



Department for  
Energy Security  
& Net Zero

# Towards a more innovative energy retail market

A Call for Evidence

Closing date: 18 September 2023

July 2023



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# Introduction

The ongoing transformation of the energy system will substantially alter the landscape of the retail market. By the mid-2020s we expect to see progress towards rebalancing the relative prices of gas and electricity, further expansion of the smart meter rollout, the implementation of Market-Wide Half Hourly Settlement (MHHS), new technical standards for energy smart appliances and energy tariffs through the Smart and Secure Energy Systems<sup>1</sup> (SSES) programme, as well as the continued growth in intermittent renewable generation and electrification of heat and transport. Government and Ofgem also continue to deliver actions from the joint Smart Systems and Flexibility Plan<sup>2</sup> and Energy Digitalisation Strategy<sup>3</sup> to remove barriers and reform markets to reward flexibility. The Review of Electricity Market Arrangements<sup>4</sup> (REMA) programme is also assessing whether to make changes to the wholesale electricity market, which could also have implications for the retail market towards the end of the decade and into the 2030s.

The retail market is not currently supporting the change that we need to deliver our objectives: that the energy retail market should work better for consumers, be more resilient and investable, and support wider system transformation. This was true even before the recent unprecedented rises in global gas prices. The vast majority of domestic consumers continue to be supplied by a static tariff that does not regularly adjust to reflect changes in the underlying wholesale cost of energy, and where the final cost to the consumer is determined by the amount of energy that is consumed.

There has been some business-led innovation in the market, such as the introduction of some smarter 'Time of Use' tariffs (which offer different prices throughout the day to encourage consumers to use electricity at times when more is cheaply available) and 'bundling' (whereby additional products or services are sold to consumers as part of their energy supply), but these are limited to a small subset of the market at present. In the non-domestic market, there has historically been more innovation and diversity of offerings. For example, larger non-domestic organisations, such as Industrial and Commercial (I&C) businesses, have been more likely to make use of energy management services (such as those facilitated by advanced metering) and to manage their energy consumption flexibly. However, the market for energy management offerings for smaller organisations is less developed and securing engagement from smaller organisations is more challenging<sup>5</sup>.

We believe there is potential for the retail market to play a driving role in the energy transition, but that this will not happen unless we see a step change in innovation. The opportunities that unlocking a more innovative retail market could bring for both consumers and companies are significant. Consumers should have access to a far greater range of products and services, better tailored to their individual needs. Retailers that can seize the opportunity to offer greater overall value to their customers should be well placed to grow and secure sustainable levels of profit. There are also wider benefits, with new approaches to energy supply that better align with our net zero ambitions, for example by providing incentives to shift consumption away

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<sup>1</sup> <https://www.gov.uk/government/consultations/delivering-a-smart-and-secure-electricity-system-the-interopability-and-cyber-security-of-energy-smart-appliances-and-remote-load-control>

<sup>2</sup> <https://www.gov.uk/government/publications/transitioning-to-a-net-zero-energy-system-smart-systems-and-flexibility-plan-2021>

<sup>3</sup> <https://www.gov.uk/government/publications/digitalising-our-energy-system-for-net-zero-strategy-and-action-plan>

<sup>4</sup> <https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements>

<sup>5</sup> <https://www.gov.uk/government/publications/non-domestic-smart-energy-management-innovation-competition-ndsemic-evaluation-findings>

from peak times and reduce overall costs, reduce energy usage, and support adoption of low carbon-technologies. Building a smart, flexible, and digitalised energy system that actively manages the scale and nature of demand will enable a more efficient, secure, and lower cost system. Flexibility from technologies such as electricity storage, smart charging of electric vehicles, flexible heating systems and interconnection could save up to £10 billion per year by 2050, by reducing the amount of generation and network needed to decarbonise electricity.

We recognise that there is a lot of change already in the 'energy transformation' pipeline, and that the full implications of this for the retail market are unlikely to fully manifest until the medium-to-long-term. However, in its current state, there is a risk that the retail market will act as a constraint on this system transformation by limiting the extent to which both consumers and retailers can adapt to the new opportunities and challenges that it will provide.

That is why we need to be thinking now about how the market framework needs to evolve to be ready for this change. We must future proof the market so that in the short, medium, and long term it delivers good outcomes for consumers, ensures market stability, supports decarbonisation, remains agile and responsive to market changes, while continuing to hold market participants to robust, proportionate regulatory standards. Underpinning this is the need for a framework that fosters greater competition and innovation.

# General information

## Aims of this Call for Evidence

Whilst there is broad consensus that the current retail market is unlikely to deliver the innovation required for a net zero energy system, there is no such consensus on the extent to which government intervention is needed or on where any interventions should be targeted. To enable government to assess the case for intervention and develop potential options for consultation later this year, across both domestic and non-domestic market segments, we are asking stakeholders for evidence on:

- Aspects of the current retail market framework which act as barriers or enablers for innovation, or that might prevent the retail market from supporting system transformation.
- Wider considerations that will be important for achieving our objectives in the future retail market (for example, in relation to consumer protections and arrangements for handling supplier exits).
- The trade-offs that will come with pursuing greater innovation in the retail market, including between our overall objectives for market reforms.
- Lessons that can be learned from other market segments (non-domestic and domestic), other sectors, or other geographies. Unless a question specifically highlights a particular sector, we are interested in responses regarding both the domestic and non-domestic markets, and where there are similarities or differences between the two.

In this Call for Evidence, we are primarily interested in the innovation process at the point of commercialisation and act of getting new products, services, and business models to market. This includes both mass market adoption, but also how our regulatory framework may be able to better enable experimentation to support product development. We are interested exclusively in the GB Energy Retail Market.

Throughout the Call for Evidence we refer to “retailers”, by which we mean organisations that are involved in and support the supply of gas and electricity to end consumers across the domestic and non-domestic sectors. This includes licensed suppliers but also companies providing other services to end consumers (such as flexibility services). We are also interested in hearing from potential retailers which may not currently be active in the market.

We approach the challenges facing the market framework through the lens of our three objectives for the future retail market: that it should work better for consumers, be more resilient and investable, and support wider system transformation. We start with the retail market’s role in supporting wider system transformation.

