

Consultation

Innovation in the energy retail market

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This document seeks your views on how we can unlock more innovation, and protect consumers, in a changing and evolving energy retail market.

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Executive Summary

The energy system is changing. The uptake of electric vehicles, heat pumps and other green technologies are changing how we use energy. The growth of small-scale, localised energy generation (e.g. rooftop solar) and storage is allowing consumers to produce and manage their own energy. Alongside this, the integration of digital technologies into the energy system is enabling consumers to manage their energy usage more effectively.

These changes create new opportunities for consumers, including increased control over bills, services that better meets their needs and a transition to a net zero energy system. We want new types of products and services that allow consumers to take advantage of these opportunities. For example, the transition to a more flexible energy system could reduce system costs by up to £10bn to £16.7bn per year in 2050, providing significant benefits to consumers.¹

With the market stabilising following the energy crisis we are starting to see the emergence of some new, innovative energy products and services. For example, the development of tariffs to allow customers to take advantage of cheaper, off-peak energy prices; the growth in digital-based products and services (e.g. tariffs with predominantly online contact channels) that aim to better meet some consumers' needs; and the emergence of "zero-bill homes" that allow eligible customers with green technology (e.g. solar panels, heat pumps and a home battery) to have no energy bills if they allow their energy supplier to optimise their flexible household use and generation.

To achieve our 2050 net zero targets and support the government's mission to deliver cleaner power by 2030, the pace of change will need to accelerate. Building upon previous work, including the Department for Energy Security and Net Zero's (DESNZ) ['Towards a more innovative energy retail market: a call for evidence'](#)² summer 2023 paper, we are seeking views on how we can better enable retail market innovation.

A range of enablers are required to facilitate innovation in the retail energy market. We want feedback on the key barriers and enablers to innovation. Stakeholders have identified the rollout of smart meters, improving net zero price signals and introducing market-wide half-hourly settlement (MHHS) as key building blocks for the future retail

¹ For example, see [Transitioning to a net zero energy system: Smart Systems and Flexibility Plan 2021 \(publishing.service.gov.uk\)](#); [Flexibility in Great Britain | The Carbon Trust](#). Note that the analysis from the Carbon Trust and Imperial College London outlined that the savings from the 'Hydrogen heating' scenario could be £9.6bn per year in 2050.

² Department for Energy Security and Net Zero's (DESNZ) summer 2023 publication: [Towards a more innovative energy retail market: a call for evidence - GOV.UK \(www.gov.uk\)](#)

market. We are committed to delivering these enablers and have work underway to achieve this.

Based on previous feedback, in this consultation we are specifically seeking views on whether we could amend our rules to improve routes to market for innovators. This could involve adopting a more flexible approach to licensing (e.g. reforming licence obligations for all, broadening our derogations regime, better enabling restricted or individual licences, or improving 'Licence Lite'). These changes could enable new routes to market for innovative propositions relatively quickly (i.e. without legislation change). We consider that options presented by this consultation have potential to deliver significant benefits to all consumers, whilst still ensuring that consumers are protected. If we take forward any options, we will design them with appropriate guardrails to ensure that we maximise benefits and minimise risks.

As that market evolves and new products and services emerge, we want suppliers to continue to deliver good consumer outcomes. Alongside this consultation, we have kicked off our [Consumer Confidence programme](#) to define the outcomes we want the sector to deliver. We want to have a robust conversation with stakeholders to ensure that we have a cohesive, holistic and outcomes-focused regulatory framework that protects current and future consumers' interests. We are also working with DESNZ to introduce a new licensing regime for load control,³ to ensure good outcomes for consumers that engage with innovative demand side response offers.

We want all consumers to be able to access the benefit of innovative products and services. For example, we understand that digital-based products and services won't be suitable for all households and businesses. We therefore want a range of innovative products and services to emerge which are accessible and meet the needs of the diverse characteristics and circumstances of Great Britain's (GB) households and businesses.

Future changes in the energy system (e.g. decarbonisation, data and digitalisation) provide a real opportunity for consumers. We want to enable innovation that allows all consumers to benefit from cleaner, greener and cheaper propositions that are tailored to their needs. We welcome your views about how we can support more innovation in the retail market.

³ [Delivering a smart and secure electricity system: the interoperability and cyber security of energy smart appliances and remote load control - GOV.UK \(www.gov.uk\)](#)

1. Introduction

This section sets out the aims and scope of this consultation, how stakeholders can respond and how to track this consultation.

Aims and scope of this project

- 1.1 The aim of this publication is to seek stakeholder views on how we can remove barriers to innovation that best meet consumers' needs and helps enable net zero at lowest cost. Specifically, we are seeking views on options to improve innovators' route to market for parties undertaking supply of electricity or gas. "Supply" is defined by the Gas Act 1986 and Electricity Act 1989.⁴
- 1.2 The scope of this workstream includes both gas and electricity, and domestic and non-domestic customers. This includes consumers in vulnerable circumstances or who may have vulnerable characteristics. This workstream considers energy products and services offered by licensed suppliers, licence exempt suppliers and non-licensed entities. We are specifically focused on how to improve routes for parties undertaking supply of electricity or gas as part of their offering.
- 1.3 We are not proposing an alternative route to market for parties that control a consumer's load for demand side response or energy management services. In the future, there will be a new regulatory route to market for parties undertaking these activities. Through the [Smart Secure Electricity Systems programme](#), Government and Ofgem are developing and introducing a [new licensing regime](#) for entities that undertake load control activities.⁵ These entities are often called aggregators, demand side response service providers (DSRSPs), flexibility service providers or load controllers. In future, if licenced suppliers also deliver load control services, then they would be subject to this new licence regime, in addition to their supply licence obligations.

How to respond and general feedback

- 1.4 We are interested in hearing from all stakeholders, including consumers, consumer representatives, charities, suppliers, innovators, local authorities and wider industry stakeholders.

⁴ [The Gas Act 1986 and Electricity Act 1989 \(Electronic Communications\) Order 2021 \(legislation.gov.uk\)](#)

⁵ [Delivering a smart and secure electricity system: the interoperability and cyber security of energy smart appliances and remote load control - GOV.UK \(www.gov.uk\)](#)

- 1.5 Please send your response to FutureConsumers@ofgem.gov.uk. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations. More information on how we will treat your response can be found in Appendix 6.
- 1.6 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

- 1.7 You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status.

2. A retail market that works for consumers

We want to ensure that the retail market delivers positive outcomes for consumers and supports the delivery of net zero at lowest cost. This section outlines the potential benefits of innovation and our role enabling innovation that delivers consumer benefits.

A retail market that works for consumers

- 2.1 Energy is an essential service for homes and business around GB. Powering and heating our homes and businesses; energy is critical for meeting our basic needs, maintaining our quality of life and driving economic growth. The retail market is the primary interface between consumers and the wider energy system.
- 2.2 High energy wholesale prices have placed enormous strain on the retail market in recent years. Whilst the market has stabilised, many consumers are still struggling to pay their bills. Our immediate priority is to help support these consumers. We have work underway to deliver this. For example, we issued a [Call for Input](#) to better understand increasing energy affordability and debt challenges, so we can consider what more could be done. Following this, we consulted on [options to reduce the domestic standing charge](#) and improve tariff diversity. We are also currently consulting on our [Consumer Vulnerability Strategy](#). As part of this we are considering how vulnerable consumers can benefit from innovation.
- 2.3 Against the backdrop of continuing cost of living pressures, it is important that suppliers provide their customers with the best possible service. We want all customers, regardless of their circumstances, to receive good service. To do this, we have launched our [Consumer Confidence work programme](#) focused on improving supplier standards of service. This work includes being clearer about the consumer outcomes we expect suppliers to deliver.
- 2.4 With a more stable market in place and plans underway to improve quality of service, we believe now is the right time to also consider how we can unlock more innovation in the retail market.

The benefits of innovation

- 2.5 Innovation is the process of creating and implementing new ideas, products or services to enhance efficiency, effectiveness or competitive advantage. It could involve the development of new technologies, improvement of existing technologies or introduction of novel products, services or business models.

- 2.6 A more innovative retail market could deliver real consumer benefits and help enable net zero at lowest cost.⁶ We want to enable innovation that:
- Helps consumers take control of their bills (e.g. energy efficiency measures).
 - Delivers products and services that are tailored to better meet consumers' needs and provide higher quality of service (e.g. innovation in billing). In particular, products and services that better meet the needs of consumers in vulnerable situations (e.g. innovation in debt management).
 - Supports the deployment of low-carbon technologies (e.g. solar panels) and helps facilitate the net zero transition at lowest cost (e.g. flexibility).
 - Helps support energy system resilience (e.g. diversifying energy sources) and ensures robustness against market shocks.
- 2.7 The benefits of innovation are broader than the direct benefits to consumers that take up new products and services. Innovation can benefit all consumers. For example, if new products and services enable consumers to be more flexible with how they use their energy, it reduces total energy system costs (e.g. generation and network costs) that all customers pay. A smarter, more flexible energy system could reduce system costs by up to £10bn to £16.7bn per year in 2050.⁷ Therefore, it is key we ensure our regulatory framework does not act as a barrier to innovation.

