and focusing on creating local innovation, value and benefits.

However, despite the value of the exemption, the financial viability of small suppliers remains in question. Although exemption from the USO will provide some value, small suppliers are inherently less robust, as financial viability typically improves with the size of customer bases. Ofgem should review its financial resilience assessment to ensure it is appropriate for small-scale or local suppliers entering the market as a result of the USO exemption. We also call for consideration and clarification of the treatment of 'white label' energy supplies to access this exception as a way of managing this financial viability and operational risk.

There is also a risk that the specialisation that will create a risk of a two-tier retail market as not all consumers will be able to participate equally. Regen's research for Consumer Scotland shows that current energy markets often fail low-income and fuel-poor households, leaving them exposed to more price volatility and unable to benefit from new smart technologies.[1] We would like to see an emphasis on evaluating this risk in the test-and-learn stage of this change.

We also reiterate the need for a **wider programme of reforms in the energy retail market to support wider innovation and ensure a fairer future for consumers** where everyone can benefit from the net zero transition.

- **Recommendation 1:** The exemption should have a particular focus on supporting local area and community energy.
- **Recommendation 2:** The proposal and planned review of the reform's impact needs stronger monitoring of consumer outcomes, rather than focusing primarily on market entry.
- **Recommendation 3:** Support feasibility of new small suppliers by reviewing financial resilience assessment. Consider and clarify treatment of 'white labelling'.
- **Recommendation 4:** Ofgem should outline how it proposes to ensure inclusive innovation across the energy retail market, including mandating a social tariff and accessible time-of-use tariffs, and reviewing the derogation process for large-scale suppliers.

Responses to questions

Question 1

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

Yes.

Exempting small suppliers from USO should encourage innovation in the retail market. The transition to a smarter energy system will require consumers to interact with energy in increasingly diverse ways. This is likely to create demand for new tariffs, services and business models focused on particular geographies, technologies, consumers groups and patterns of energy use. Diffusion of innovation theory supports encouraging small suppliers to create 'niches' of customers or geography. The multi-level perspective (Geels and Schot, 2007) provides a useful lens through which to consider socio-technical transitions in energy systems.

Exempting small suppliers from the USO could have the effect of creating these 'niches', allowing small suppliers to develop offerings for particular consumer groups or areas, without requiring them to serve the whole market. Although local and geographical suppliers may remain niche, some successful suppliers could subsequently either grow to service a larger number of customers, or the innovation could be adopted by large suppliers.

Ofgem's proposal to exempt suppliers with fewer than 50,000 domestic customers from the USO is, therefore, a sensible intervention to increase the number of small suppliers developing specialised propositions.

Recommendation 1: The exemption should have a particular focus on supporting local area and community energy

We would highlight the potential relevance of the exemption to local area and community energy models. Our energy retail system makes it difficult for local energy markets where local consumers could benefit from reduced prices by being more responsive to local conditions, for example the status of local generation or local network needs.

The UK government's Local Power Plan committed to making it easier for communities to sell their power by developing a definition of a 'community energy group' and improving incentives for licensed suppliers to provide services and tariffs for community energy schemes.[2]

[2] https://www.gbe.gov.uk/local-power-plan

The Energy Security and Net Zero Committee also recommended that the government produce a regulatory framework to allow community energy generators to sell electricity to local consumers.[3]

Alongside code modifications P441 and P442, the exemption to the USO could present an opportunity for small suppliers to establish themselves to connect consumers more directly with local generation.

We would like to see this innovation targeted to support local and community energy projects, noting the interaction with Ofgem's latest Strategic Innovation Fund Challenge 5, "Decentralised system balancing: deliver products and services to prove the viability of autonomous local balancing and optimisation of networks at every level by 2034."

