Department for Energy Security & Net Zero

Towards a more innovative energy retail market

Summary of Responses to Call for Evidence

February 2024

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Introduction

Towards a more innovative energy retail market: a call for evidence was issued by the Department for Energy Security and Net Zero on 24th July 2023 and closed on 18th September 2023. In the Call for Evidence (CfE), we asked questions regarding the barriers to, and enablers of, innovation in the retail market.

Government launched this CfE to seek stakeholder perspectives on how to unlock greater innovation in the market, and the role for government in this. It was published alongside Delivering a better energy retail market, which set out government's vision for an energy retail market that works better for consumers, is more resilient and investable, and supports the transformation of our energy system.

Below we provide an overview of the key themes identified through the CfE and set out government's position on these issues. A full summary of responses is provided at Annex A, with some questions consolidated to avoid duplication.

We received 41 responses from a wide range of stakeholders including consumer groups, energy suppliers, other market participants, and think tanks. As part of the CfE process, we also spoke with a wide range of stakeholders, holding numerous online meetings with individual stakeholders and stakeholder groups. These meetings were attended by over 50 stakeholders and were used alongside written responses to inform our next steps.

Key issues and next steps

Context behind the Call for Evidence

Historically, while we have seen some innovation in products and business models in the retail market, this has been limited and the uptake of new services has been low. Across the market, the vast majority of tariffs have only ever differed by the price charged for using energy and the length of time that price is guaranteed. The implication for consumers has been a very limited set of choices in the market, with little opportunity for finding products or services suited to their individual needs. By extension, the incentive for consumers to engage with choices they face in the market has been low, with available evidence suggesting that a significant proportion of consumers have never materially engaged with their choice of energy tariffs.

This CfE was launched at a time when the retail market was just beginning to emerge from two years of extreme volatility. The focus of government during this period had been on maintaining continuity of supply, in the face of numerous supplier failures, and providing unprecedented financial support to help consumers pay their bills. For nearly two years, competition had effectively frozen and nearly all domestic consumers were receiving their energy via contracts they had not proactively selected. Non-domestic consumers either struggled to find suppliers who would offer contracts, or they found themselves stuck on high fixed price offerings.

By early summer 2023, bills had just fallen below the level set by the government-funded Energy Price Guarantee for the first time and there were early signs of competition returning to the market, with the return of some fixed-tariffs. At the same time, there was a growing need to look to the future and consider the retail market's role in the ongoing energy system transformation required to reach net-zero emissions.

Government believes that the retail market can, and must, play a driving role in the energy transition and in making sure that consumers see the benefits. We put this at the heart of our new vision for the market, which reflects the need for the market to work better for consumers, become more resilient and investable, and support the transition to a decarbonised energy system. Central to this is ensuring that energy bills remain fair and we can work towards abundant cheap energy.

A step change in innovation in the retail market is key to unlocking our vision as it should provide consumers with access to lower bills, far greater choice (through a broader range of products and services better tailored to their needs), and better overall customer experience. Electricity demand is projected to increase by up to 50% by 2035, partly driven by greater take-up of electric vehicles (EVs) and heat pumps. The retail market will have a key role in helping to meet this demand by promoting the widespread flexibility needed to ensure security of supply and reduce overall system costs. Flexibility from technologies such as electricity storage, smart charging of EVs, and flexible heating systems will provide consumers with the opportunity to reduce their bills by taking advantage of periods of cheap renewable energy.

At a system-wide level, flexibility could save up to £10 billion per year by 2050, by reducing the amount of generation and network infrastructure needed to decarbonise electricity and by extension, reducing system costs. This means that in a well-designed market, these changes will lower bills for all consumers regardless of their level of engagement, energy needs, or income.

In Powering Up Britain, government set out its position that to deliver on our vision, we would not be pursuing 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 have involved significant trade-offs, and there was no clear option that would better achieve our market objectives and crucially, be in consumers' interests.

Against this backdrop, the CfE asked 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.

Developments since the Call for Evidence

Since the publication of this CfE and the early signs that price competition was returning to the market, there has been a promising trend towards retailers bringing forward a broader range of innovative products and services. Many suppliers have recently launched new types of tariffs, particularly those offering lower prices to consumers in return for more efficient charging of EVs or use of electric heating. Some are bringing forward offers that enable consumers to more easily access the new technologies themselves, and others are working on propositions that help consumers better manage, or reduce, their energy usage within the home or businesses.

While we are still a long way off from the level of change needed, or widespread consumer uptake of new products or services, the significance of this development should not be understated. It is an early indication that many of the tools needed to innovate already exist and is evidence in support of government's decision to not radically move away from the current regulatory framework.

Key takeaways and next steps

Evidence received through the CfE has helped provide clarity on two key points. The first is that there is **widespread consensus in the sector on the fundamental 'building blocks' that are critical if we are to significantly evolve away from the current market and deliver on our vision for the future**. These refer to ongoing reforms aimed at delivering improved technological infrastructure and more efficient price signals in the market. Government's view, as informed by the CfE, is that a renewed focus on the delivery of these building blocks is the most important action we can take towards unlocking a step change in innovation in the market.

The second is that there is **a lack of consensus on the specific elements of the current retail market regulatory framework that may be acting as barriers to innovation, or on what government should do about this**. While critical, delivering the building blocks in isolation may not be sufficient to deliver on our vision for the market, and reforms to the regulatory framework could play an important role. Government welcomes the increased attention being given to the

question of regulatory reform by industry in recent months but notes that this is a highly complex subject and on most issues a consensus view is yet to emerge.