Enabling innovation that delivers consumer benefits

- 2.8 As set out in our [Multi-Year Strategy](#), enabling innovation that delivers benefits to consumers is a critical part of our vision for the retail market. We want inclusive innovation that allows all consumers to benefit from a decarbonised and digitalised sector, this including innovation that helps to solve the needs of consumers in vulnerable situations.
- 2.9 We expect to see more innovation in the retail market going forward. The transition to net zero (including decarbonising power, heat and transport) and the impact of decentralisation and digitalisation will reshape the energy landscape over the next 20 years. Innovation will allow us to take advantage of these changes and help us solve problems faced by the sector in new ways.

⁶ For example, a 2022 Competition and Markets Authority report argues that less competition and innovation can negatively impact consumer outcomes [The State of UK Competition Report April 2022](#).

⁷ See [Transitioning to a net zero energy system: Smart Systems and Flexibility Plan 2021 \(publishing.service.gov.uk\)](#); [Flexibility in Great Britain | The Carbon Trust](#). Note that the analysis from the Carbon Trust and Imperial College London outlined that the savings from the 'Hydrogen heating' scenario could be £9.6bn per year in 2050.

- 2.10 The energy sector has a crucial role in achieving the UK’s net zero targets. To deliver net zero, it is important that the rules governing the energy sector are enabling and responding to innovation, whilst ensuring that the regulatory framework continues to protect consumers.
- 2.11 Our work on enabling innovation is part of our broader work programme to deliver a retail market that enables fair prices; ensures high quality of service; facilitates sustainable competition and investment; and achieves net zero at lowest cost. More information on our priorities to deliver our vision for the retail market can be found in our [2024-25 Forward Work Programme](#) and our Multiyear Strategy.
- 2.12 We are building upon the work which the Department of Energy Security and Net Zero (DESNZ) undertook in the summer 2023 [Call for Evidence \(CfE\) on Innovation in the Energy Retail Market](#).⁸ Specifically we are focusing on options to enable innovation in the retail market that we can implement quickly and easily, without the need for legislative change.
- 2.13 This work also contributes towards the [new government's manifesto commitment](#) to support local energy and [launch a new Regulatory Innovative Office](#). We will continue to work closely with the government on these issues and the outcome of this consultation.

⁸ [Towards a more innovative energy retail market: a call for evidence - GOV.UK \(www.gov.uk\)](#)

3. Innovation in the retail energy market

This section provides an overview of the types of innovation we are seeing emerge and the current uptake from consumers.

Questions

Q1. What innovation is currently happening in the domestic and non-domestic retail markets? What is the scale of this innovation?

Q2. What innovation should happen to meet consumers' needs and meet net zero?

Q3. What will be the impact on consumers of new, innovative products and services? How can we maximise the benefits and minimise the risk?

Innovative energy products and services

3.1 We are seeing a range of innovation emerge. As technology, consumer preferences and the transition to net zero drive changes, new types of business models are emerging. There are three broad categories of innovative products and services currently available or being trialled.

New types of energy supply

3.2 Tailored or specialist provision of energy to customers. This could be designed as a service, rather than on a kWh-basis. New types of energy supply could better meet individual customers' needs (e.g. minimising their costs) and may help enable a low-cost transition. For example:

- Specialist tariffs and propositions – Tariffs designed to meet needs of specific customers based on their consumption characteristics, technology offer, etc. This could include "type-of-use" tariffs which have different prices for different types of consumption (e.g. EV consumption) or also time-of-use tariffs with different energy prices at different times of the day.
- Local tariffs – Tariffs designed for consumers living close to renewable generation that aim to match local demand and generation. These aim to reduce energy bills for consumers and support the development of renewable generation. As part of its election manifesto, the [new government signalled](#) it was keen to accelerate the development of local energy.
- Energy as a service - This type of service could take different forms but is a move away from supplying energy by the kWh to consumers paying for different levels of "outcomes" they want. For example, in a 'Heat Plan' this would be desired warmth and comfort levels.

Advisory services

- 3.3 Insights and advice to help consumers make more informed, smarter and/or personalised decisions (e.g. using consumer data) about more sophisticated energy products and services. For example:
- Smart price comparison websites – Analyse individual data (e.g. consumption data shared by the consumer) to determine which smart energy tariffs or energy management services are most optimal for the customer (e.g. specialist EV tariff comparison platforms).
 - Customer advice services – New ways of providing of information and support to customers (e.g. vulnerable customers). This could include taking advantage of new technology or data. For example, loaning consumers thermal cameras to help them identify where heat is escaping in their homes. This could also include new local customer advice organisations building grassroots relationships with consumers about their energy use, debt management, etc.
- 3.4 These services may help consumers make more informed decisions about their energy supply.

Energy Management Services

- 3.5 Provision, installation, operation, management and/or maintenance of technology and services to reduce or optimise a consumer's energy consumption, generation or storage. This could help consumers to lower their bills and support a low-cost transition. For example:
- Flexibility products and services – Products and services (e.g. demand side response (DSR) and energy management services) aimed at delivering or driving flexible asset or user behaviour.⁹
 - Behind-the-meter asset installation and management - Companies who install and help the consumer finance energy assets (e.g. solar, battery or heat pump). These companies maintain and optimise the use of these assets which delivers benefit to consumers through efficient self-consumption and exports of generated energy.
- 3.6 We are working with Government, as part of the SSES programme, to develop a new [licence regime for parties that control consumers' load](#). In the future, any entity that controls a consumers' load to provide demand side response or energy

⁹ Note that these products and services are not necessarily mutually exclusive from other products and services we outline above such as EV tariffs.

management services will need a load controller licence. This is distinct from the supply of energy which requires a supply licence. However, it is relevant to energy supply, because energy supply services are sometimes bundled together with load control services as part of single consumer offering. Companies undertaking both supply and load control activities would need both a supply licence and load control licence.

Common characteristics of innovative products and services

3.7 There are common themes or characteristics of many of these innovative products and services:

- Data – Services that are enabled by consumers consenting to share granular data on energy consumption patterns, asset data and fluctuations in energy prices. For example, some services monitor and adjust an asset's consumption (e.g. a smart EV charger) to take advantage of cheaper electricity prices.
- Digital services – Services that are offered and delivered via digital platforms or technologies (e.g. 'online only' tariffs or services available via an app).
- Local services – Services that allow consumers to use power that is generated locally and reward consumers for changes to usage patterns that reflect the local generation and system constraints.
- Bundling of services – Services that bundle energy supply together with a non-energy supply product or service¹⁰ (e.g. bundling together an energy supply tariff with installation or financing services for new low-carbon technology).
- Financing services – The upfront cost of low-carbon technologies can be high. Innovators are developing financial solutions to help customers overcome this barrier. For example, leasing (rental) and debt (ownership) arrangements for low-carbon technologies (e.g. EVs, heat pump) or household alterations (e.g. energy efficiency measures).
- Long term contracts – Commercial contracts for provision of products or services over an extended period (e.g. long-term contract to finance a low-carbon technology).

¹⁰ In the supply licence we define 'Non-Energy Product' as 'Any goods and/or services that could not reasonably be considered as being directly related to the supply of gas and or electricity to the premises'.

Innovation case studies

3.8 From our [Innovation Hub](#), here are some examples of innovative products and services:

- **Loop** is a smart meter app which enables consumers to better understand and manage how they use their energy. The main goal of the app is to save consumers money by helping them track consumption, waste less energy and understand appliance running costs.
- **Trojan Energy** developed an EV charger, that although located on a public pathway, can be powered by a householder's domestic electricity supply. This means consumers with rooftop solar, but without off-road parking, can use the energy they generate to directly charge their vehicle.
- **UrbanChain** uses peer-to-peer trading to help support a more efficient, low carbon energy market which is accessible for all. By combining artificial intelligence and blockchain technology, UrbanChain allows its customers, which vary from corporates to housing associations and independent micro-generators, to exchange energy with each other.

Current uptake of innovative products and services

3.9 Since the retail energy market opened up to competition in the 1990s, we have seen innovation emerge. This has included 100% renewable contracts, as well as some energy service contracts (e.g. boiler maintenance contracts). Some of these innovations are now considered “business as usual” activities.

3.10 However, the energy crisis curbed investment in, and availability of, new innovative products and services. Emerging from the crisis we still see the vast majority of domestic customers on default arrangements. In June 2024, around 81% of domestic customer electricity and gas accounts were on standard variable tariffs.¹¹ Relatively few consumers are signed up to alternative products or services. For example across Winter 23/24, between 9-19% of people/consumers said they were on time-of-use tariffs (this includes Economy 7 and 10 time-of-use tariffs).^{12,13}

¹¹ Internal Ofgem data. We are aware that these changes will have been impacted by the energy price crisis, and other confounding factors. See above for more detail on the types of innovative offerings we are seeing from licensed suppliers and non-regulated entities

¹² [DESNZ Public Attitudes Tracker Winter 2023 Energy Bills and Tariffs \(Revised\) \(publishing.service.gov.uk\)](#); [Consumer impacts of market conditions survey: wave 5 \(January to February 2024\) | Ofgem](#)

¹³ We note that time-of-use tariffs may not meet all customers' needs (e.g. those less able to be flexible).