[3] https://publications.parliament.uk/pa/cm5902/cmselect/cmesnz/229/report.html

Question 2

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

Regen broadly agrees with Ofgem's assessment of the risks and proposed mitigations, however there are two areas that should be clarified:

Recommendation 2: The proposal and planned review of the reform's impact needs stronger monitoring of consumer outcomes, rather than focusing primary on market entry.

Specialisation approaches that target specific and profitable consumer types (high usage, smart meters or low-carbon technologies) are likely to be an important early market for this small supplier innovation; however, consumers with smart technologies and the capacity to actively manage their energy use are currently disproportionately more likely to be affluent and engaged, not necessarily representative of the wider consumer population.

This creates a real risk of a two-tier retail market. Regen's research for Consumer Scotland shows that not all consumers will be able to participate equally. To better understand this risk, **Ofgem should conduct a materiality assessment to understand how many existing suppliers would benefit from this exemption, and to evidence the selection of the 50,000 customer threshold.** While this is suggested to be a level that mitigates some risks, we note that there may need to extend this exemption if new suppliers are targeting particular geographies – for example for the Isle of Wight has 64,000 households.

Further work is also needed to ensure all consumers benefit from lower energy costs because of retail market innovation. Regen's research for Consumer Scotland made several recommendations to ensure those already disadvantaged in the energy system today by disproportionately high prices, energy debt, and wider social, economic and health issues can also participate in and benefit from the transition, while being protected from adverse outcomes.[1] There is a clear need to ensure that exempting certain suppliers from the USO does not simply lead to suppliers designing services purely for more affluent, profitable consumer groups – leaving consumers in vulnerable circumstances with a limited range of choices.

Wider reforms are needed to support fairness. In addition to this, other reforms to the energy retail market will be essential to ensure a fairer future for consumers. These include mandating a social tariff and accessible time-of-use tariffs, and reviewing the derogation process for large-scale suppliers.

Recommendation 3: Support feasibility of new small suppliers by reviewing financial resilience assessment. Consider and clarify treatment of ‘white labelling’.

We strongly support Ofgem’s intention to retain financial resilience and other relevant supplier obligations. The recent history of supplier failures demonstrates the importance of robust financial and operational requirements. However, small suppliers are inherently less robust as financial viability typically improves with the size of customer bases. Ofgem should review its financial resilience assessment to ensure it is appropriate for small-scale suppliers entering the market as a result of the USO exemption.

We note also that there may be an opportunity for ‘white labelling’ to support innovation in these models. A ‘white labelled’ approach was widely used in local area energy companies in the 2000s, where local energy companies were backed and supported by the ‘Big Six’, and this could again provide a financially robust way to establish new small suppliers. However, the consultation is currently unclear whether these suppliers would qualify for USO exemption. We feel partnerships with existing suppliers and, particularly, local areas providing local or limited supply to an area such as Scottish Islands or near local generation, could provide an important source of new products and innovation. This approach would allow new suppliers and products to be developed with less risk for customers.

Ofgem needs to support innovation across the whole market. In their responses to Ofgem’s previous Call for Evidence on innovation in the retail market, many suppliers noted that the burden of overregulation and the lengthy derogation process create a risk-averse culture that limits innovation. Regen urges Ofgem to continue to look at how the regulatory framework can support innovation across the whole supplier market, ensuring that market leaders continue to innovate on behalf of their customers while maintaining essential consumer protection standards. For example, Octopus Energy has recently changed its Intelligent Octopus Go tariff, significantly reducing the effectiveness of this tariff for EV owners. While a small supplier exempt from the USO may be able to develop a tariff targeted to meet the needs of this consumer group, this should not allow the market leaders’ offerings to substantially worsen.

Exempting suppliers with fewer than 50,000 domestic customers from the USO could help enable innovation and specialisation; however, it does not, alone, create the retail market needed for the future.

Recommendation 4: Ofgem should outline how it proposes to ensure inclusive innovation across the energy retail market, including mandating a social tariff and accessible time-of-use tariffs, and reviewing the derogation process for large-scale suppliers.