Reflecting this lack of consensus and the complex trade-offs involved with any potential reforms (particularly when it comes to those aimed at increasing innovation), in most areas more work is needed before specific proposals for regulatory reform are brought forward. It is also clear that while we expect certain changes to the regulatory framework will be required, there will not be a silver bullet or single regulatory 'fix'. Rather, we expect that there will be an iterative process of scoping and implementing reforms as we prepare for, and transition to, new market arrangements.

To move forwards against this backdrop, we will be guided by two overarching aims for any regulatory reforms relating to innovation in the retail market: a) **making sure that the consumer protection framework is fit for, and that consumers are empowered to engage with, a market that may be more varied and dynamic** than today; and b) **removing regulatory barriers to innovation where in the interest of consumers**, noting the varied benefits we expect such innovation to bring (as outlined above). Importantly, any reforms pursued in line with these aims must also align with our overarching priority to deliver the building blocks for the future retail market.

This CfE has helped identify and prioritise the key issues that government and Ofgem will be considering as part of this iterative process. Our hope is that by mapping out these issues and government's view on how they relate to our objectives for the retail market, we will provide an effective basis for collaboration with the sector as we work towards specific reforms. These are expanded on throughout this response, but headlines include:

- **Our top priority is making sure that default tariff and price protections are fit for the future**, reflecting the importance of appropriate arrangements to ensure that future regulations protect households from tariffs that they are unprepared for and increase access to deals that helps them save. We also expect that the **wider consumer protection framework will need to evolv**e to deal with a more diverse and potentially more complex market, to ensure that customers can make informed and positive choices.
- **Our current view is that there is not a strong enough case for pursuing immediate regulatory interventions to unlock new routes to market.** However, **we will continue to engage with stakeholders on options in this space and asses the case for change**, factoring in interactions with and the impact of Market-Wide Half-Hourly Settlement.
- In the non-domestic market specifically, Ofgem has been conducting a market wide review which will culminate in **increased consumer protections for those businesses who need it most**. Government has been working closely with Ofgem on these proposals and has also published their own consultation on expanding business access to redress.

To provide a foundation for our collaboration with the sector going forward, we will establish **two industry working groups on retail market reform** – one focused on consumer protections and one on supporting the growth in innovation. These will ensure that government will maintain an open dialogue with the sector on the priority and cross-cutting issues we face in our programme of retail market reform.

The building blocks for the future retail market

Stakeholder views

The need for change in a small number of areas was identified by stakeholders as being fundamental to delivering on our vision for the market. These were often referred to as 'building blocks' for the future market.

Market-wide half hourly settlement (MHHS) and the smart meter rollout were identified by respondents as key enablers of innovation in the retail market. Respondents emphasised the importance of these programmes being delivered effectively, and some put forward proposals to further increase smart meter coverage.

Another key theme raised was the need for retail reform to be closely aligned with wider reforms, including the Review of Electricity Market Arrangements (REMA). Respondents particularly highlighted the **importance of improving price signals** to align retail market incentives with a decarbonised energy system and unlock the value of demand-side flexibility. Some respondents also pointed to the rebalancing of relative gas and electricity prices as being important to incentivise uptake of low-carbon technologies.

Government response

Government believes that the delivery of these transformational programmes is vital for achieving our objectives for the market. Together, they should provide the building blocks of improved infrastructure and price signals needed for the retail market to support the decarbonisation of the energy system. Our view, as informed by the CfE, is that a renewed focus on the delivery of these building blocks is the most important action we can take towards unlocking a step change in innovation in the market.

Smart meters are replacing traditional gas and electricity meters in Great Britain as part of an essential infrastructure upgrade to provide a more flexible and resilient energy system fit for the 21st century. Smart meters play a critical role in modernising the way we all use energy. The ability to record half-hourly consumption and price data from smart meters is unlocking new and innovative approaches to managing demand. This includes, for example, the novel Demand Flexibility Service launched by National Grid ESO in winter 2022, and optional smart 'time-of-use tariffs' that reward consumers for using energy away from peak demand times and paying them to use energy when excess renewable electricity is available. This transformation to make the energy system in Great Britain smarter and more flexible will play a critical role in the cost-effective delivery of our commitments to net zero greenhouse gas emissions by 2050.

Smart meters are providing the tools for energy suppliers to deliver better customer service, whilst giving consumers more control and greater convenience. This national infrastructure upgrade is bringing an end to manual meter reads and estimated bills, enabling prepayment customers to top-up remotely, and providing consumers with near-real time information which they can use to save energy and cut their bills. There is robust evidence from the rollout to date that consumers are achieving sustained savings using their smart meters and In-Home Displays of 3% for electricity and 2.2% for gas credit, and meter-enabled energy savings meaning a typical dual fuel household is saving around £50 annually.

Smart metering is driving innovation in the provision of new services and technologies. Examples of this include:

- The launch of a new fund to support development of innovative tariff comparison solutions for businesses that give more accurate and tailored advice on the benefits of new, more complex tariffs – e.g. time-of-use tariffs – which are unlocked by smart meter half hourly consumption information, helping consumers save money by using energy when demand is low or when there is excess clean electricity available.
- Exploration across-government to consider how new methods for measuring the thermal performance of homes based on smart meter data could be incorporated into policy approaches for decarbonising homes.
- Commercial applications of smart meter data that engage householders in green finance and inform decisions around low carbon investment – this has the potential to unlock private investment in low carbon retrofit and engage consumers in low carbon decisions in innovative new ways.

The government wants as many households as possible in Great Britain to benefit from smart metering. To help achieve this the government introduced a four-year framework of minimum installation targets until 2025, to ensure that energy suppliers continue to install smart meters at scale and drive rollout momentum. The framework gives energy suppliers legally binding obligations set out in licence conditions, which are regulated and enforced by Ofgem. We are considering and will be consulting in due course on a proposed regulatory framework for the post-2025 period.