## Consultation details

**Issued:** 24 July 2023

**Respond by:** 18 September 2023

**Enquiries to:**

Retail Energy Markets & Consumers Team  
Department for Energy Security and Net Zero  
Floor 3, Abbey 1  
1 Victoria Street  
London  
SW1H 0ET

Email: [innovationcfe@energysecurity.gov.uk](mailto:innovationcfe@energysecurity.gov.uk)

**Consultation reference:** Towards a more innovative energy retail market

**Audiences:** This Call for Evidence will be of particular interest to the energy industry, innovators, non-governmental organisations (NGOs), consumer groups, academics, and policy think-tanks.

The Call for Evidence is not limited to these stakeholders; any organisation or individual is welcome to respond.

**Territorial extent:** The territorial scope of this publication is GB wide, while recognising that certain energy policy areas are devolved in some jurisdictions, such as the provision of consumer advice and advocacy in relation to gas and electricity.

This publication cites data in relation to the GB energy market and refers to energy policy schemes that operate across GB, unless it states otherwise. This Call for Evidence will inform future policy development by government in areas where it is responsible for energy policy and related matters, and engagement with devolved administrations in relation to devolved policy.

## How to respond

We encourage respondents to make use of the online e-consultation wherever possible when submitting responses as this is government's preferred method of receiving responses. However, responses in writing or via email will also be accepted. Should you wish to submit your main response via the e-consultation platform and provide supporting information via hard copy or email, please be clear that this is part of the same consultation response.

**Respond online at:** <https://beisgovuk.citizenspace.com/energy-security/towards-a-more-innovative-energy-retail-market-cfe>

or

**Email to:** [innovationcfe@energysecurity.gov.uk](mailto:innovationcfe@energysecurity.gov.uk)

**Write to:**

Retail Energy Markets & Consumers Team  
Department for Energy Security and Net Zero  
Floor 3, Abbey 1  
1 Victoria Street  
London  
SW1H 0ET

Your response will be most useful if it is framed in direct response to the questions posed, and with evidence in support wherever possible. Further comments and wider evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation.

## Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

Government and Ofgem have worked together on the contents of this Call for Evidence and will continue to do so in determining the direction of retail market reform. We therefore anticipate that some responses to this Call for Evidence will be shared with Ofgem. If there is a particular reason a response should not be shared, consultees should indicate so in their submission.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).



We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

## Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: [bru@energysecurity.gov.uk](mailto:bru@energysecurity.gov.uk).

## Supporting wider system transformation

The retail market has a significant role in supporting the transition to net zero – from delivering low carbon technologies to consumers, to empowering those consumers to be more flexible in how and when they use energy.

The current regulatory framework puts the licensed supplier at the core of the market, typically the main point of contact for consumers and responsible for a wide range of commercial, operational, and social functions. More recently, the importance of suppliers has been reflected in the critical role they have undertaken in delivering energy price support to consumers.

As set out in *Powering Up Britain: Energy Security Plan*<sup>6</sup>, we will not be considering a fundamental overhaul of the retail market regulatory framework in the short or medium term. Any alternative approach involving radical change to the supplier role would involve significant trade-offs, and there is no clear lead option that we have identified that would better achieve our market objectives and crucially, be in consumers' interests. For example, we think there remains significant value in the fact that consumers can have a single, easy to understand, point of contact in the market through their energy supplier, which radical reforms could complicate. Licensed suppliers will continue to play a central role in the energy system, including the delivery of current industry transformation programmes. For example, suppliers have a key role in the delivery of the Smart Meter Rollout and implementation of MHHS, which are critical building blocks that will underpin the future retail market and better enable conditions for new products and services than the market allows for today.

Energy suppliers are responsible for the delivery of the smart meter rollout across Great Britain, which includes installing meters, and providing consumers with advice before, during and after installation. 57% of energy meters in Great Britain are now smart, with 32.4 million smart meters installed in homes and small businesses at the end of March 2023. Government wants as many consumers as possible to be able to benefit from smart metering and introduced individual minimum annual installation targets for energy suppliers at the beginning of 2022. This four-year policy framework will run until 31 December 2025, further driving the momentum of the rollout.

Smart meter data will facilitate MHHS from 2025-26, meaning energy suppliers will be exposed to the true cost of their customers' usage throughout the day. This will incentivise suppliers to offer products that empower consumers to reduce their demand away from high priced periods, such as Time of Use tariffs, battery storage and smart EV charging.

Signalling the prospect of comprehensive reform would also introduce considerable regulatory uncertainty, which could deter potential investors and potentially undermine work to increase market stability. Intervention would be highly complex to deliver, entailing significant deliverability challenges, risks, and a wide range of potential unintended consequences, including for the design of consumer protections.

However, we know that current market arrangements are seen by some stakeholders as a barrier to innovation and may impede new types of business models and services from emerging. Stakeholders have reported that the regulatory regime is complex, prescriptive and

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<sup>6</sup> <https://www.gov.uk/government/publications/powering-up-britain>

does not easily accommodate non-traditional retailers, effectively leading to a 'one size fits all' approach to supply with minimal product differentiation. As government, we want to ensure that the market framework does not block or inhibit new supply propositions, or prevent the development of new business models, where these are in the interests of consumers.

Therefore, government intends to pursue a targeted approach to regulatory reform and welcomes views on what specific barriers may exist that are preventing the development and uptake of innovative new retail propositions. This includes in relation to any specific function or obligation currently placed on suppliers by virtue of the regulatory framework. While we are not considering radical reform, intervention could still entail changes to the supplier role, by modifying or removing aspects which are particularly complex and burdensome.

**1. Are there elements of the retail market regulatory framework that currently restrict existing or potential retailers' ability to offer new products or services, or operate new business models?**

There are several options available to parties seeking to enter the retail market and/or supply energy to consumers. They may choose to apply for a full supply licence, partner with an existing supplier, use a supply class exemption, or apply for an individual exemption. Options are also available for parties to apply for geographically restricted licences, or derogations from aspects of the supply licence.