- 3.11 There may also be limited tariff choice in the non-domestic market. For example, in 2023 over a third of businesses disagreed that there was sufficient tariff choice in the energy market.¹⁴
- 3.12 However, we are starting to see some increased demand for innovative products and services. There are 18 EV domestic tariffs available,¹⁵ and recent trends indicate more active consumer engagement with them.¹⁶ We are also starting to see an emerging market for other types of newer products (e.g. type-of-use, solar export and vehicle to grid propositions).¹⁷
- 3.13 Many innovative products and services go beyond energy supply (i.e. the transport of energy to a premises via a distribution network).¹⁸ For example, energy management services or advisory services.
- 3.14 We are aware some suppliers, in addition to their licensed supply activities, work with partners or directly themselves, to offer to install, finance and manage low carbon technologies (e.g. heat pumps, EV chargers, and batteries) to optimise the consumers' energy usage and provide flexibility to the grid. We currently have limited data on consumer uptake of these offerings.¹⁹ We would welcome evidence on this.
- 3.15 We are also seeing licence exempt suppliers²⁰ develop new, innovative products and services (i.e. parties that are exempt from require a licence). More information on current routes to market can be found in Chapter 5.
- 3.16 We note that the current status of the market may not reflect longer term market conditions. As we start to transition away from the energy crisis, we are keen to re-open the discussion about how we can best facilitate innovation.

¹⁴ [Businesses' experiences of the energy market 2023 - Main Research Report \(ofgem.gov.uk\)](#). Note that large businesses tended to view the market more positively than other sized businesses. Further, this question did not cover whether there were enough new products and services, only the perceptions of tariff choice.

¹⁵ Internal Ofgem research in September 2024. Note this figure excludes add-ons.

¹⁶ Internal Ofgem data. We are unable to publish these figures due to commercial sensitivities.

¹⁷ Ofgem insight from our engagement with industry stakeholders.

¹⁸ The Gas Act 1986 and Electricity Act 1989 outline the full definitions for "supply".

¹⁹ Uptake may be influenced by the greater adoption of technologies to facilitate the use of these tariffs. See Appendix 1 for some more detail on the uptake of key low-carbon technologies.

²⁰ The Gas Act 1986 and Electricity Act 1989 make it an offence to carry out certain activities unless you hold a licence or are exempt from the requirement. "Supply" is a licensable activity.

4. Enablers and barriers to innovation

This section outlines our previous work to enable innovation, provides an overview of the current state of enablers required to facilitate innovation and explains why we have chosen to focus on specific enablers in this document.

Questions

- Q4. Are there any additional enablers or barriers to innovation?
- Q5. What is the most significant barrier to innovation? Why?
- Q6. What innovation is not happening because of regulatory barriers?
- Q7. Should we do further work to improve routes to market?

4.1 Our energy rulebook sets the high standards that we expect of an essential service, ensuring consumers are protected. However, where innovators want to do something novel, there is a risk that our rules unintentionally prevent them from developing products and services that could deliver benefits to consumers.

Previous work to unlock innovation

- 4.2 We have previously worked with government, industry and broader stakeholders to consider how we can enable innovation. In the 2010s, we undertook significant work to help unlock more innovation (e.g. introducing rules for white labels, launching our Innovation Hub and introducing more principles-based regulation). In 2020, we [consulted](#) on broadening our derogations regime and better enabling licensed suppliers for specific geographic areas or premises.
- 4.3 However, the market looks very different compared to 2020. In particular, the market was hit by a severe price shock which revealed weaknesses in some business models, and which saw significant supplier failures. Since then, we have taken action to strengthen suppliers' resilience and improve the service that all suppliers provide. In this context, we are keen to restart the conversation about how to best unlock innovation that delivers consumers' interests.
- 4.4 The government launched a CfE on retail innovation in summer 2023 and [published its response](#) in Spring 2024. The consultation highlighted the range of work underway to protect consumers and remove barriers to innovation. In its response, government reiterated its focus on the delivery of the key building blocks for a future retail market - smart meters, half-hourly settlement and improved price signals.

- 4.5 Consultation responses highlighted differing views about whether the current regulatory framework should be reformed to enable new routes to market. Responses also highlighted the importance of making sure that the consumer protection framework is fit for a more varied and dynamic market.
- 4.6 We have used evidence from the government’s CfE to inform our way forward. In particular, we have used it to identify where further work may be required. To maintain open dialogue with industry, government launched a new working group to support the growth in innovation.

Enablers and barriers to innovative products and services

- 4.7 There are a range of enablers required to deliver a more innovative retail market. Many of these enablers are interdependent. Industry, government and ourselves have an important role in collaborating to deliver these enablers. There is significant work underway to deliver these enablers.
- 4.8 The following section provides a brief description of the key enablers for innovation. We provide a further overview of these enablers, and the work to deliver them, in Appendix 1. We would be interested in stakeholder feedback on these enablers and if there were any are further enablers we should consider.
- 4.9 **Data and technological enablers:** Data and technology serve as building blocks for products and services that meet consumers’ needs and deliver net zero at the lowest cost.
- Smart meters: Smart meters provide market participants with access to granular, accurate information on consumers’ usage.
 - Smart, low-carbon technology: The uptake of smart, low-carbon technologies (e.g. EVs, heat pumps) provide new opportunities for innovative products and services.
 - Access to data: Market participants have access to data required to provide new opportunities for innovative products and services.
- 4.10 **Commercial enablers:** Commercial incentives, aligned to decarbonisation at lowest cost, drive the development of innovative products and services.
- Competitive pressures: Market forces create commercial value for parties to develop new innovative products and services (e.g. to compete to acquire and retain customers).
 - Price signals for net zero: Markets and price signals that are designed to achieve net zero create new opportunities for products and services (e.g. services that unlock the value of demand-side flexibility).

- 4.11 **Market and regulatory structure enablers:** We need market structures that facilitate innovative products and services that meet consumers' needs.
- Pathways to test innovation: There are appropriate pathways for market participants to test, trial, and bring to market innovative ideas.
 - Routes to market: There are appropriate routes to market to sell innovative products and services to consumers.
 - Financial Resilience: Market participants are resilient to market shocks which improves market stability, builds investor confidence and encourages investment and innovation.
 - Access to capital: Innovators have access to capital required to finance and invest in creating new innovative products and services (e.g. equity capital, loans or government grants).
 - Regulatory certainty and investor confidence: Investors are confident to invest in the GB energy market because we provide a clear, stable regulatory environment.
- 4.12 **Consumers:** Engaged, informed customers need to trust and willingly participate in the market.
- Awareness: Consumers are aware of new products and services, the benefits that they can unlock and ways they can tailor to their circumstances.
 - Engagement: Customers are able to participate and engage with new products and services (e.g. ability to afford and understand new products and services).
 - Trust: Customers that do engage with new innovative products and services trust that their interests will be protected.

Key barriers to innovation

- 4.13 Building on government's CfE, we agree that the key building blocks for a smarter, more innovative retail market are smart meters and improved price signals for net zero (i.e. improved price signals and half-hourly settlement reform). We are committed to delivering these building blocks and have work underway to do this. See Appendix 1 for further information on this. With existing work programmes underway we are keen to see if there is more that we could do to facilitate innovative products and services beyond these key enablers.
- 4.14 Consultation responses to government's CfE highlighted differing views about whether the regulatory framework should be reformed to enable new routes to market. Recently we have not considered how we could improve routes to

market. We are keen to use this consultation to further this conversation. Based on stakeholder feedback, we consider that we may be able to do more to improve routes to market for parties wanting to supply energy. Chapter 5 provides an overview of the existing routes to market and options to improve. We welcome feedback about whether we should do further work to improve routes to market.

- 4.15 Responses also highlighted the importance of making sure that the consumer protection framework is fit for a more varied and dynamic market. We intend to take forward as part of our work to improve consumer engagement and trust. See appendix 1 for more information.

Stakeholder engagement on barriers to innovation

- 4.16 To inform our initial thinking we have had some initial conversations with innovators. These discussions highlighted a range of regulatory and non-regulatory barriers to innovation.
- 4.17 We are keen to speak with more stakeholders who would be willing to share their insights and learnings on the barriers and enablers of innovation. These could be regulatory or non-regulatory barriers. Please get in touch at FutureConsumers@ofgem.gov.uk if you would like to discuss. These will be treated confidentially and will help us to better understand the wider feedback we receive. We may publish the types of organisations that have engaged with us, along with the themes or barriers that have been discussed.

5. Options to improve routes to market for products or services that involve selling energy

This section outlines current routes to market for products or services that involve selling energy to consumers and potential options to improve them. It also outlines safeguards that we will introduce to protect consumers.

Questions

Q8: Which routes to market are most attractive and why?

Q9: If you think that we need to improve routes to market, which option do you think should be our top priority and why?

Q10: What are your views on the options presented for amending routes to market? What would be the risks and benefits of each option?

Q11: To facilitate innovation, which supply licence conditions would most benefit from being reformed (e.g. adding derogation powers)?

Q12: Are there any other improvements to routes to market which should be considered as part of enabling significant innovation in the retail market?

- 5.1 There are important regulatory and commercial considerations for any innovator which is looking to bring its new product or service to the market. This is referred to as the “route to market”.
- 5.2 Our regulations can impact an innovator’s route to market. For example, to protect consumers, our rules may require an activity to be done a certain way or may prohibit certain activities. This may be a particular problem for parties wanting to do something novel (e.g. developing new products, services, business models or applying new technologies) as they have to fit their offer within a framework not explicitly designed for their proposition.