Smart meters also provide the foundation for MHHS, which will mean suppliers are exposed to the true cost of serving their consumers across the day and will be incentivised to reward them for shifting energy usage to cheaper times of day. Government expects that Ofgem will ensure that the right incentives and governance are in place so that MHHS is delivered according to current timelines. Government and Ofgem will continue to work together to identify key implications for the market, enabling opportunities and mitigating risks as they emerge (for example, the implications for default tariffs).

These building blocks are already present in some segments of the retail market. Since 2014, all meters for larger industrial and commercial consumers must be able to record half hourly consumption and since 2017, all meters for these customers have been half-hourly settled. While there are substantial differences between larger non-domestic consumers and smaller to medium consumers, the implementation of these building blocks in the market does offer helpful evidence about the risks and opportunities which they present.

As the energy system decarbonises, it is becoming more decentralised, with increasing quantities of flexible assets which can provide significant benefits. Unlocking this value requires price signals that better reflect what the system needs across time and location, revealing the value of flexibility and providing consumers with the opportunity and incentive to engage more effectively with the system. Therefore, the future electricity market arrangements must empower consumers to take greater control of their electricity use and incentivise them to do so, whilst ensuring fair outcomes. At the same time, changes are underway so that wholesale market costs will make up a declining proportion of suppliers' costs and consumers' bills over time, and we will consider how this change will impact price signals for demand-side flexibility.

Government will soon consult on future electricity market arrangements through the REMA programme and expects to provide a summary of responses later in 2024. We intend to conclude the policy development phase of the REMA programme by mid-2025 and move into full-scale implementation from 2025 onwards, or earlier where we can. We also accept the Skidmore Review recommendation that government should commit to outlining a clear approach to gas vs. electricity 'rebalancing' by the end of 2023/4 and should make significant progress affecting relative prices by the end of 2024.

Summary of actions: Delivering the building blocks of the future market

Government is considering whether additional measures are appropriate to further the smart metering rollout from 2026 and will be consulting in due course on possible options to achieve this.

Ofgem will ensure that the right incentives and governance are in place so that MHHS is delivered according to current timelines. That means migration to MHHS, which will begin in April 2025, must be fully completed by October 2026.

Government will soon be consulting on future electricity market arrangements through REMA.

We accept the Skidmore Review recommendation that government should commit to outlining a clear approach to gas vs. electricity 'rebalancing' by the end of 2023/4 and should make significant progress affecting relative prices by the end of 2024.

The case for specific reforms to the regulatory framework

Stakeholder views

There was no consensus from respondents on the extent to which the current regulatory framework acts as a barrier to innovation in the retail market. However, there was broad agreement on the need for the regulatory framework to support innovation while also ensuring strong consumer protections are in place for those that need them. Responses identified some priority barriers to, and enablers of, innovation in the current regulatory framework. The most frequently raised barriers were the price cap, consumer information, access to consumption data, financial resilience measures and limited routes to market. The importance of ensuring that the overall consumer protection framework can adapt to the needs of the future market was also a clear theme in responses.

While there was no consensus on whether the price cap on default tariffs is a barrier to innovation, most respondents suggested that **reforms to the design of the current price cap would be needed**, particularly in the context of MHHS which would significantly complicate the operation of the current cap.

Responses also emphasised the need to **progress work in parallel aimed at making sure the overall consumer protection framework is fit for a more innovative market**. The most frequently raised issues were the continued need for additional backstop price protections for vulnerable consumers, and the importance of all consumers being able to benefit from innovation.

A lack of consumer understanding of more complex retail market offerings and general limited availability of information were identified as blockers to consumers accessing the benefits of innovation. Most respondents called for collaboration between government, Ofgem and the sector to **address the information gap**.

There was also a **split in responses regarding whether new routes to market are needed**. There was a divergence in relation to meter splitting[1], with suppliers generally opposed to meter splitting and other respondents supportive of such proposals. A minority of respondents suggested that government revisit whether more fundamental reforms to the energy supply licence framework should be made.

There was **broad recognition of the importance of financial resilience** for a sustainable retail market, and general agreement on the need for greater financial resilience and regulation than pre crisis. Most respondents thought current measures would continue to be broadly appropriate in a more innovative future market, with a few suggesting small changes which may be required to enable new business models to emerge.

There was widespread agreement that different consumers will have different requirements from the retail market and as such, products and services will need to be better tailored to individual needs. Most respondents highlighted the **importance of accessing half-hourly**

[1] Meter splitting broadly means allowing consumers to have multiple electricity suppliers at a single meter point.

consumption data in enabling this, while acknowledging the need for straightforward and transparent processes for consumers regarding consent.

Government response

Government has previously set out why we are not pursuing fundamental reforms to the regulatory framework in the short or medium-term. The focus of this evidence gathering was instead on assessing the case for iterative changes to the current regulatory framework as we look to unlock, and prepare for, a more innovative retail market.

There are some important factors to note upfront. The first is that the transformative changes already underway in the retail market will change the context in which the retail market (and its regulatory framework) operates. Government must ensure that regulatory reforms support, rather than distract from, the significant change taking place, particularly given the extreme volatility seen in the market in recent years and continued high global energy prices.

The second is that, as noted above, we are already seeing promising signs of greater innovation and choice in the retail market. While this remains at an early stage, it is an indicator that change is coming. This emphasises that work to 'future-proof' the regulatory framework must be prioritised alongside any reforms to remove specific barriers to innovation in the current framework.

Third and perhaps most importantly, is that whilst we need to see better outcomes for consumers and a growth in business models that align with a decarbonised energy system, we expect that many core features of the current market will remain. Suppliers will continue to play a key role in the market, including as the parties responsible for the key functions that allow most consumers to interact with the energy system. Consumers will continue to have varying requirements and levels of engagement. Retailers must be able to meet the diverse needs of consumers and as is already increasingly the case, they will take different approaches to achieve this, in turn driving improvements through competition and offering greater choice to consumers. At the same time, there must be arrangements in place that mean those consumers who cannot engage are protected.