Alternative supply options may have seen limited uptake for several reasons. These might include a lack of incentives to partner with third parties and allow new business models into the market, or the complexity of commercial arrangements for new entrants. Licence-Lite<sup>7</sup> still requires compliance with all other aspects of the supply licence and may not sufficiently lower regulatory barriers to encourage market entry. The threshold for exempt supply is limited and will still require licensed supplier services, while current exemptions policy is that in most cases it is not appropriate to grant an individual exemption from the requirements of the supply licence. We also know that the Universal Service Obligation, while likely to remain a fundamental principle in the domestic retail market, also brings with it implications for innovators, and that some have called for its design to be revised.

In the absence of radical change to the regulatory framework, we are interested in assessing how new alternative routes to market could be developed, or existing routes improved. For instance, one potential option that we could consider further is multi-party settlement, or 'meter-splitting'. This would allow for multiple suppliers to become responsible for supplying energy volumes to a single metering point, and potentially make it easier for specialist suppliers to enter the market. An industry-led code modification was withdrawn in 2021<sup>8</sup> but analysis<sup>9</sup> conducted by Cambridge Economic Policy Associates (CEPA) suggested that the proposal be reconsidered in a future retail market with more smart meters, MHHS, and greater deployment of low carbon technologies.

**2. What, if any, alternative routes to market should we be considering further? Do these differ for domestic and non-domestic supply markets?**

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<sup>7</sup> Licence Lite is an option that allows for a new supplier to enter the electricity supply market, by partnering with an existing supplier who discharge certain industry code requirements on their behalf. More detail can be found here: <https://www.ofgem.gov.uk/publications/licence-lite-factsheet>.

<sup>8</sup> <https://www.elexon.co.uk/article/modification-p379-is-withdrawn-but-learnings-can-support-future-change/>

<sup>9</sup> [https://www.cepa.co.uk/news-insights/view/CEPAs\\_Impact\\_Assessment\\_helps\\_industry\\_to\\_determine\\_merits\\_of\\_Electricity\\_Meter\\_Splitting](https://www.cepa.co.uk/news-insights/view/CEPAs_Impact_Assessment_helps_industry_to_determine_merits_of_Electricity_Meter_Splitting)

### **3. What, if any, changes could be made to improve existing routes to market that do not require obtaining a supply licence?**

One way that government and Ofgem can foster innovation in the market is via the use of experimentation and trialling. There are several options available that can support innovators. Ofgem's Innovation Link<sup>10</sup> offers support to innovators looking to trial or launch new supply propositions. This includes use of a regulatory sandbox which can offer bespoke guidance, regulatory comfort or offer relief from specific requirements. The Alternative Energy Markets Innovation Programme<sup>11</sup> will explore how measures such as alternative pricing systems or other market solutions could enable large scale deployment of demand side flexibility, and whether these measures could be trialled. Phase 1 projects were announced in May and will explore the design of innovative tariffs, products, or services in a future energy system where electricity market arrangements may look different from today. The Net Zero Innovation Portfolio<sup>12</sup> funds several programmes which could help to support the development and uptake of future supply propositions, including the Flexibility Innovation Programme (to support innovative solutions to enable widespread system flexibility) and the Heat and Buildings Innovation Programme (to support decarbonising our homes and buildings).

We are interested in understanding whether the existing tools already available to innovators are sufficient, or whether there are additional support options we could develop that would facilitate more industry trials and experimentation. We are also keen to understand whether any improvements could be made to existing regulatory support. From engagement with stakeholders, we are aware that there are potential limitations which might reduce the effectiveness of existing options. For example, sandboxes do not have a clear route from trial to industry reform, do not easily allow for innovations to be tested at scale, while derogations are only available from a subset of existing industry rules.

### **4. What improvements could be made to the current funding and testbed landscape for innovation? Is this sufficiently targeted at enabling the development of new energy supply propositions?**

A considerable amount of capital investment will be required to deliver the low-carbon and flexible technologies needed in a retail market that supports the transition to net zero, and consumers must be able to access these technologies in an affordable and straightforward way. There are a number of government schemes aimed at tackling this issue in the energy sector, including the Boiler Upgrade Scheme<sup>13</sup> to reduce the cost of clean heat technologies, and the Energy Company Obligation<sup>14</sup> and Great British Insulation Scheme<sup>15</sup> which support consumers to make energy-saving improvements to their home. The *Mobilising Green Investment: 2023 Green Finance Strategy*<sup>16</sup> also sets out a framework for supporting low-carbon technologies as they grow to commercialisation. The development of innovative domestic finance propositions is also supported through the government's Green Home Finance Accelerator programme (GHFA)<sup>17</sup>, part of the Net Zero Innovation Portfolio. The GHFA is providing up to £20 million grant funding to support UK finance providers and other

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<sup>10</sup> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/innovation-link-share-your-energy-ideas>

<sup>11</sup> <https://www.gov.uk/government/publications/alternative-energy-markets-innovation-programme>

<sup>12</sup> <https://www.gov.uk/government/collections/net-zero-innovation-portfolio>

<sup>13</sup> <https://www.ofgem.gov.uk/environmental-and-social-schemes/boiler-upgrade-scheme-bus>

<sup>14</sup> <https://www.ofgem.gov.uk/environmental-and-social-schemes/energy-company-obligation-eco>

<sup>15</sup> <https://www.ofgem.gov.uk/environmental-and-social-schemes/great-british-insulation-scheme>

<sup>16</sup> <https://www.gov.uk/government/publications/green-finance-strategy>

<sup>17</sup> <https://www.gov.uk/government/publications/green-home-finance-accelerator>

organisations to design, develop and pilot a diverse range of innovative finance propositions which encourage domestic energy efficiency, low carbon heating retrofit and micro-generation.

We are interested in views on what role the retail market can play in the delivery of these new technologies to consumers, and whether the policy and regulatory framework sufficiently incentivises retailers to do this. For example, we are interested in whether retailers are considering business models that are based on the financing of low carbon assets (for example, tariffs bundled with assets such as an EV charger, solar panels, or batteries), or partnering with other organisations to deliver upfront capital investment. We are aware that there is a careful balance to be struck to ensure that retailers are able to recover the costs of providing these products without unfairly locking consumers into long-term agreements.