Routes to market for supply activities

- 5.3 If a business wants to develop any product or service that involves selling energy to consumers, there are a range of existing regulatory routes to market.²¹
 - **Licensed supply:** A party can become a licensed supplier (for gas and/or electricity) and for non-domestic consumers only, or domestic and non-domestic consumers. A supply licensee must comply with all conditions of the

²¹ More information on each of these options can be found here in our 2020 guide: [Selling Electricity to Consumers: What Are Your Options? | Ofgem](#)

supply licence.²² Licences are awarded on a GB basis, although a party could apply for a restricted supply licence (by geography and/or premises type).

- **Licence Lite:**²³ A party can become a Licence Lite supplier. Under this arrangement, some code responsibilities are delivered via a commercial relationship with another licensed supplier (a Third-Party Licensed Supplier – TPLS). A licensee must comply with all other elements of the supply licence.
- **Licence exempt supply:** Legislation allows supply to be undertaken without a licence up to [certain thresholds](#) (e.g. MWs of electricity supplied) and in particular circumstances.
- **White label:** Under a white label arrangement, an organisation markets energy tariffs under its own brand, but the actual supply is undertaken by a partner energy supplier. The white label is not a supplier. Supply licence compliance sits with the licensed supplier.
- **Sleeving:** A licensed supplier provides commercial peer-to-peer services, allowing parties to trade electricity over the public network. This could be a transaction between a generator and a consumer, or it could enable an organisation with generation at one site to consume its power at another site. Unlike Licence Lite, the licensed supplier is the only supplier involved in this arrangement and assumes regulatory responsibility.

5.4 For parties selling energy to consumers, some routes to market are more used than others. The vast majority of GB consumers receive their energy supply from a licensed supplier. However, the number of new licensed suppliers entering the market has almost ceased since the energy crisis. For example, between 2015-2019 we issued around 160 electricity supply licences (domestic and non-domestic, and non-domestic only). However, between 2020-2024, we have issued around 10 supply licences, with most of these being non-domestic only.²⁴

5.5 We are seeing some innovation from licensed suppliers. For example, specialist supply tariffs aimed at specific consumers (e.g. EV users with a home charger).

5.6 There is varying demand for other routes to market. Since its launch, very few parties have been interested in “Licence Lite”. In comparison, our Innovation Hub has highlighted significant interest from parties wanting to undertake licence-exempt supply. There may be good reasons for varying demand of different

²² Some obligations only apply once a supplier has more than a certain number of customers.

²³ This route is not available for parties that want to supply gas.

²⁴ Internal Ofgem data, correct as of when accessed on 8th August 2024. Figures have been rounded to nearest 5. Note that the trend for domestic and non-domestic, and non-domestic only gas licences we have issued are similar to that for electricity supply licences.

routes to market (e.g. recent volatile energy prices increasing the risks associated with being a licensed supplier).

Non-supply activities

- 5.7 There are situations where an organisation engages with consumers on energy, but the activities don't meet the legislative definition of supply. We note that for different activities an alternative regulatory route to market may exist. We are not proposing to change routes to market for non-supply activities.
- 5.8 In future, there will be a new regulatory route to market for parties which control a consumer's load to provide demand side response or energy management services. As part of the SSES programme, Government and Ofgem are introducing a [new load controller licence](#) as the regulatory route to market for load control activities.
- 5.9 Our Innovation Hub has highlighted significant growth in non-supply activities in recent years (e.g. public EV charging companies, heat pump installers, or local energy organisations).
- 5.10 Non-supply activities are sometimes offered in partnership with other organisations or bundled with the supply tariff. For example, energy management services that optimise low carbon assets (e.g. EV chargers, heat pumps or solar panels) for consumers. If a company is undertaking both energy supply and load control activities, they will require both a supply licence and a load control licence for their regulatory route to market.

Options to amend routes to market for products or services that involve selling energy

- 5.11 Based on government's CfE on retail innovation, we note that some stakeholders consider that there are barriers to parties offering smart, low-carbon, specialised services that involve selling energy to consumers.
- 5.12 Building on work to date, we are keen to explore whether we could improve routes to market for products or services that involve selling energy to consumers. We are keen to focus on options where we can improve the rules to unlock more innovation relatively quickly (e.g. without legislative change or significant changes to industry systems). Government is supportive of this.
- 5.13 We consider that amending routes to market could enable new market entrants, or existing suppliers, to bring innovative propositions to market quicker and

easier, thus resulting in benefits for consumers (e.g. a supply licence derogation could enable existing suppliers to innovate).

5.14 To help stimulate conversation, we have developed some options. These options are not mutually exclusive. We could progress more than one option. If so, we will consider interactions between options. We will robustly assess any option (e.g. see Appendix 2 for our proposed criteria for assessing any option for change). This includes considering the impact on competition. We will only progress options where we consider that it will benefit consumers. We will design options with guardrails to ensure that consumers' interests are protected (e.g. limits on the customers that it can apply to). We may seek to test or trial any alternative arrangements and will closely monitor and assess the impacts.

5.15 We welcome feedback from stakeholders about our options:

- **Reform derogations regime:** To date, our derogations regime hasn't been focused on facilitating innovation. We could expand our ability to grant derogations and repurpose the derogations regime so that it is more focused on supporting innovation. However, derogations only grant relief from specific licence conditions.
- **Restricted licence:** We have powers to grant supply licences that are restricted to specified geographic areas and/or specified types of premises. We could better enable restricted licences (e.g. amending our licence application guidance) and consider new ways of defining restricted licences to facilitate innovative products and services. This option could mean some licensees only serving specific customers.
- **Individually modified licence:** We have the powers to grant a licence with modifications to the standard licence conditions applicable only to that licensee. However, we have issued very few individually modified licences. We could better enable this option to facilitate more innovation (e.g. amending our licence application guidance to improve awareness, provide more guidance on the information required from applicants and clarify how we would assess applications). However, it could mean licensees having different requirements.
- **Reform Licence Lite:** There has been little demand for this route to market to date. We could reform how Licence Lite works to address challenges and improve this route to market.
- **Enable licence exempt supply:** Only government can change who is exempt from requiring a supply licence. In addition to working with government on any future work arising from its [review of the exemptions regime](#), we could

review the regulatory framework and codes which might be barriers to licence exempt supply. However, licence exempt supply customers are not provided the same level of protection as those supplied by a licensed party.

- 5.16 In particular, these options could enable the development of more specialist products and services. Suppliers could specialise and provide tailored, personalised services that meet the needs of specific, potentially more complex, customers (e.g. vulnerable customers). Specialist suppliers could also help enable a low-cost transition (e.g. products or services aimed at facilitating uptake of EVs, low-carbon generation, heat pumps or batteries).
- 5.17 For clarity and completeness, none of the route to market reforms we are proposing in this consultation will provide an alternative route to market for parties that control a consumer's load for demand side response or energy management services. In the future, there will be a new regulatory route to market for parties undertaking these activities. Through the [SSES programme](#), Government and Ofgem are introducing a [new licensing regime](#) for load control activities. If licenced suppliers also delivered these load control services then they would be subject to this new licence regime in addition to their, existing or reformed, supply licence obligations.

Derogations

- 5.18 **Current arrangements:** A derogation relieves a licensee from complying with a specific licence condition to a defined extent. It can involve imposing alternative requirements. Currently, we only have powers to issue derogations for a limited number of SLCs.²⁵ We provide guidance outlining our application and assessment process.²⁶ We comprehensively assess any derogation request (e.g. competition impacts) to ensure any derogation is in consumers' interests. Currently derogations are granted only in exceptional circumstances and typically individually rather than to more than one supplier. For information, the Secretary of State is able to veto any modification to the licence.
- 5.19 **Potential change:** We could expand the list of regulatory requirements that can be derogated from (i.e. to encourage a wider range of innovation) and update our guidance to better enable derogations to facilitate innovation (e.g. to improve awareness of this option for innovators, provide more guidance on the

²⁵See Appendix 2 for an example list of SLCs that we can currently issue derogations for.

²⁶ Derogation issues covered in these guidance documents include domestic Retail Market Review (RMR) SLCs, technical derogation requests, Licence Lite, and derogations for renewable tariffs from the default tariff cap.

information we would require from applicants and clarify how we would assess any derogation applications). We could also consider circumstances where it might be suitable to make a derogation available to more than one supplier.

- 5.20 **Potential innovation it could unlock:** A derogation could enable a supplier to offer innovative products and services. The exact products and services that it could unlock would depend on the precise derogation application. Stakeholders have suggested that:
- We could add derogation powers to SLC22.3 which implements the Universal Service Obligation (USO) to enable specialist suppliers that provide tailored, personalised services to meet the needs of specific customers (e.g. customers with a heat pump).
 - If we added derogation powers to SLC 27 'Payments, Security Deposits, Disconnections and final Bills', it could enable a new supplier to enter the market that specialises in specific forms of payment (e.g. mobile payment services), rather than traditional forms of payment (e.g. cheques).
- 5.21 **Potential advantages:** Expanding the number of licence conditions that have a derogation power could help enable new entrants and incumbent suppliers to develop propositions that deliver benefits to consumers, but do not fit with specific regulatory requirements. It could also help enable more innovation trials. Over time, it may be easier to amend a derogation than a licence (e.g. the duration of the derogation or reporting requirements).
- 5.22 **Potential disadvantages:** Relieving a licensee of any obligation could create a risk for consumers. Relieving one licensee of its obligations creates risks of market distortions. Compared to a restricted or individually modified licence, this option may provide less certainty to innovators.
- 5.23 **Key considerations:** We would not add derogation powers to all SLCs. The licence includes important consumer protections that all customers should receive. The licence also includes legislative provisions that we cannot derogate from. We would only consider adding derogation powers to SLCs where we consider that we can provide some regulatory flexibility, whilst still protecting consumers' interests. If we progressed this option, a robust derogation application and assessment process would be critical to ensure that we only grant derogations that are in consumers' interests. If we did consider approving a derogation, we may add conditions to protect consumers' interests (e.g. additional reporting requirements or limits on the length of the derogation).