That is why government's aims for any regulatory reforms relating to innovation in the retail market will be to: a) make sure that the consumer protection framework is fit for, and that consumers are empowered to engage with, a market that may be more varied and dynamic than today; and b) remove regulatory barriers to innovation where in the interest of consumers, noting the many benefits we expect such innovation to bring. Importantly, any reforms pursued in line with these aims must also align with ongoing work to deliver the building blocks for the future retail market.

More work is needed before a package of regulatory reforms can be put forward. We use the remainder of this section to map out the priority issues that government and Ofgem must consider as we seek to unlock more innovation and ensure all consumers stand to benefit. These are arranged according to our two overarching aims for regulatory reforms, which will also be the focus of two new industry working groups. This will enable government to maintain an open dialogue with the sector on the priority and cross-cutting issues we face in our programme of retail market reform.

a) Prioritising consumer protections and empowering engagement

All consumers – regardless of their level of engagement, energy needs, or income – must be able to benefit from the transition to a net zero energy system. Consumer protections must be designed in such a way that they prevent bad outcomes for consumers, while still empowering them to access the benefits of a more innovative market. Protections must also be designed flexibly enough such that they can keep pace with an evolving retail market.

At the heart of consumer protections are the arrangements required to **protect consumers who cannot engage with the market**. These arrangements must be designed in a manner that provides the right level of protection, whilst ensuring that they do not stifle innovation and that consumers can be rewarded for making choices that benefit the system.

The energy system is becoming smarter and new technologies such as heat pumps and EVs will make it easier to consume power more flexibly. Consumers should have access to the best energy deals which enable them to reduce their bills and current default tariff arrangements will limit choice. While there is a lack of consensus as to whether the design of the current price cap on default tariffs is a barrier to innovation in the market, it is clear that default tariff rules and the design of any price protections will need to be considered as part of the transition to the future market, particularly following MHHS.

Our first priority is making sure that **default tariff and price protections are fit for the requirements of the future**. That is why we are launching a further Call for Evidence on how default tariff arrangements will work in the future to ensure that future regulations protect households from tariffs that they are unprepared for and increase access to deals that helps them save.

Support for energy bills was not a focus of this CfE but government notes the concerns raised by respondents in relation to affordability. Government is approaching support for those struggling to afford their bills in three ways:

- For those struggling with cost of living in general, we have provided up to £900 through Cost-of-Living Payments.
- For those who face challenges particularly linked to energy, for example because they live in a poorly insulated home, we have targeted support such as £150 through the Warm Home Discount, which we have increased in value and extended to reach around 3 million households, and we are also tackling the root of the problem through our energy efficiency schemes.
- And lastly, there are those who are facing high levels of debt or other issues linked to their energy bills, and we are working closely with Ofgem and suppliers on the best way to support those customers.

Beyond issues of price protection, government agrees that **the wider consumer protection framework will need to evolve** to deal with a more diverse and potentially more complex market, to ensure that customers can make informed and positive choices.

Ofgem has updated rules to make it easier for domestic customers to contact their supplier and to help provide support for those who are struggling with their energy bills, and will be closely monitoring the service provided. Ofgem is also exploring how they might use supplier

incentives – such as reputational, regulatory, or financial incentives – more broadly to drive better outcomes for consumers. They have already introduced a new rule which compels suppliers to publish information on their customer service performance, as measured by Citizens Advice, and will start work with industry to explore the development of a new measure of customer experience.

Government is aware that other issues are likely to emerge at the boundaries of the current regulatory framework as a greater range of products, services and business models come into the retail market. Government also appreciates the need to work closely with Ofgem on this. We welcome the regulator's plans to kick-off work this year to review the current regulatory framework (for both domestic and non-domestic) to ensure that consumers remain protected as new energy products and services emerge and spread, while seeking to avoid creating regulatory burdens that hinder the growth of these new products and services.

We are already aware of two issues emerging at the boundary of the current regulatory framework: bundling of various products with energy supply contracts and the emergence of demand side response service providers (DSRSPs), also known as 'load controllers'. On bundling, we note that many respondents to the CfE believe there can be a greater role for suppliers in helping deploy capital to increase the uptake of low carbon technologies. We recognise that the supply licence is not designed to specifically support bundled products, and also that wider regulations may be acting as a barrier to some forms of bundling. Government will work with Ofgem and other regulators to ensure that the regulatory framework relating to bundled contracts works for consumers.

On DSRSPs, the Energy Act 2023 has provided powers to make activities related to load control licensable. This means government will be able to regulate organisations who are involved in remotely controlling smart devices, through making activities related to the provision of load control into licensable activities. This will ensure they operate in a way which is beneficial for consumers and the grid, for example meeting requirements for consumer protection and cyber security. We expect to consult on measures in this new licence early this year, alongside further stakeholder engagement. Through our programmes of work on retail reform and load control, we will continue to work through the interactions between the retail market and the nascent DSRSP market. More broadly on Third Party Intermediaries (TPIs), we are looking in detail at the regulatory options available to those TPIs who are not load controllers, like energy brokers in the non-domestic market. We expect to consult on options this year.

Government agrees with respondents that the **availability and accessibility of accurate consumer information**, particularly on non-standard tariff offerings, is important for enabling consumers to make informed choices in the market. In general, government does not expect to play a leading role in providing consumer information but will work with the sector, particularly the main providers of information in the current market (such as Ofgem, suppliers, Citizens Advice, and comparison sites) to better understand the case for intervention, including assessment of the potential role for government and other industry players. This will include taking learnings from existing interventions aimed at making better use of consumption data in the non-domestic market, which are expanded on below.