- 5. What role could retailers play in deploying the capital investment needed for net zero? Do retailers have the right incentives to support investment in net zero technologies?**
- 6. Are existing retailers considering partnering with other organisations to deliver low carbon technologies to consumers? Are there any regulatory barriers to retailers partnering with non-licensed entities?**

There are several ongoing wider energy system reform programmes which together act as fundamental building blocks that will underpin the retail market in the future, and their timely delivery remains crucial. Overall, unlocking widespread system flexibility will reduce the need for network reinforcements, reduce the amount of additional generation required, reduce renewable curtailment, and reduce the carbon intensity of energy usage.

REMA is considering potential changes to wholesale electricity markets to provide the right signals for flexibility across the energy system.

The rollout of smart meters and implementation of MHHS should incentivise retailers to shift their customers' consumption away from peak periods.

The Smart and Secure Electricity System programme will ensure we have the right technical framework to unlock flexibility and give consumers confidence to engage with a smart energy system.

The Smart Systems and Flexibility Plan and Energy Digitalisation Strategy, joint with Ofgem, sets out actions in the near term to enable consumer flexibility and unlock the benefits of energy data.

Government is considering the role of rebalancing gas and electricity prices in incentivising the system-wide electrification required to reach Net Zero, and in ensuring that consumers who do opt for low-carbon technologies see the benefits.

There is a key role for the retail market in empowering consumers to change their consumption patterns to match times of cheap and abundant low carbon electricity and give consumers greater control over their energy use and comfort levels. A number of new business models and supply propositions might emerge in the future market which could unlock flexibility for consumers. As noted previously, we have seen some retailers offering smarter Time of Use tariffs that aim to incentivise flexibility, by offering dynamic prices that encourage consumers to shift consumption away from peak times. Energy-as-a-Service (EaaS) models, which focus on outcomes (such as a guaranteed temperature) rather than billing based on commodity usage

and allow consumers to access low-carbon technologies without up-front costs, could also play an important role. Both of these examples could include automation of flexible consumption through remote control of smart energy devices (such as an EV charger or a heat pump) by the retailer, which would allow consumers to shift their consumption away from peak periods without having to make regular active choices.

- 7. How can the retail market play an active role in unlocking flexibility in the energy system?**
- 8. How can retailers actively encourage and support consumers to engage in flexible consumption behaviour (including through automation and remote control of smart devices)? What barriers currently prevent retailers from doing so?**
- 9. What lessons can be learnt from the success of the ESO's Demand Flexibility Service with respect to encouraging consumers to engage in flexible behaviour?**

Generators and retailers trade in the wholesale electricity market in half-hourly periods, whilst most electricity consumers are currently settled on a non-half-hourly basis using estimates of when they use electricity (based on a profile of the average consumer usage and meter readings). This reliance on estimates means retailers are not exposed to the true cost of supplying their consumers throughout the day, reducing their incentive to offer tariffs or other products which enable and encourage more flexible use of energy.

Under Market-Wide Half-Hourly Settlement (MHHS, scheduled to be implemented in 2025-2026), consumers will be settled on a half-hourly basis by default, allowing greater differentiation of individual consumer profiles and exposing retailers to the true cost of their customers' usage throughout the day. This will provide retailers with a greater incentive to shift their customers' consumption away from peak periods (through Time of Use tariffs or other products, such as battery storage, which enable flexible consumption), leading to a reduction in generation and network demand in these periods.

Government believes that MHHS is a key enabler of the energy market of the future and expects Ofgem and industry to work together to ensure timely implementation. We recognise that there have been significant developments in both retail and wholesale electricity markets since the original MHHS business cases and analysis<sup>18</sup> were conducted – not least unprecedented volatility, the subsequent announcement of REMA and a new vision for the retail market. There is also now greater clarity on the operating model and delivery plan for MHHS itself.

- 10. Do developments since the original MHHS decisions bring with them any new expectations for the benefits and/or risks of the transition to this new settlement process?**
- 11. Do you expect MHHS to impact the tariffs retailers offer in the market? Why? When do you expect to see these changes (i.e. pre-2025, during the transition to MHHS, or after the full migration of customers)? Can you provide examples?**
- 12. Do retailers have access to the datasets and digital tools necessary to develop and offer innovative tariffs, once MHHS is in place? What are the barriers?**

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<sup>18</sup> <https://www.ofgem.gov.uk/publications/electricity-retail-market-wide-half-hourly-settlement-decision-and-full-business-case>

**13. Across this innovation-focused section as a whole, have we captured the main barriers and opportunities for the energy retail market to play a greater role in the wider transformation of the energy system? Which of these barriers to innovation is the most important?**



## Working better for consumers

As the main interface between energy users and the wider energy system, the energy retail market can play a crucial role in making sure that consumers benefit from the transition to a net zero energy system.

Changes to wholesale markets, smart metering and MHHS, alongside new technical standards on energy smart appliances and tariffs, should collectively incentivise retailers to develop offerings that create new opportunities for consumers. Smarter technologies, tariffs, and services will empower consumers to engage with more accurate price signals and benefit from adjusting their energy usage to better align with the availability of low-carbon electricity. In a well-designed future market, these changes should present opportunities to all consumers, regardless of their level of engagement, energy needs, or income.

### **Case studies<sup>19</sup>: Innovation and the potential benefits for consumers**

*In the current retail market there are some early cases that demonstrate the opportunities provided to consumers by innovative energy supply offerings. These remain limited in scope and in the future government expects to see a much wider range of offers, tailored to the individual needs of all consumers.*

[National Grid ESO's Demand Flexibility Service](#): Last winter, 1.6 million households and businesses took part in the National Grid's Demand Flexibility Service, which rewarded customers for reducing demand at peak times. The level of engagement with the scheme demonstrates the potential that can be unlocked when consumers are incentivised to think about how and when they use energy – individual consumers can save money on their energy bills while as a country we benefit from strengthened energy security. National Grid is developing a future scheme, with the potential for even more households to be able to participate next winter.