5.24 **What stakeholders previously told us:** In 2020, we consulted on adding the ability to derogate from SLC 22.3 (which implements the USO) and 27.2 (which requires suppliers to offer a wide range of payment methods). Stakeholders held mixed views. There were concerns that derogating from the USO would have a negative impact on competition (e.g. enabling new suppliers to “cherry pick” customers). Others considered that derogations could unlock more innovative products and services. Time-bound derogations were suggested to mitigate risks. Many highlighted the importance of a robust assessment process.

Restricted supply licences

5.25 **Current arrangements:** Electricity and gas supply licences are usually granted on a GB-wide basis. Our [latest guidance](#) directs applicants to apply for a GB-wide licence, unless there are exceptional circumstances. We have powers to grant supply licences that are restricted to specified areas and/or specified types of premises.²⁷ Beyond using it for “Domestic and non-domestic premises” or “Non-Domestic premises”, we have used these powers on a limited basis (i.e. we have approved a couple of restricted licences for specific named addresses/premises).

5.26 **Potential change:** We could change our guidance to be more welcoming of restricted licence applications and agree a process for assessing them. We could also explore new potential ways of defining restricted licences (see Appendix 4).

5.27 **Potential innovation it could unlock:** Restricted supply licences could help enable new suppliers that offer specialised products and services to enter the market that better meet consumers’ individual needs (e.g. products or services targeted at customers living in social housing) or enable net zero at lowest cost (e.g. products aimed at EV or heat pump users). It could also better enable local energy product and services which could have the potential to deliver benefits at both local and system-wide levels.

5.28 **Potential advantages:** This may be a useful option for enabling innovation in both domestic and non-domestic markets. Specifically, this option may allow licensees to develop specialist or local energy products and services. This option may provide long-term certainty for innovators who only want to focus on specific premises or geographic areas.

²⁷ These powers derive from the Gas and Electricity Acts which allow a licence to have a “specified area” and/or to include only premises that are individually specified or meet a specified description. They are applied through the application process for a supply licence set out [here](#).

- 5.29 **Potential disadvantages:** This option may be perceived to carry more risk. If a supplier does supply a customer outside the scope of its restricted licence, this is a breach of licence conditions and statutory obligations; and is ultimately a criminal offence.²⁸
- 5.30 **Key considerations:** Legislation limits who we can issue restricted licences to.²⁹ A restricted licensee would have to comply with all the licence conditions that are relevant to them. This includes the USO to serve all domestic premises within the defined area or within the description of premises that they are licensed to serve. If relevant, we could consider re-structuring the licence so that certain licence conditions do not apply to restricted licensees.³⁰ We would ensure a robust assessment process to ensure that we only grant restricted licences where it is in consumers' interests. This includes assessing the impact on competition and consumers' interests. For restricted licences, we would need to manage the risk of a premises changing definition (e.g. for a supplier that is only licensed to supply premises with a prepayment meter, we would need to ensure continuity of supply if the metering arrangements are changed).
- 5.31 **What stakeholders previously told us:** We [consulted](#) on developing restricted licences in 2020. At the time, there was interest in geographic licences to help enable local energy and deployment of specialist low-carbon products or services (e.g. products and services designed for EV users). Others considered that there is little benefit to restricted licences, given that suppliers are already able to operate in a geographically restricted way (e.g. advertising and targeting specific customers).

Individually modified supply licences

- 5.32 **Current arrangements:** Licensees are usually granted a licence with the same standard conditions as all other licensees. However, we are able to award a licence with modifications to the SLCs that are applicable only to that licensee, where this is considered requisite to meet the circumstances of the particular case. This enables us to assess an application for an individually modified supply licence. However, the Secretary of State is able to veto any modified licence.

²⁸ S4(1) Electricity Act 1989 provides a person who supplies electricity to any premises shall be guilty of an offence unless authorised to do so. S4(2) EA89 states that they will be liable to a fine on either a summary conviction or conviction on indictment.

²⁹ Gas Act s7A(8) limits the ability to issue restricted licences that exclude, or artificially exclude, vulnerable customers. We would assess whether any restricted licence application does this. Whilst this wording is not set out in the Electricity Act, we would align our approach to granting electricity and gas supply licences.

³⁰ This is an approach that we have used for non-domestic only suppliers (i.e. Section B of the supply licence does not apply to them).

- 5.33 **Potential change:** We could amend our licence application guidance to be more welcoming of individually modified licence applications and provide a more transparent process for assessing applications.
- 5.34 **Potential innovation it could unlock:** It could help enable new entrants to enter the supply market. The exact products and services that it would unlock would depend on which standard licence obligation we modified. For example, we could modify licence conditions to enable specialist suppliers (e.g. suppliers that provide export-only tariffs or target a specific sub-group of domestic consumers).
- 5.35 **Potential advantages:** This could help unlock more innovative products and services by providing a bespoke licence that meets the specific requirements of the prospective business model. This option may also provide more long-term certainty for innovators than other options (e.g. a derogation).
- 5.36 **Potential disadvantages:** Modifying a licence to relieve a licensee of obligations may lead to competition and consumer risks. Since we would be only relieving one licensee of its obligations the consumer risk could be managed, but the risk of market distortions remains. The development of more individually modified licences will create a more complex and costly licensing regime for us to administer and operate.
- 5.37 **Key considerations:** The regulatory framework provides important consumer protections. We would not be willing to modify some licence obligations. Our assessment process would be critical to ensuring that we only issue individually modified licences where it provides clear consumer benefits (e.g. it does not discriminate or artificially exclude any consumers or undermine competition). To mitigate any risk (e.g. competition impacts), we could place conditions on the individually modified licence. For example, limiting the time period it applies for or limiting the number of customers that a licensee can supply. We note that if we broaden the range of licence conditions that we can derogate from, then this may limit the need for individually modified licences.

Reform Licence Lite

- 5.38 **Current arrangements:** To help enable market entry, Licence Lite allows new suppliers to partner with an existing supplier to take responsibility for certain costly or complex aspects of being a licensed supplier (e.g. code compliance). This route to market requires a commercial partnership with a third-party licensed supplier (TPLS). To date, the regime has not been well used.

- 5.39 **Potential changes:** We are aware of key challenges for how Licence Lite works. Making improvements could enhance its utility for innovators.
- **Ability to find a TPLS partner:** When we [reviewed Licence Lite](#) arrangements in 2015, some stakeholders suggested that an inability to find a TPLS partner may limit uptake. Some stakeholders have suggested that we may be able to help enable new suppliers to find a TPLS partner.
 - **Risk of losing customers:** Under current Supplier of Last Resort (SoLR) processes, if a TPLS fails then the customers it provides TPLS services to are transferred to a new supplier. This creates a risk for Licence Lite suppliers that because they may be in breach of SLC 11.3, could therefore potentially lose their customers. We could amend SLC 11.3 or how SoLR works to mitigate the risk of breaching SLC 11.3 in order to allow for the Licence Lite to provide greater certainty if their TPLS services fails (e.g. tendering for a new supplier to provide TPLS services).
 - **Expanding TPLS services:** Other than TPLS services, Licence Lite suppliers are required to comply with all other licence obligations. This includes licence obligations that may be bigger barriers to entry. We could expand the scope of licence obligations that Licence Lite suppliers are able to outsource. This would need to be carefully evaluated and monitored to ensure critical functions are maintained while reducing burdensome requirements.
- 5.40 **Potential innovation it could unlock:** The option would enable new entrants to enter the supply market. This could facilitate a range of innovative offerings that meet consumer needs and advance net zero at lowest cost.
- 5.41 **Potential advantages:** Improving how Licence Lite works could improve routes to market and help facilitate new products and services. It could help address the high non-scalable set-up costs associated with establishing a licensed supply business, potentially enabling the viability of new supply undertakings.
- 5.42 **Potential disadvantages:** To date, Licence Lite has not been widely used. We are unclear about the extent to which reforming this route to market will meet the needs of innovators.
- 5.43 **Key considerations:** Like all options, we would want to consider the competition impacts of any changes. We are engaging with innovators and market incumbents to better understand demand for each option, including a reformed Licence Lite.