There are particularly strong links between information provision and the consumer journey when it comes to flexibility. Increased flexibility will be a key feature of a decarbonised energy system and it is crucial that all consumers are able to access the benefits. We will work with the sector to develop our understanding of **consumer capabilities in relation to demand**

side response and the barriers to engagement. This will include taking learnings from ongoing projects within the Flexibility Innovation Programme and the second stage of the Demand Flexibility Service. Ofgem has recently published a Call for Input (CFI) on engaging consumers in flexibility, with the intention of initiating a dialogue with stakeholders and gather evidence on what is needed alongside existing workstreams to enable a large proportion of consumers to transition to flexible energy consumption and identify whether facilitation or policy intervention is required. Ofgem are currently analysing responses to the CFI and considering next steps.

Responses also highlighted substantial concerns about the **propensity of certain groups of vulnerable and low-income consumers to engage** in flexible energy usage, and the likelihood of them facing detriment or harm as a result. We have particularly noted concerns relating to those with inflexible demand (for example due to high energy consumption arising from a medical condition or disability), people who are digitally excluded, those on low incomes or with low electricity usage, and those in rented accommodation. Across all workstreams we will continue to assess the impact of these barriers and seek to find ways in which they may be reduced or alleviated to ensure a market that delivers good outcomes for all consumers.

Government is currently reviewing its Fuel Poverty Strategy and will engage with stakeholders as part of this process. Ofgem is also reviewing its own Vulnerability Strategy in light of the recent affordability challenge, the energy transition, and new developments in technology. Vulnerable consumers have also been particularly exposed to poor supplier practice relating to involuntary installation of Pre-Payment Meters (PPMs). Ofgem has taken important steps to strengthen licence conditions regarding PPM installations, including higher levels of prescription on how suppliers must assess whether a PPM is safe and reasonably practicable. Government has welcomed these changes and has been clear that it is vital that Ofgem's new rules lead to improved protections for consumers, and we do not see a repeat of the unacceptable practices that were reported last year.

Government recognises the important role that data may play in identifying vulnerable consumers. **A data-sharing scheme across utility companies' Priority Service Registers** (PSRs) could make it easier for vulnerable customers to register with a single PSR, and access services offered across all their utility suppliers. The creation of a Shared PSR to improve access to priority services for vulnerable consumers is being explored through the Department for Business and Trade's Smarter Regulation Consultation, which closed in January. Responses to the consultation are being analysed and will inform next steps on this work.

Government also appreciates the importance of **ensuring adequate protections are in place for non-domestic consumers**. Ofgem has been conducting a market wide review which will culminate in increased consumer protections for those businesses who need it most. Government has been working closely with Ofgem on these proposals and has also published our own consultation on expanding business access to redress. This will allow more businesses to access impartial dispute resolution services without the need to pursue costly court action on suppliers.

Summary of actions: Delivering the right consumer protections

Government will establish a working group with industry focused on the evolution of consumer protections, with the first meeting to be convened early this year.

Government is launching a CfE on how default tariffs will work in the future, aimed at making sure these are fit for the requirements of the future market.

Ofgem has recently strengthened protections for consumers by bringing in new rules from December to make it easier for domestic customers to contact their supplier, and to help provide support for domestic customers who are struggling with their energy bills.

Ofgem is exploring how supplier incentives could drive better consumer outcomes in the retail market. As a first step Ofgem have introduced a new rule which compels suppliers to publish information on their customer service performance.

Government and Ofgem will work together on an approach for issues that emerge at boundary of the current regulatory framework, focusing in the first instance on bundled contracts and load controllers.

Ofgem will be conducting a review this year of consumer protections for new products and services.

Government expects to consult this year on options for TPI regulation.

Working with the main providers of consumer information in the market, government will assess options for increasing information availability and accessibility. We are most interested in the potential role for industry players in this.

Government and Ofgem will work together to develop our shared understanding of consumer capabilities in relation to demand side response and the barriers to engagement. This will include taking learnings from innovation projects, the second stage of the Demand Flexibility Service, and considering next steps beyond Ofgem's CfI on consumer flexibility.

Taking learnings from this CfE, government and Ofgem will reflect the requirements of vulnerable and low-income consumers in ongoing reviews of government's Fuel Poverty Strategy and Ofgem's Vulnerability Strategy.

Through the Department for Business and Trade's "Smarter Regulation" consultation, government is consulting on the creation of a shared, multi-sector, Priority Services Register to improve access to priority services for vulnerable consumers. Next steps on this work will be informed by responses to this consultation, which closed in January.

Government's consultation on expanding access to redress above microbusiness customer size closed on 31 January and we are now analysing responses.

b) Further supporting the growth in retail market innovation

A step change in innovation should mean that consumers have access to a far greater choice in the market (through a broader range of products and services better tailored to their needs), lower bills (including through being rewarded for demand flexibility), and better overall customer experience. As government, we are not best placed to dictate to the sector which exact business models, products or services retail energy companies should be operating. Rather, the market framework should empower retailers – both incumbent and new – to experiment and develop new propositions and business models.

As noted above, government's view is that a renewed focus on the delivery of the fundamental building blocks for the future market is the most important action we can take towards unlocking a step change in innovation. However, this in isolation may not be sufficient to deliver on our vision for the market. Reforms to the regulatory framework could play an important role, and we must remove regulatory barriers to innovation where in the interest of consumers.

Respondents to the CfE were divided on whether reforms to the regulatory framework are necessary to enable new routes to market. Government notes there are theoretical benefits in new types of companies that could specialise in particular services, such as focussing on EV charging or provision of heat services. These could be enabled by changes to the universal service obligation, through enabling of 'secondary supply' through processes such as meter splitting, or through partnerships between new companies and existing suppliers.