[Intelligent Octopus](#) and Octopus Electric Vehicle (EV) Salary Sacrifice Scheme: Intelligent Octopus is a 100% flexible charging tariff that optimises consumers' EV charging, offering lower bills whilst simultaneously helping to balance the grid. Consumers looking for an end-to-end package can pair this tariff with Octopus's salary sacrifice scheme and access a brand-new EV, insurance, servicing and maintenance, breakdown cover, a free home charger, and the energy to power the car – all through their energy supplier. All this is paid for through a pre-tax salary sacrifice, saving customers up to 40% on the cost of a brand-new electric car. EV drivers can also sign-up for Octopus Electroverse, which gives drivers one-tap access to 430,000 public chargers across the UK & Europe.

[Ripple Wind Farm Co-Op](#): Ripple Energy is a shared ownership platform. It enables households and businesses to own wind farms and solar parks via cooperatives and get savings on their electricity bills. The cooperative owns the wind farms, Ripple's role is that of a managing agent. The electricity generated is sold to the owners' licensed energy suppliers, who then apply a saving to each owner's bill, leading to lower and more stable bills. The amount of saving varies according to the amount owned, and wholesale electricity prices. The nature of the scheme means that higher wholesale prices result in higher savings for owners. A typical small family living in a 3-bed property, who invested

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<sup>19</sup> These case studies are included here for illustrative purposes and should not be interpreted as government's view on which energy supply products or services are likely to be most important or widespread in the future.



£1,000 in the pilot scheme, is expected to save £415 this year due to current high prices and up to £3,000 over the 25-year lifespan of the wind farm<sup>20</sup>.

Government has done significant work to encourage uptake of smart technologies, including mandating smart functionality for EV charge points<sup>21</sup>, taking forward plans to institute similar mandates for heat pumps<sup>22</sup>, and progressing the smart meter rollout (including requiring energy suppliers to provide domestic consumers with In-Home Displays to help them manage their energy use and making several recent changes to improve access to energy data for non-domestic customers with smart meters<sup>23</sup>). Those who choose to engage with smarter products and services stand to gain from lower bills and better tailoring to their individual needs. Equally importantly, we expect that unlocking greater flexibility in energy consumption will lower costs for everyone by reducing the amount of generation and network capacity needed and by extension, reducing system costs. As part of the Smart and Secure Electricity System programme, government has committed to developing a new licence around the provision of flexibility services to domestic and smaller non-domestic customers. Consumer protection measures will be at the heart of this licence, such as potential obligations on providers to determine the suitability of flexibility services for customers before sign-up, including by considering any vulnerabilities a particular customer may face.

We also believe that a more innovative retail market will bring with it the opportunity to make better use of consumer data and digital tools. With appropriate consumer consent, opportunities for the consumer include access to more tailored products and services, alongside wider benefits such as enabling more effective targeting of support to consumers who face barriers to engagement, including those in vulnerable circumstances.

**14. Are there further ways through which a more innovative market could improve outcomes for consumers? Please provide examples of specific retail propositions or new technologies.**

With these opportunities also come some risks, and it is therefore crucial to make sure the right consumer protections are in place. Protections must be designed in such a way that they prevent bad outcomes for consumers, while still enabling them to access the benefits that innovation can bring. For this Call for Evidence we are interested specifically in non-price consumer protections.

One critique of the current retail market is that trust and engagement between consumers and retailers is sometimes lacking<sup>24</sup>. As covered in the above section, some business models in the future retail market may require longer-term contracting, such as deals which include bundled assets like solar panels or batteries, the costs of which need to be recovered by the provider. In some cases, such arrangements could risk consumers finding themselves on an unsuitable – potentially long-term – deal facing complicated switching arrangements. Additionally, key to making the most of the opportunities presented by data and digital tools will be consumers

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<sup>20</sup> Figures provided by Ripple Energy.

<sup>21</sup> <https://www.gov.uk/government/consultations/electric-vehicle-smart-charging>,

<https://www.gov.uk/government/publications/electric-vehicle-smart-charging-action-plan>

<sup>22</sup> <https://www.gov.uk/government/consultations/delivering-a-smart-and-secure-electricity-system-the-interoperability-and-cyber-security-of-energy-smart-appliances-and-remote-load-control>

<sup>23</sup> <https://www.gov.uk/government/consultations/maximising-non-domestic-smart-meter-consumer-benefits-improving-the-data-offer-and-enabling-innovation>

<sup>24</sup> <https://www.ofgem.gov.uk/publications/consumer-first-panel-attitudes-towards-current-energy-market-and-price-cap>

consenting to share their data with retailers. We will need to ensure that consumers can do this in a straightforward way while maintaining trust.

- 15. What more can retailers do to build greater trust with their customers? What can government do to support this?**
- 16. What mechanisms might be needed for consumers to exit contracts or switch providers if they have a material change in circumstances? What arrangements will be needed to ensure that retailers can recover the costs of assets provided to consumers who want to switch to a different provider?**
- 17. Can you provide examples of other opportunities from, barriers to, or risks associated with, longer-term contracting?**
- 18. What opportunities and benefits might better use of consumer data by retailers provide consumers in the future? We would welcome specific evidence on:**
  - 18.1 What data sets, when shared with authorised third parties or suppliers, are necessary to support consumers with more tailored interventions?**
  - 18.2 What information, currently held by suppliers about the goods and services that they provide, should be more accessible to customers to improve their engagement with the market?**
  - 18.3 How retailers might do more to promote the benefits of greater access to consumer data and ensure that consumers are aware of data privacy protections.**
- 19. Where are the biggest risks to consumer perception around the smart products and services that might emerge in the future retail market? How likely are these risks? Are there mitigations?**

One cause of potential detriment is that increasing tariff complexity and diversity of retail supply offerings mean some consumers end up on deals that are a bad fit for them. We see this risk being particularly acute in the mid-to-late 2020s, once MHHS is in place and smarter retail offerings reach beyond early adopters and to a much wider group of consumers. It will also be important that consumers understand how their choices, including the choice to select a green tariff, can support decarbonisation. Alongside this Call for Evidence, government is publishing a summary of responses to the Call for Evidence on *Designing a framework for transparency of carbon content in energy products*. Transparency and accurate information about new tariffs and technologies will be key to ensuring consumers are aware of the realities of more complex retail offerings and how they may impact their bills.