Enable Licence Exempt Supply

- 5.44 **Current arrangements:** Legislation allows supply without a licence up to certain thresholds (e.g. MWs of electricity supplied) and in particular circumstances.³¹ These exemptions were introduced to provide small scale electricity operators the opportunity to avoid the costs and obligations associated with holding an electricity supply licence, which were deemed disproportionate to the suppliers' market impact. Since the exemptions regime came into effect, the energy system and retail markets are becoming more decentralised and flexible. We're seeing growing interest in some exempt supply use-cases, particularly where households seek to consume the export from a community-owned renewable generator.
- 5.45 **Potential changes:** We want to ensure this route to market delivers optimal consumer outcomes. It is not within our power to change the definition of licence exemptions (only government can alter legislation). However, we could explore changes to better enable licence exempt supply, particularly where the supply occurs across the public (DNO) network. For example:
- To address any code barriers, we could raise a significant code review to consider how best to enable licence exempt supply in upstream markets (e.g. balancing or wholesale markets) through industry codes. Alternatively, we could set out our vision for how the codes should evolve as part of our future Strategic Direction Statement.
- 5.46 We could review the [Maximum Resale Price](#) requirements to ensure they are "fit for purpose" going forward. This could facilitate new, innovative licence-exempt supply products or services. We note that we are already exploring how we could review the Maximum Resale Price to improve standards as part of our [Non-domestic Market Review](#) decision
- 5.47 **Potential innovation it could unlock:** By ensuring licence exempt suppliers are able to access affordable and efficient routes to market it could help bring new, innovative, smaller licence-exempt suppliers into the market (i.e. local supply).
- 5.48 **Potential advantages:** Similarly to the Licence Lite approach, reducing the barriers for small scale suppliers to enter the market could help drive competition, innovation and new business models in the market providing new and more tailored services and products to consumers.

³¹ Exempt supply usually occurs on licence exempt distribution networks (also known as private networks), such as housing estates, blocks of flats or industrial sites. In some cases exempt supply can also occur across the public (distribution and transmission) licenced networks: Class A exempt supply allows up to 5MW self-generated power to be supplied directly to consumers, but no more than 2.5MW to domestics.

- 5.49 **Potential disadvantages:** Customers of licence exempt suppliers are not provided the same level of protection as those supplied by a licensed party. In addition, licence-exempt suppliers are not subject to a licence application process and the associated assessments. If we take forward better enabling licence-exempt supply, we will consider how we can minimise any potential risks to protect consumers (e.g. improved monitoring).
- 5.50 **Key considerations:** In 2021, government issued a call for evidence on the [licence exemption regime](#). One of the key issues that government considered was whether licence exempt suppliers paid their fair share of energy system costs (e.g. policy and network costs). We encourage government to continue the review to consider the role of the licensed and licence exempt regimes in an increasingly integrated system. In particular, considering what consumer protections are appropriate, and the obligations (and costs) licence exempt suppliers should be subject to. We will continue to support government on its review of the exemptions regime, but given the time this could take for holistic reform, we could consider improvements under the existing regime in parallel.
- 5.51 Due to the small-scale nature of licence exempt suppliers, traditionally we have adopted a limited, proportionate approach to monitoring their activities. If this route continues to become more popular, we may seek to enhance our oversight of licence-exempt supplier activities.

Incorporating consumer protections into options

- 5.52 It is important that there are rules to protect consumers. Where we are considering changes, we will design options to keep consumers protected.
- 5.53 For example, our USO requires all domestic suppliers to offer any domestic customer terms to enter a supply contract. This important consumer protection ensures that any domestic consumer (including customers that are more expensive to serve) can access a basic service, of good quality, at affordable rates. Under any of the options we discuss above, for most suppliers the USO would remain unchanged. All domestic consumers will continue to be able to choose from the suppliers currently in the market. However, these options could amend how the USO works for some new suppliers, to help enable specialist supply. For example:
- **Restricted licences:** Licensees are only required to serve the premises that they are licensed to serve (e.g. the geographic area or premises type).

- Individually modified licence or derogation: A party could seek to amend how the USO works for them, or we could broaden our derogation powers to include the USO.
- 5.54 We will thoroughly consider the impact of amending any licence obligations (e.g. impact on consumers and competition). Any changes would be assessed against the draft criteria in Appendix 2 to help assess the options for change.³²
- 5.55 If we consider that an option will benefit consumers, then we will design it with “guardrails” to protect consumers. For example,
- Assessment criteria: Robust assessment criteria will ensure that we only approve applications that deliver benefits to consumers.
 - Time limits: We will consider initially introducing time limits (e.g. 2 years) for any derogation or individually modified licence, to enable new market entrants to become fully compliant or to evaluate the success of these arrangements.
 - Customer limits: We will consider initially limiting the number of customers that the derogation or individually modified licence can apply to. These thresholds will align with other thresholds (e.g. 50k customers).
 - Monitoring: We will include reporting requirements to monitor any key risks. If risks materialise, we will intervene with compliance action or other means.
- 5.56 These additional “guardrails” would be on top the existing steps that we take to protect customers (e.g. financial resilience assessment for new licensees). We welcome any feedback on these proposed guardrails and protections. Some of these “guardrails” could be used to pilot broader regulatory changes (e.g. testing market impacts at a smaller scale in a live environment).

³² We will assess competition impacts using our competition framework for the household retail market, applying it where possible to the non-domestic market. See [A competition framework for the household retail market | Ofgem](#)

6. Next steps

This section outlines our next steps, including our approach to stakeholder engagement. For those that are interested, it also outlines how they can get more involved.

Way forward

- 6.1 This document is restarting a conversation about innovation in the energy retail market. We are yet to form a view on the appropriate approach going forward. Our goal is to stimulate discussion and explore a range of options to inform our thinking. Your responses will help shape our way forward.
- 6.2 Innovation forms part of our broader work to consider the future of the retail market. We will ensure that this work on innovation is aligned and coordinated with our other workstreams on the future retail market (e.g. work on future price protections).
- 6.3 If we identify areas where we decide that changes are required, we will seek to progress these changes as soon as possible. We will undertake further work to develop and assess the impact of making potential changes. We will also consult to get further stakeholder input on the options for change.

Stakeholder engagement

- 6.4 Government has recently launched two new retail working groups – one on consumer protection and participation, and one on innovation. The working groups consists of suppliers, innovators, consumer representatives and wider interested stakeholders. We intend to use the innovation working group to engage with interested stakeholders about our work on innovation. For more information on the innovation working group, including information on joining the working group, please contact FutureConsumers@ofgem.gov.uk.
- 6.5 Alongside this consultation we are undertaking in-depth bilateral conversations with suppliers and innovators to better understand the barriers to innovation within the current market. If you would like to speak to us, please contact us at FutureConsumers@ofgem.gov.uk.

Appendices

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Appendix 1 – Overview of work underway to deliver each enabler

Data and technological enablers of innovation

- A1.1 **Smart meters:** Smart meters provide granular, accurate information on consumers' energy usage. They are a critical enabler of innovation. Suppliers have obligations to roll out smart meters and to ensure that they operate in smart mode. It is estimated that [36.2 million \(63%\) of all domestic and smaller non-domestic meters](#) in GB were smart or advanced meters at end of June 2024, with 32.7 million of these being smart meters operating in smart mode or advanced meters. This now means that 57% of all meters were smart in smart mode or advanced meters.³³ Some stakeholders consider that the rollout of smart meters is not happening quickly enough and that many smart meters are not operating in "smart mode".
- A1.2 Government and ourselves already have significant work underway to ensure the timely rollout of smart meters (e.g. monitoring supplier compliance with rollout requirements). Government is considering whether additional measures are required to further the smart metering rollout from 2026 and will be consulting in due course on possible options to achieve this. We intend to feed into this work.
- A1.3 **Smart low-carbon technologies:** The rollout of smart, low-carbon technologies (e.g. EVs, heat pumps) provide new opportunities for innovation. The rollout of smart technologies is accelerating. For example, [the total number of new battery electric vehicles registered for the first time in GB](#) has increased from around 32,500 in 2018 to around 349,800 in 2023, making up 14.1% of all new vehicle registrations in 2023 (See Chart 1 below).³⁴ [The Society of Motor Manufacturers and Traders \(SMMT\) forecast](#) that 364,000 and 480,000 battery electric cars, and 23,000 and 44,000 battery electric light commercial vehicles will be registered in the UK in 2024 and 2025 respectively.³⁵ Further, annual heat pump sales in the UK increased from around 27,000 in 2018 to 60,000 in 2023, despite some barriers to uptake (e.g. cost).³⁶ Some stakeholders,

³³ [2024 Q2 Smart Meters Statistics Report \(publishing.service.gov.uk\)](#)