At the same time, we are seeing signs of increased development of new products and services within the current market, and diversification between existing suppliers in how they develop and market those products. Another important consideration is that the implementation of certain regulatory changes such as meter splitting has the potential to compromise the timely delivery of the core building blocks for the future market, such as MHHS – as noted in the impact assessment for the Balancing and Settlement Code (BSC) code modification P379[2].

There are also challenges with predicting the impacts of such reforms when their implementation, even if taken forward in the short term, would come after the transition to MHHS and therefore in a market that has some fundamental differences to the current one. It is also worth noting that we are seeing the progression of code modifications such as P415[3] that may help provide a route to market to aggregators that can provide some flexibility services to domestic consumers.

Government's view is that on balance, there is not a strong enough case to justify pursuing immediate regulatory interventions to unlock new routes to market, but that the case for change should be kept under review. We also note the broad range of options available in this

[2] P379 would allow multiple suppliers to compete for the supply or export of electricity through a single meter without needing to establish an agreement between all of the suppliers involved. This would essentially allow consumers to buy and sell electricity from/to multiple providers.

[3] Currently, consumers can only obtain the value of flexible energy consumption from the wholesale market through arrangements with their supplier. This is because Virtual Lead Parties (VLP - independent aggregators who control power generation and/or electricity demand) can only support consumers to offer flexibility through the Balancing Mechanism. P415 will extend these arrangements to allow VLPs to access wholesale markets and remove a barrier to consumers who want to utilise flexibility services. P415 has been approved by Ofgem and implementation is November 2024.

space and varying interactions these would have with the delivery of wider energy system reforms. For example, while meter splitting has the potential to distract from the transition to MHHS, other options – such as looking at issues around supplier partnerships to deliver low carbon technologies – are less directly tied to this change.

We look forward to working with the sector, through our new industry working group on innovation, to better understand the wide range of views on this issue, assess the case for change and hopefully, work towards a consensus position. We will also use this forum to enhance our collective understanding around the specific impacts and implications of the delivery of the building blocks for the future market, noting that greater clarity here will be important for assessing the case for any regulatory reforms aimed at unlocking routes to market. Ofgem will be closely involved with this work and government welcomes the regulator's intention to do further work of its own this year to identify and address undue barriers to consumers benefiting from innovative products and services.

Government agrees with the assessment that there is a need for greater financial resilience and regulation than pre crisis. Ofgem has already introduced a range of measures intended to improve the resilience of energy suppliers and reduce the cost to consumers where supplier failures do occur. Steps to weed out unsustainable business models from the domestic market should also help support innovation, by giving well-run suppliers the confidence to make such investments without the risk of being undermined by unsustainable competitors offering irresponsibly priced tariffs.

Ofgem will continue to **ensure financial resilience measures remain proportionate, effective, and a driver of sustainable competition and innovation**. Published in December 2023, Ofgem's new competition framework for the domestic market will support with this. The purpose of this framework is to help Ofgem evaluate its regulatory options to ensure it promotes the right balance between competition and regulation in the interests of consumers. A competition framework will also allow Ofgem to assess the state of competition in the market and to assess the competition impacts of possible policy interventions consistently and systematically.

Ofgem must balance the risks of facilitating an open and competitive retail market, which may not deliver value for all customers, against building a heavily protected and regulated retail market which limits the ability of suppliers to innovate and develop new services that consumers value. An effective competition framework will help Ofgem evaluate its regulatory options to ensure it promotes the right balance between competition and regulation in the interests of consumers. Ofgem will be applying the framework to regulatory policy decisions with expected competition impacts and has already done so to inform the concurrent decision on the future of the Ban on Acquisition-only Tariffs (BAT).

More broadly, government will continue to keep existing supplier failure contingency measures (namely Supplier of Last Resort and Special Administration Regimes) under review to ensure they remain effective in a market that may be more dynamic and varied than today's.

Government notes that some respondents have called for **changes to existing pathways to test innovation**, particularly to focus more on scaling innovation rather than just testing early ideas. Ofgem will continue to provide support to innovators through its services including Fast Frank Feedback and the Energy Regulation Sandbox. Where innovation from the retail sector can deliver benefits to energy network customers, companies may also be able to access the Strategic Innovation Fund by collaborating with a network company. In addition, Ofgem is

currently considering introducing a Future Regulation Sandbox. This would be a new instrument to test and trial changes to the energy rulebook before making them. Trials would be set up with the explicit purpose of delivering evidence needed to make difficult policy decisions, bringing together market participants and rule owners (Ofgem, and Code bodies where relevant) to do so. The intention is to focus trials on issues where the rulebook needs to evolve to respond to or enable innovation.

Government has also made significant investment in innovation funding through the Net Zero Innovation Portfolio, including the £65 million Flexibility Innovation Programme. Some of our ongoing projects are seeking to support with the challenge facing innovators looking to scale propositions to full commercial offerings. Most notably, the ongoing Alternative Energy Markets programme will enable retailers to trial innovative offerings with real consumers in future market scenarios, with three successful projects awarded £10 million to carry out trials over the next year. Government is currently considering future innovation support for net zero technologies and will consider the requirements of the retail market as part of this.

Finally, **retailers and consumers should both, with appropriate consent, have access to the consumption data they need** to develop and understand more tailored products and services. Government recognises that increased access to and visibility of key data sets (such as Smart Meter data) may be important in enabling certain innovative market offerings and empowering consumer participation. This must be balanced with the rights of consumers to understand and control who is accessing their data. Ofgem has recently published a CfI relating to the updating, improving, and streamlining the way the industry deals with consumer consent to share their data. Ofgem plans to follow this up with proposals for consultation in spring.