Third Party Intermediaries (TPIs) often act as an interface between customers and licensed entities in the market. Brokerage services are a common feature of the non-domestic market and price comparison websites play a key role in informing domestic consumers of the best available deals. TPIs in the retail market are not currently directly regulated, although some voluntary codes of practice and accreditation schemes exist. Alongside this Call for Evidence, we are also publishing a summary of responses to our Call for Evidence on *Third-party intermediaries in the retail energy market*<sup>25</sup>.

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<sup>25</sup> <https://www.gov.uk/government/consultations/third-party-intermediaries-in-the-retail-energy-market-call-for-evidence>

Government's *Smarter Tariffs – Smarter Comparisons*<sup>26</sup> project outlined how current tariff comparison tools in the domestic retail market limit the ability of consumers to understand the potential benefits of smart tariffs and technologies. The project also developed a prototype comparison tool which demonstrated how smart meter data can be integrated into comparison tools to improve consumer experience and the accuracy of comparisons. The Non-Domestic Smarter Tariff Comparisons Innovation Programme<sup>27</sup>, launched in May 2023, will be looking at how to make better use of consumer data and comparison tools in the non-domestic market.

Government confirmed in our response to the *Delivering a smart and secure electricity system: the interoperability and cyber security of energy smart appliances and remote load control*<sup>28</sup> consultation (published in March 2023) that we will take steps to enable interoperability between energy savings appliances (such as electric vehicle chargers and heat pumps) and Time of Use tariffs. The consultation set out the aim of making Time of Use tariff data openly available in a common format and we confirmed the need for additional policy development to ascertain the appropriate technical and delivery solutions, and to consider widening the scope to other potential options.

**20. Can you provide any evidence of the extent to which consumers understand current non-standard tariff offerings, such as EV or Time of Use tariffs? How does this vary for different consumer groups? What can be done to increase this understanding?**

**21. What interventions could empower consumers to find deals that are best suited to them? We would also welcome specific evidence on:**

**21.1 What more retailers could do to help their customers understand whether they are best served by their current deal.**

**21.2 How retailers and third-party intermediaries could play a greater role in increasing general consumer awareness of smarter products and services.**

As set out above, it is important that all consumers can stand to benefit from a more innovative retail market. As one example, products and services aimed at unlocking flexibility will need to be available for different levels of consumer engagement, not only those with very high flexibility potential and capacity to engage. Equally, some business models or smart propositions may not be suitable for certain consumers, particularly where they have unique needs; for Time of Use provisions, examples could include certain businesses with inflexible energy demands or domestic consumers with medical equipment in their homes. One implication is that there will always need to be a range of offers on the table for consumers. Another is the need to strike the right balance between ensuring that vulnerable and disengaged consumers are protected whilst ensuring that price signals are not unduly dampened across the retail market, which could reduce the opportunity for consumers who can engage. Our recent Inclusive Smart Solutions<sup>29</sup> competition aims to achieve a step-change in access to, purchase of, and/or use of smart energy technologies, products and services amongst low income and vulnerable consumers.

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<sup>26</sup> <https://www.gov.uk/government/publications/smart-meter-enabled-tariffs-comparison-project-smarter-tariffs-smarter-comparisons>

<sup>27</sup> <https://www.gov.uk/government/publications/non-domestic-smarter-tariff-comparisons-innovation-programme>

<sup>28</sup> <https://www.gov.uk/government/consultations/delivering-a-smart-and-secure-electricity-system-the-interoperability-and-cyber-security-of-energy-smart-appliances-and-remote-load-control>

<sup>29</sup> <https://www.gov.uk/government/publications/inclusive-smart-solutions-programme>

We recognise that within the non-domestic market there is a wider range of consumers. For example, microbusinesses may have more similarities with certain domestic customers than they do with large scale industrials, and between these groups there will be unique opportunities and challenges for interacting with more innovative retail offerings. We are aware that there will not be a single 'one-size-fits-all' solution and that different types of non-domestic customers may require different interventions and support. In February 2023, Government published research into the attitudes of different segments of the smaller non-domestic market who have not yet upgraded to smart meters<sup>30</sup>. We have heard from stakeholders that Small to Medium Enterprises (SMEs) face a number of barriers in accessing innovative or smart retail offerings, including limited resource to engage and a lack of available information. Conversely, we are aware that larger Industrial and Commercial non-domestic customers have more recently had some notable successes with retail market innovations surrounding Electric Vehicle (EV) solutions, Demand Side Response (DSR) management and energy generation and storage.

**22. Across both the domestic and non-domestic markets, are there particular groups of consumers who are most at risk of missing out on the benefits of greater innovation in the retail market? We would also welcome specific evidence on:**

**22.1 The main barriers which prevent these consumers (including those in vulnerable circumstances) from participating in, or benefiting from, innovation.**

**22.2 The interventions that could support these groups.**

**23. Can you provide examples of specific innovative retail propositions which might be particularly valuable for vulnerable consumers? Are there likely to be sufficient commercial incentives to bring forward these propositions?**

**24. Across this consumer-focused section as a whole, have we captured the main non-price opportunities and risks to consumers presented by a more innovative retail market? To what extent is the current consumer protection framework fit to enable these opportunities and manage and alleviate these risks?**

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<sup>30</sup> <https://www.gov.uk/government/publications/non-domestic-smart-meter-consumer-segmentation>

## More resilient and investable

The costs of recent supplier failures<sup>31</sup> have been substantial and must not be repeated. Ofgem has taken steps to shore up the market by working with retailers to improve their financial resilience. This includes regular stress-testing and new requirements for suppliers to prove that they are responsibly managing the risks which they face.

Looking ahead, for the retail market to be sustainable, well-run suppliers should be able to earn a reasonable profit. Measures to improve the financial resilience of retailers should support the sustainability of the market, by ensuring that well-run companies are not undercut by irresponsible behaviour. And financially resilient retailers, with sustainable business models, should be able to make long-term investments in innovative technologies without risking being undermined by competitors offering loss-leading tariffs that are underpinned by unsustainable business models.