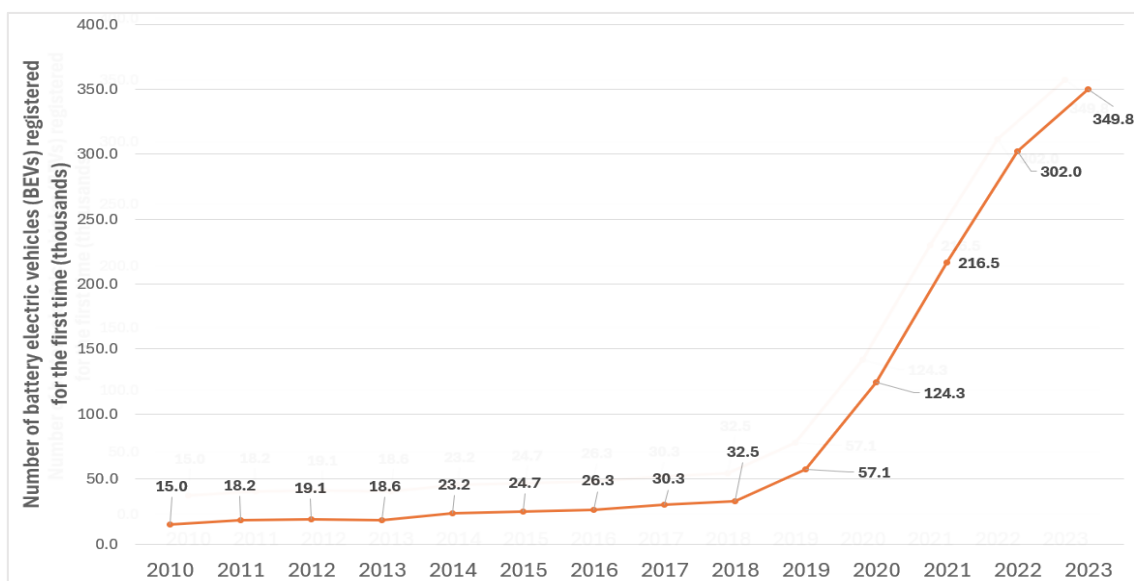
³⁴ Data sourced from Department for Transport, Table VEH1153b. [Vehicle licensing statistics: January to March 2024](#). Note that we are aware that there are data that exist beyond the end of 2023 but have only included data where full years were available.

³⁵ [UK new car and van forecast – July 2024 - SMMT](#)

³⁶ See both [Decarbonising home heating \(nao.org.uk\)](#) and [Statistics - Heat Pumps](#). Note that Heat Pump Association data excludes air-to-air heat pumps.

[including the Climate Change Committee](#) consider that the rollout of smart, low-carbon technologies is not happening quickly enough.

Chart 1: Number of battery electric vehicles registered for the first time in GB³⁷



Data table 1: Number of battery electric vehicles registered for the first time in GB

Year	Number of battery electric vehicles (BEVs) registered for the first time in GB (thousands)
2010	15.0
2011	18.2
2012	19.1
2013	18.6
2014	23.2
2015	24.7
2016	26.3
2017	30.3
2018	32.5
2019	57.1
2020	124.3
2021	216.5
2022	302.0
2023	349.8

³⁷ Data sourced from Department for Transport, Table VEH1153b. [Vehicle licensing statistics: January to March 2024](#). Note that we are aware that there are data that exist beyond the end of 2023 but have only included data where full years were available.

- A1.4 We are committed to helping to enable net zero at lowest cost. Government and ourselves have significant work underway to support the rollout of smart low-carbon technology. For example, government environmental schemes (e.g. [Boiler Upgrade Scheme](#)), [grant funding for EV charge points](#), and our joint work to make these technologies smart, secure and interoperable (e.g. [Smart and Secure Electricity \(SSES\) programme](#)).
- A1.5 We are ensuring that these new technologies can effectively participate in the energy system through our Flexibility Digital Infrastructure (FDI) work. Our recent consultation on [Flexibility Market Asset Registration](#) proposed a common registration approach to make it easier for these new technologies to enter flexibility markets.
- A1.6 **Access to Data:** Energy system changes are creating new types of data (e.g. smart meter data, asset data and energy system data). We want market participants to have appropriate access to data to enable innovative products and services.³⁸ Government and ourselves have significant work underway to deliver this.
- A1.7 We are [encouraging better use of data](#) to modernise regulated market activities and regulation itself. We have consulted on introducing a new [consumer consent solution](#) to the market, improving access to consumer energy data (including smart meter consumption data) while ensuring consumers retain control over who uses their data and for what purposes.
- A1.8 The DESNZ innovation program [Smart Meter Energy Data Repository](#) is seeking to improve access to smart meter data and find alternative ways to publish this information. [Government is exploring options for setting up smart data schemes](#) to allow customers to securely share their own data with authorised third parties. These third parties can provide innovative products and services to improve customer decision making and engagement in the market.
- A1.9 We are proposing to introduce a requirement for code bodies to share more data with all market participants, through the [Data Best Practice guidance](#). This is already a requirement on network licensees. We are also consulting on the governance structure for a [Data Sharing Infrastructure](#) to allow for the exchange of sensitive information between trusted participants.

³⁸ The extent of market participant's access to data will depend on the data type.

A1.10 Government is also bringing in [new requirements for energy tariff data](#) to be openly available in an interoperable format.

Commercial incentives

A1.11 **Competitive pressures:** Competitive market forces should commercially incentivise parties to develop products and services to actively compete to acquire and retain customers.

A1.12 The market is now transitioning away from the energy price crisis. Our new financial resilience rules we have put in place will ensure a more sustainable form of competition can embed in the supply market. The Ban on Acquisition-only Tariffs (BAT) has been retained - chiefly as a price protection measure and to preserve consumer trust in the market, rather than for market stability purposes. As a market stability measure, the BAT largely acted as a complement to the [Market Stabilisation Charge \(MSC\), which has now lapsed](#).

A1.13 We are starting to see some early positive signs of competition. For example, we are starting to see some small gaps re-emerge between tariff prices offered by different domestic suppliers (i.e. positive price competition).³⁹ However, challenges remain, and competition remains relatively subdued. For example, [domestic consumers trust energy suppliers less](#) than they trust providers in a number of other sectors. Improving routes to market and consumer trust could help drive further competition.

A1.14 **Price signals for net zero:** Reforming markets for net zero at lowest cost (e.g. to unlock the value of demand-side flexibility), will create new opportunities for innovative products and services, (e.g. dynamic time-of-use tariffs). To facilitate innovation, respondents to government's retail innovation CfE highlighted the importance of price signals that are aligned with a decarbonised energy system. Some considered that markets and price signals are currently insufficient to develop products and services to enable net zero at lowest cost.

A1.15 Government acknowledged that price signals are an important building block for innovation. We have a wide range of work underway to reform markets and price signals (e.g. [Review of Electricity Market Arrangements \(REMA\)](#) and network charging reform programmes⁴⁰) to deliver clearer, more granular signals to enable a low-cost transition (e.g. appropriately rewarding consumers for being flexible). MHHS ensures that suppliers are exposed to these signals.

³⁹ [Retail market indicators | Ofgem](#). Retail price comparison by company and tariff type: Domestic (GB)

⁴⁰ For example, see [Network charging and access reform | Ofgem](#)

We will ensure that the [right incentives and governance are in place so that MHHS is delivered rapidly to ensure the benefits flow through to consumers.](#)

Market and regulatory structures:

- A1.16 **Pathways to test innovation:** There needs to be appropriate pathways for market participants to test and trial innovative products and services.⁴¹ We already provide support to innovators. Our Fast Frank Feedback (FFF) service provides feedback on what they can and cannot do, and our Energy Regulation Sandbox enables innovators to trial new arrangements. Our FFF service has engaged with over 500 innovators across a range of areas since it was established in 2016. Further, we have granted a total of 12 sandboxes since 2017 to trial and test new products and services.
- A1.17 We recently consulted on introducing a new [Future Regulation Sandbox \(FRS\)](#) to allow us to test and trial energy rule changes in a controlled environment. Based on the feedback received, we are continuing to work on the design of the FRS to ensure that it delivers on its objectives and meets the needs of innovators and the regulator.
- A1.18 **Routes to market:** To facilitate innovation, there needs to be appropriate routes to market for innovators to sell products and services to consumers. Government's CfE helped identify this as a potential area to do further work. Some stakeholders have highlighted limited routes to market as a barrier to new, innovative products and services. We provide information on current routes to market, existing work underway and options for change in Chapter 5.
- A1.19 **Financial resilience:** Our financial resilience regime is critical to ensure that licensed suppliers are resilient and reduce costs to consumers when supplier failures occur. Ofgem analysis [suggested a net positive impact of these measures on innovation](#), as more sustainable and consistent gross margins should give suppliers greater confidence in their ability to earn a return from investments in developing new offerings. We will continue to ensure that our financial resilience measures remain proportionate, effective and a driver of sustainable competition and innovation. We welcome feedback on how any specific rules interact with any types of potential innovation.

⁴¹See page 7 of [Proposal to introduce the Future Regulation Sandbox \(ofgem.gov.uk\)](#) for a detailed outline of broader views on trialling innovative products and services.

- A1.20 **Access to capital:** To facilitate innovation, market participants need access to capital to research, develop and launch innovative products and services (e.g. investment, loans or government grants).
- A1.21 Some suppliers have noted the importance of profits in facilitating investment in innovation. Under our price cap, we limit the amount that suppliers can charge domestic customers on default tariffs. We are working with government to ensure that default tariffs can evolve to best protect customer interests in a world of more flexible electricity pricing. Suppliers are not capped on the level of profit that they can earn from non-default domestic tariffs, non-domestic tariffs and broader products or services.
- A1.22 Government has provided some funding to help support innovation. For example, the [Alternative Energy Markets Innovation programme](#) made £18m worth of funding available to support the development and demonstration of innovative domestic demand side flexibility propositions in a future energy system.⁴² Government is updating the [Energy Innovation Needs Assessment](#) to help them make informed decisions regarding future innovation support for net zero technologies.
- A1.23 We acknowledge the current wider economic climate creates some financial challenges for many businesses at the moment, and there [may be existing barriers to financial products such as loans](#), particularly for SMEs. However, we are not aware of this being exacerbated for energy market participants.
- A1.24 **Regulatory certainty and investor confidence:** A clear, stable regulatory environment is important to support innovation investment. To provide certainty about our long-term vision, we have published our [multi-year strategy](#). We are working with new government to provide regulatory certainty and investor confidence. We will make sure that any changes we propose to facilitate innovation are designed to provide regulatory certainty.