The Smart Meter Energy Data Repository Innovation Programme (SMEDR), part of the £65 million Flexibility Innovation Programme, aims to determine the technical and commercial feasibility of a smart meter energy data repository, that will maintain or exceed the current levels of security and privacy, whilst providing the ability to aggregate and anonymise data. This technology could support use cases such as better-informed network decision making, fuel poverty identification, theft detection, or bill disaggregation. We also finalised an innovation project at the end of 2022, Smarter Tariffs – Smarter Comparisons, that delivered an open-source prototype comparison tool that can be adopted by a range of organisations (including Price Comparison Websites) to support consumers to make more informed decisions about adopting smart tariffs and low carbon technologies.

At the same time, the Smart and Secure Electricity Systems (SSES) programme is bringing in new requirements around the interoperability of energy smart appliances and energy tariff data to be available openly, over the internet, and in interoperable format – we expect to consult on this work early this year. In addition, the concept for a digital platform to support energy-system wide data standardisation and sharing, as explored in the energy system 'digital spine' feasibility study, could also unlock opportunities for innovation in retail, driving competition, supporting new market entrants and the development of innovative tariffs and services. We are analysing the conclusions of the study and considering next steps.

Government has also recently made changes to improve the data offer for non-domestic energy customers with smart meters to help them become more energy efficient and drive

innovation in the non-domestic market[4]. Since December 2022, all non-domestic organisations with smart meters can request, or nominate a third party, to access to up to a year of their half-hourly smart meter data. Energy suppliers must respond to these requests within a time limit and provide the data for free. By October 2024, all energy suppliers will have to provide their smaller non-domestic smart meter customers with free and regular information on their energy use, based on their half-hourly/hourly (electricity/gas) smart meter data. For example, this could be via an App, online platform, or consumer access device. These changes will help non-domestic organisations to monitor and manage their energy usage and spend, as well as drive customer engagement with energy efficiency services and encourage market-led innovation.

This comes alongside an ongoing government innovation project on Non-Domestic Smarter Tariff Comparisons, which aims to support business consumers to make more informed decisions about adopting smart tariffs and low carbon technologies. The project is funding solutions that will use customer data to provide energy tariff comparisons (including standard tariffs, time of use tariffs and tariffs bundled with flexibility technology or services) along with supporting advice and recommendations for smaller non-domestic energy consumers. The overarching goal is to help to drive adoption of time of use tariffs and bring forward demand-side flexibility, while also unlocking wider benefits such as increased engagement by smaller non-dom consumers with energy management. The next phase of the project will see prototype comparison tools being built by successful participants this year.

More broadly, the government has recently committed to set out ambitions to use new Smart Data powers in the Data Protection and Digital Information Bill, which will include exploring innovative opportunities in energy to encourage investment and boost competition.

Summary of actions: Further supporting the growth in retail market innovation

Government will establish a working group with industry focused on further supporting the growth in retail market innovation, with the first meeting to be convened early this year.

Government is not minded to pursue regulatory interventions to unlock new routes to market in the short term but will keep the case for change under review.

Building on learnings from government's CfE, Ofgem will be conducting its own review this year on the regulatory barriers to innovation in the retail market.

Ofgem published a new competition framework in December and will use this to ensure that it promotes the right balance between competition and regulation in the interests of consumers. This will include reviewing financial resilience measures, such as the BAT, to ensure that they remain proportionate and effective.

Ofgem is considering introducing a Future Regulatory Sandbox to support innovators to trial new products, services, and business models with the intention of testing whether changes need to be made to the energy rulebook to promote innovation.

The ongoing Alternative Energy Markets programme will enable retailers to trial innovative offerings with real consumers in future market scenarios, with three successful projects awarded £10 million to carry out trials over the next year.

[4] https://www.gov.uk/government/consultations/maximising-non-domestic-smart-meter-consumer-benefits-improving-the-data-offer-and-enabling-innovation

Government is taking forward work to identify priority areas for innovation funding and updating the Energy Innovation Needs Assessment in consultation with external experts. This will help us make informed decisions regarding future innovation support for net zero technologies and provide a robust evidence base for the prioritisation of net zero innovation funding to accelerate decarbonisation.

Ofgem has published a CfI relating to updating, improving, and streamlining the way industry handles consumer consent to share data. Ofgem intends to follow up with proposals for consultation in spring.

Government's Smart Meter Energy Data Repository Innovation Programme (SMEDR) is aiming to determine the technical and commercial feasibility of a smart meter energy data repository. This could not only make it easier to access data, but could also allow for the aggregation and anonymisation of data to support wider use cases.

The Smart and Secure Electricity Systems (SSES) programme is bringing in new requirements around the licensing of load controllers and the interoperability of energy smart appliances and energy tariff data to be available openly, over the internet, and in interoperable format.

Government is analysing the conclusions of the energy system 'digital spine' feasibility study and considering next steps.

Due to recent changes government has made, by October 2024, all energy suppliers will have to provide their smaller non-domestic smart meter customers with free and regular information on their energy use, based on their smart meter data.

Government's Smarter Tariffs – Smarter Comparisons project is aimed at supporting business consumers to make more informed decisions about adopting smart tariffs and low carbon technologies. The next phase of the project will see prototype comparison tools being built by successful participants this year.

Annex A: Summary of Responses

Breakdown of respondents by type

The following table provides a breakdown of the respondents to the Call for Evidence by type.

Type of Respondent	Number
Energy system participants (non-supplier)	**12**
Energy suppliers	**10**
Consumer groups	**10**
Other	**4**
Industry bodies	**3**
Think tanks	**2**

Methodology

This document summarises the information and views provided in response to each question in the Call for Evidence. There were 32 questions in total. Some notes and caveats on the methodology of this document are provided below:

- Several respondents provided a general submission and either did not respond to individual questions, or only responded to some questions. Evidence from these submissions was included in the summary of responses to specific questions where the information was deemed to be relevant.