A changing market could bring an increasing diversity of market participants and with it, new challenges for policy and regulation. The current contingency measures in the case of supplier failure in the retail market are the Supplier of Last Resort (SoLR) and Special Administration Regime (SAR)<sup>32</sup>. These processes are narrowly focused around ensuring continuity of supply and protecting credit balances for consumers and were designed for a market with relatively homogenous offerings and business models. If we move to a market with a more diverse range of participants, potentially operating more complex business models and engaging in longer-term contracting or bundling physical assets with tariffs, we will need to ensure that our approach to resilience and market exits is sufficient to deal with the changing landscape.

**25. Would existing financial resilience regulations and monitoring remain appropriate in a market with a more diverse range of participants and business models? Please point to specific examples.**

**26. Are there any current products, services, or business models for which existing contingency measures are inappropriate or act as a barrier to new products, services, or business models?**

**27. What changes may need to be made to existing contingency measures for dealing with market exits in a future market with a more diverse range of participants and business models? Please point to specific examples.**

**28. Are there additional steps that government should take to minimise as far as possible the costs of a market participant failing, and ensure that these costs are appropriately allocated, in the future retail market?**

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<sup>31</sup> 29 domestic suppliers, serving approximately 4 million customers, failed between July 2021 and May 2022, in the wake of the unprecedented global gas price movements. The cost to consumers of these failures, which were successfully managed through Ofgem's Supplier of last resort process, was approximately £2.7bn - around £94 per customer bill (<https://www.nao.org.uk/reports/the-energy-supplier-market/>). The total gross cost to taxpayers of funding the SAR for Bulb Energy from November 2021 to 31 March 2023 is £2.84 billion.

<sup>32</sup> The SoLR process is triggered by Ofgem when a supplier becomes insolvent. Ofgem revokes the supplier's licence and appoints another supplier to take over its customers. When the appointment of a SoLR is not practicable (for example when the number of customers is too large for industry switching processes as part of SoLR), the government can apply to a court to establish a SAR. In a SAR, a Special Administrator is appointed with the primary objective is to ensure continuity of energy supply at the lowest practical cost.

The REMA programme is examining the markets and tools that drive investment and efficient use of the electricity system assets that are needed to deliver a net zero electricity system. It is not considering reforms to the energy retail market, but many of the options it is examining are closely linked to the retail market and would have impacts on the operation of the retail market.

Price signals have been discussed earlier in this Call for Evidence but another example, along with long-term trends towards more intermittent renewable generation, is the potential of wholesale market reform to further impact on suppliers' ability to manage their risks. Retailers currently rely on forward markets to manage risk through hedging, providing consumers with the option of long-term price stability with fixed tariffs. Whilst the future energy retail market will likely see an increase in consumers taking advantage of products that rely more on short term markets, such as with dynamic Time of Use tariffs, many consumers may opt for the certainty provided by fixed tariffs (including fixed Time of Use tariffs), and there will still be a need for suppliers to manage their risks through hedging.

Furthermore, the changes described in this Call for Evidence indicate a trend of increasing diversity and complexity in the energy sector. Retailers will need to have the digital capabilities to develop compelling consumer services that encourage flexibility, make use of intermittent low carbon generation, and account for more granular pricing. Some retailers will need to invest in their own systems to ensure they can develop these products.

**29. Exposure to volatile wholesale prices and hedging decisions to manage this wholesale risk have been a major cause of retail market instability. To what extent do you think sources of risk will shift with changes underway in the retail market? What new risks do you envisage?**

**30. What risks or opportunities for retailers do you envisage in changes underway elsewhere in the wider energy system?**

The retail market has historically played a role in supporting investment in low carbon electricity generation. In the current market, that includes through mechanisms such as Renewable Energy Guarantees of Origin (looked at in more detail in our separate response to the Call for Evidence on the transparency of carbon content in energy products) and derogations from the price cap that are awarded to some green energy suppliers. In the future, new low carbon technologies, such as Small Modular Reactors, will come onto the system and there could be opportunities for the retail market to support their deployment.

**31. What role, if any, could the retail market play in supporting investment in new and emerging low carbon generation technologies, such as Small Modular Reactors?**

**32. Across this 'resilient and investable' section as a whole, are there any issues related to the extent to which the retail market is resilient and investable that we have not captured?**



## Consultation questions

- 1. Are there elements of the retail market regulatory framework that currently restrict existing or potential retailers' ability to offer new products or services, or operate new business models?**
- 2. What, if any, alternative routes to market should we be considering further? Do these differ for domestic and non-domestic supply markets?**
- 3. What, if any, changes could be made to improve existing routes to market that do not require obtaining a supply licence?**
- 4. What improvements could be made to the current funding and testbed landscape for innovation? Is this sufficiently targeted at enabling the development of new energy supply propositions?**
- 5. What role could retailers play in deploying the capital investment needed for net zero? Do retailers have the right incentives to support investment in net zero technologies?**
- 6. Are existing retailers considering partnering with other organisations to deliver low carbon technologies to consumers? Are there any regulatory barriers to retailers partnering with non-licensed entities?**
- 7. How can the retail market play an active role in unlocking flexibility in the energy system?**
- 8. How can retailers actively encourage and support consumers to engage in flexible consumption behaviour (including through automation and remote control of smart devices)? What barriers currently prevent retailers from doing so?**
- 9. What lessons can be learnt from the success of the ESO's Demand Flexibility Service with respect to encouraging consumers to engage in flexible behaviour?**
- 10. Do developments since the original MHHS decisions bring with them any new expectations for the benefits and/or risks of the transition to this new settlement process?**
- 11. Do you expect MHHS to impact on the tariffs retailers offer in the market? Why? When do you expect to see these changes (i.e. pre-2025, during the transition to MHHS, or after the full migration of customers)? Can you provide examples?**
- 12. Do retailers have access to the datasets and digital tools necessary to develop and offer innovative tariffs, once MHHS is in place? What are the barriers?**
- 13. Across this innovation-focused section as a whole, have we captured the main barriers and opportunities for the energy retail market to play a greater role in the wider transformation of the energy system? Which of these barriers to innovation is the most important?**