Consumer awareness, engagement and trust

- A1.25 Innovative products and services could deliver real benefits to consumers. To facilitate the development and uptake of these products and services, consumers need to be aware of them, trust them and be able to engage with them. Consumer awareness, engagement, and trust is currently low.

⁴² [Alternative Energy Markets Innovation Programme \(closed to applications\) - GOV.UK \(www.gov.uk\)](#). Note, this reflects total funding made available by the programme.

- **Consumer awareness:** Consumer awareness of new products and services can present a challenge to uptake. For example, in Spring 2024, [only 34% of people](#) said they knew “a fair amount” or “a lot” about low-carbon heating systems.⁴³
- **Consumer engagement:** Some consumers may be less able to access innovative products and services. For example, the costs of low-carbon or energy efficiency technologies may be more likely to be a barrier for those on lower incomes.⁴⁴ Consumers with limited digital literacy/access,⁴⁵ or broader literacy challenges,⁴⁶ may also find it harder to engage with new products and services. Consumers living in rented premises may also find it harder to access some new products or services.⁴⁷ We want to support inclusive innovation that allows all consumers to benefit.
- **Consumer protection:** New innovative products and services may also create new protection challenges that could damage trust and engagement. For example, new products can be unfamiliar and complex. This could make it harder for consumers to make the right decision for them (e.g. choosing the most appropriate smart tariff).⁴⁸ We also want consumers with different smart technologies to be able to choose the right option for them, and not be tied into specific service providers.

A1.26 Government’s CfE on retail innovation highlighted the importance of consumer engagement (e.g. understanding of key benefits and affordability of products or services) and consumer protection (e.g. lack of regulation of new products and services). We have multiple work programs underway to put consumers at the heart of the transition. These include:

- Working with Government to ensure that [default tariff and price protections](#) can evolve to best protect customer interests in a world of more flexible electricity pricing.

⁴³ [DESNZ Public Attitudes Tracker: Heat and energy use in the home, Spring 2024](#).

⁴⁴ For example, “concerns about possible cost of installation” was the most common reason given (at 51%) for why consumers were unlikely to install a specific low carbon heating system, [DESNZ Public Attitudes Tracker Winter 2023 Heat and Energy in the Home \(Revised\) \(publishing.service.gov.uk\)](#).

⁴⁵ For example, 8% of adults in the UK and 32% of those over 75, lack all or some of the 'essential digital skills for life', even as this trend has shown improvements, [2023 UK Consumer Digital Index and Essential Digital Skills report | Lloyds Bank](#).

⁴⁶ [Adult literacy | National Literacy Trust](#). The picture may have evolved since data was compiled in 2009-12.

⁴⁷ For example, see AMBROSE, Aimee (2015). Improving energy efficiency in private rented housing : what makes landlords act? Indoor and Built Environment, 24 (7), 913-924; [Room for Reform: Embedding fair outcomes for tenants in tomorrow’s retail energy market - Citizens Advice](#)

⁴⁸ For example, see [Innovation in the tariff market: Discussion on how new tariffs can work better for people, Citizens Advice](#)

- Refreshing our [Vulnerability Strategy](#) and making improvements to the [Priority Service Register](#).
- To drive improvements in customer service, over the last year, we have [improved protections for domestic](#) and [non-domestic customers](#). To deliver further improvements and create a more customer centric future, we have launched our [Consumer Confidence](#) package
- This will include ensuring that suppliers understand what 'good' outcomes look like now and in the future, reviewing the balance between prescriptive rules, supportive guidance and cooperative monitoring and compliance, and examining where our rules or guidance could be improved.
- To prepare for the future, government is consulting on options for [regulation of third-party intermediaries](#) (TPI) and is bringing in [new requirements for load controllers and energy smart appliances](#).
- Government is also planning to establish an industry working group focused on evolving the consumer protection framework to support future consumer engagement and trust.

Appendix 2 – Criteria for assessment of innovation options for change

A2.1 The bullets below list our proposed criteria for assessing our options for change. We are also considering whether we should weight these criteria based on importance. If you have any views or comments on these criteria, or on weighting methods we should use, please provide them in your response.

- **Within current vires:** Is the option within Ofgem’s regulatory powers?
- **Scale/scope of expected impact:** What are the costs and benefits, and distributional impacts of the proposed option? Other analysis of impacts.
- **Progress towards/achievement of consumer interest framework objectives:** How well does the option meet the innovation objectives for our four consumer interest pillars: Fair Prices, Quality and Standards, Low-cost Transition and Resilience?
- **Certainty of outcomes:** How well does the option solve the problem(s) that exist in the market?
- **Ease of implementation and operation:** How practical, feasible and sustainable is the option? Are the costs reasonable?
- **Competition impacts:** Does the innovation option impact market competition positively or negatively? We will use the Ofgem competition framework to carry out this assessment.

A2.2 We will assess competition impacts using our [competition framework](#) for the household retail market, applying it where possible to the non-domestic market. We aim to cover:

- The expected competition impacts on consumers including their engagement, satisfaction and choice.
- The expected impacts on market rivalry including the impacts on supplier profitability, resilience and ability to compete in the market.
- The impacts of structural parameters in the market (e.g. the level to which regulatory burdens might be affected by the options we pursue).
- The extent to which we think innovation might be affected by these changes.

Appendix 3 – Examples of supply licence conditions with derogation powers

A3.1 This table illustrates the range of SLCs that include derogation provisions rather than those which might have some innovation aspect. This is not necessarily an exhaustive list, and we may be able to provide derogations from other licence conditions not listed here.

Table A1: Examples of electricity supply licence conditions with derogation powers

Condition	Title
11	Compliance with codes Industry Codes
21BA	Backbilling
22A	Unit Rate, Standing Charge and Tariff Name requirements
22C	Fixed Term Supply Contracts
22D	Dead Tariffs
22E	Unmetered Supply Arrangements
23	Notification of Domestic Supply Contract terms
31E	Overarching requirements
31F	Encouraging and enabling engagement
31G	Assistance and advice information
31H	Relevant Billing Information, Bills and statements of account
31I	Contract changes information
48	The Smart Energy Code

Appendix 4 – Potential ways of defining restricted licences

A4.1 There are different ways in which a “specified area” could be defined:

- Devolved nation (e.g. Scotland, Wales).
- Local government (e.g. County councils, district councils, borough councils, city councils, unitary authorities, London borough, metropolitan boroughs, combined authorities).
- Mayoral region (e.g. London, Manchester, West Midlands)
- City/town/village (e.g. Glasgow, Darlington, Bangor).
- Housing estate, business estate, industrial park (e.g. a specific block of flats, business estate or industrial park).

A4.2 There are different ways in which a “premises” could be defined:⁴⁹

- The features and dimensions of the building (e.g. multi-occupancy buildings, buildings with X number of rooms).
- The fabric of the premises (e.g. premises with double glazing, premises with a driveway).
- The presence of equipment in the building (e.g. EV charging point, battery storage, solar panels).
- The building’s purpose (e.g. domestic house, school, hospital).
- The metering arrangements (e.g. smart meters, PPM meters).
- The owners or managers of the building (e.g. housing association, local authority).

A4.3 Our example definitions for “premises” focus on the premise itself, rather than defining the premise based on the occupants of the premise, which may change more frequently.

A4.4 An applicant may seek to combine a geographic region and a premises. For example, it may seek a restricted licence for social housing premises in Scotland.

⁴⁹ All “premises” need to be in a “relevant place” (i.e. within in Great Britain, in the territorial sea adjacent to Great Britain or in a Renewable Energy Zone).

Appendix 5 – Summary of questions

Questions relating to Chapter 3 – Innovation in the retail market

Q1: What innovation is currently happening in the domestic and non-domestic retail markets? What is the scale of this innovation?

Q2: What innovation should happen to meet consumers' needs and meet net zero?

Q3: What will be the impact on consumers of new, innovative products and services? How can we maximise the benefits and minimise the risks?

Questions relating to Chapter 4 – Enablers and barriers to innovation

Q4: Are there any additional enablers or barriers to innovation?

Q5: What is the most significant barrier to innovation? Why?

Q6: What innovation is not happening because of regulatory barriers?

Q7: Should we do further work to improve routes to market?

Questions relating to Chapter 5 – Options to improve routes to market for products or services that involve selling energy

Q8: What is the most attractive route to market? Why?

Q9: If you think that we need to improve routes to market, which option do you think should be our top priority and why?

Q10: What are your views on the options presented for amending routes to market? What would be the risks and benefits of each option?

Q11: To facilitate innovation, which licence conditions would most benefit from being reformed?

Q12: Are there any other improvements to routes to market which should be considered as part of enabling significant innovation in the retail market?

Appendix 6 – Your response, confidentiality and privacy

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

Privacy notice on consultations – personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR). Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

None.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact [the ICO](#), or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information: For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)"