- 14. Are there further ways through which a more innovative market could improve outcomes for consumers? Please provide examples of specific retail propositions or new technologies.**
- 15. What more can retailers do to build greater trust with their customers? What can government do to support this?**
- 16. What mechanisms might be needed for consumers to exit contracts or switch providers if they have a material change in circumstances? What arrangements will be needed to ensure that retailers can recover the costs of assets provided to consumers who want to switch to a different provider?**
- 17. Can you provide examples of other opportunities from, barriers to, or risks associated with, longer-term contracting?**
- 18. What opportunities and benefits might better use of consumer data by retailers provide consumers in the future? We would welcome specific evidence on:**
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  - 18.3 How retailers might do more to promote the benefits of greater access to consumer data and ensure that consumers are aware of data privacy protections.**
- 19. Where are the biggest risks to consumer perception around the smart products and services that might emerge in the future retail market? How likely are these risks? Are there mitigations?**
- 20. Can you provide any evidence of the extent to which consumers understand current non-standard tariff offerings, such as EV or Time of Use tariffs? How does this vary for different consumer groups? What can be done to increase this understanding?**
- 21. What interventions could empower consumers to find deals that are best suited to them? We would also welcome specific evidence on:**
  - 21.1 What more retailers could do to help their customers understand whether they are best served by their current deal.**
  - 21.2 How retailers and third-party intermediaries could play a greater role in increasing general consumer awareness of smarter products and services.**
- 22. Across both the domestic and non-domestic markets, are there particular groups of consumers who are most at risk of missing out on the benefits of greater innovation in the retail market? We would also welcome specific evidence on:**



- 22.1 The main barriers which prevent these consumers (including those in vulnerable circumstances) from participating in, or benefiting from, innovation.**
- 22.2 The interventions that could support these groups.**
- 23. Can you provide examples of specific innovative retail propositions which might be particularly valuable for vulnerable consumers? Are there likely to be sufficient commercial incentives to bring forward these propositions?**
- 24. Across this consumer-focused section as a whole, have we captured the main non-price opportunities and risks to consumers presented by a more innovative retail market? To what extent is the current consumer protection framework fit to enable these opportunities and manage and alleviate these risks?**
- 25. Would existing financial resilience regulations and monitoring remain appropriate in a market with a more diverse range of participants and business models? Please point to specific examples.**
- 26. Are there any current products, services, or business models for which existing contingency measures are inappropriate or act as a barrier to new products, services, or business models?**
- 27. What changes may need to be made to existing contingency measures for dealing with market exits in a future market with a more diverse range of participants and business models? Please point to specific examples.**
- 28. Are there additional steps that government should take to minimise as far as possible the costs of a market participant failing, and ensure that these costs are appropriately allocated, in the future retail market?**
- 29. Exposure to volatile wholesale prices and hedging decisions to manage this wholesale risk have been a major cause of retail market instability. To what extent do you think sources of risk will shift with changes underway in the retail market? What new risks do you envisage?**
- 30. What risks or opportunities for retailers do you envisage in changes underway elsewhere in the wider energy system?**
- 31. What role, if any, could the retail market play in supporting investment in new and emerging low carbon generation technologies, such as Small Modular Reactors?**
- 32. Across this 'resilient and investable' section as a whole, are there any issues related to the extent to which the retail market is resilient and investable that we have not captured?**

## Glossary of terms

**Brokerage service (or brokers)** – A type of TPI that supports business customers with their energy procurement, such as comparing and recommending tariffs from a range of suppliers or negotiating contracts on a business customer's behalf. Brokerage services may also be offered by consultants, who offer additional services, such as market intelligence or energy efficiency audits.

**Business (or non-domestic) customer** – A customer supplied or requiring to be supplied with gas and/or electricity at premises other than domestic premises (as defined in standard condition 6 of the gas and electricity SLCs)

**Customers in vulnerable situations** – When a domestic customer's personal circumstances and/or characteristics combine with aspects of the market to create situations where the customer is: (i) significantly less able than a typical domestic customer to protect or represent their interests; and/or (ii) significantly more likely than a typical domestic customer to suffer detriment or that detriment is likely to be more substantial.

**Demand-side response (DSR)** – Where electricity consumption patterns are changed in response to a financial incentive or signal to help balance supply and demand on the electricity grid.

**Domestic customer** – a customer supplied or requiring to be supplied with gas and/or electricity at a domestic premises (at which a supply is wholly or mainly for a domestic purpose).

**Flexibility services (and flexibility service providers)** – Modifying generation and/or consumption patterns in reaction to an external signal (such as a change in price) to provide a service within the energy system.

**Licensed supplier (or energy supplier)** – A supplier of gas and/or electricity to premises which holds a supply licence granted under section 7A(1) of the Gas Act 1986 and/or an electricity licence under section 6(1)(d) of the Electricity Act 1989.

**Microbusiness customer (or microbusiness)** – A business customer that has an annual consumption of not more than 100 MWh of electricity per year, and/or annual consumption of not more than 293 MWh of gas per year, or fewer than 10 employees (or their full-time equivalent) and an annual turnover or balance sheet not exceeding Euros 2 million.

**Net zero** – Means the Climate Change Act 2008 (2050 Target Amendment) Order 2019, a legislated target to reduce the UK's total greenhouse gas (GHG) emissions for 2050 by at least 100% relative to 1990 levels.

**Price comparison websites (PCWs)** – Digital platforms that aggregate and display a range of products or services for customers to compare and allows customers to input search criteria or personal details to tailor the results. Some PCWs may also offer phone-based or in-person comparison services.

**Third-party intermediaries (TPIs)** – Organisations that sit between the regulated entities in the energy system and customers. TPIs help customers to engage in the market by providing a

variety of products and services linked to energy supply, such as advice on switching or support with energy procurement.

**Universal Service Obligation** – as per standard condition 22 of the gas and electricity SLCs, suppliers are required to offer terms to any domestic consumer who asks, ensuring consumers have access to energy.

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This consultation is available from: [www.gov.uk/government/consultations/towards-a-more-innovative-energy-retail-market-a-call-for-evidence](https://www.gov.uk/government/consultations/towards-a-more-innovative-energy-retail-market-a-call-for-evidence)

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