- Numeric categories are used to give an indication of the number of respondents that expressed certain views. Unless stated otherwise, these categories relate to the proportion of respondents who answered a given question, rather than the proportion of total respondents to the Call for Evidence.
    - ‘Majority’ is used when referring to more than 50 percent of respondents to a particular question.
    - ‘Most’ is used when referring to more than 70 percent of respondents to a particular question.
    - ‘Some’ is used when referring to 30-70 percent of respondents to a particular question.
    - ‘A few’ or ‘a small number’ are used when referring to fewer than 30 percent of respondents to a particular question.

- The summaries aim to provide an accurate sense of the weight of views. Nevertheless, this should be treated as a guide, given the open nature of the questions and the large number of varied suggestions we received.

- It is not practicable in this document to detail every single viewpoint or piece of evidence provided. However, all submissions have been reviewed and considered by government in full.

- The views expressed by stakeholders are not government policy, and the information provided by respondents has not been corroborated or independently verified during the production of this document.

Supporting wider system transformation

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?

23 respondents answered this question.

There was no consensus on the extent to which the regulatory framework acts as a barrier, or the specific aspects which require reform. Some respondents advocated for government to reconsider supplier hub reform to unlock retail market innovation and greater competition. A few respondents commented on how financial resilience measures could discourage new market entry, and that changes would be necessary to accommodate a wider range of business models.

Respondents offered a wide range of specific suggestions on how the existing regulatory framework could be constraining innovation, including the current price protection framework and a perceived prescriptive approach to regulation and enforcement.

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

19 respondents answered this question.

There was a lack of consensus in response to this question, with stakeholders providing different suggestions on what new routes to market should be considered. Some respondents supported exploring new routes-to-market without having to become a licensed supplier but did not offer specific options. Some respondents made clear that they did not support any new routes to market if they introduced increased risk of cost mutualisation, an uneven playing field amongst retailers, and/or lower consumer protections.

Differences of opinion were expressed regarding the issue of meter splitting. Some respondents, largely suppliers, did not support developing proposals on meter splitting. Several reasons were provided, such as significant implementation costs, risks of market distortion, uncertainty around consumer appetite, and the existence of tariffs in relation to separable loads. However, other respondents were supportive of meter splitting, arguing that this would unlock the full potential of domestic flexibility, improve competition and that suppliers were naturally opposed given the challenge this would represent to their business models.

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

19 respondents answered this question.

There was a lack of consensus in response to this question, with most stakeholders providing different suggestions on what should be considered further by either Ofgem or Government.

Some respondents noted the potential lack of incentives on suppliers to enter partnerships with third parties and suggested that there should be obligations on retailers to either innovate themselves or partner with organisations. It was stated that smaller scale innovators who are unable and/or do not want to become a licensed supplier can be reliant on supplier partnerships to trial their propositions.

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?

15 respondents answered these questions.

The majority of respondents agreed that current innovation funding and testbeds are useful for initial testing but do not support scaling and development of full commercial propositions, or lead to policy or regulatory change. Some respondents expressed a view that there is lots of support for potential market entrants to test technologies, but it is difficult to test commercial propositions as activities such as settlement require partnering with an incumbent supplier who are not incentivised to participate.

Some respondents highlighted the Alternative Energy Markets and Ofgem Sandbox schemes as particularly useful and suggested that government and Ofgem should explore further similar projects.

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?

19 respondents answered this question.

The majority of respondents suggested that retailers are well placed to play a central role in deploying capital investment given that they have a pre-existing relationship with consumers. Several respondents highlighted the potential of Energy as a Service (EaaS) models to simplify the combination of upfront capital investment and capturing ongoing benefits of low carbon technologies (LCTs).

It was emphasised by a majority of respondents that there should be an ongoing role for government in subsidising the upfront costs of LCTs. Some respondents suggested that the scale and reach of government grant schemes targeted at boosting home energy efficiency should be expanded.

It was also widely noted that, in addition to upfront costs of LCTs, the ongoing operating costs relative to fossil fuel appliances can be a barrier to uptake. Therefore, it was suggested that rebalancing the relative prices of gas and electricity will be a key driver for widespread adoption of LCTs, particularly for home heating.

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?

12 respondents answered this question.

The majority of respondents stated that they were not aware of any significant regulatory barriers to partnerships between retailers and non-licensed entities. Some respondents highlighted that smaller innovators are often required to partner with existing licensed retailers, with a few noting that this can result in unequal partnerships.

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?

31 respondents answered these questions.

There was a broad consensus across respondents on the importance of flexibility and the potential benefits for consumers.

A majority of respondents saw an important role for retailers in supporting consumers to engage in flexibility. On how domestic consumers are likely to engage in flexibility, the most frequently mentioned routes were smart tariffs, EVs and smart chargers, electric heating such as heat pumps, other Energy Smart Appliances, solar panels, batteries, and Home Energy Management (HEM) propositions. A few respondents stated that the uptake of smart tariffs will, at least in the short to medium-term, be tied closely to uptake of EVs.

Automation and the remote control of smart devices was a key theme raised in responses, with most seeing it as an important feature of how consumers will engage with more dynamic offerings in the future and some seeing it as a vital enabler for widespread and sustained engagement in flexibility. At the same time, some respondents noted the importance of consumers retaining ultimate control over whether they take part in flexibility, with one saying that varying degrees of automation are needed given consumers vary in openness to automation.

On the willingness of domestic consumers to engage in flexibility and the expected uptake, some respondents pointed to the Demand Flexibility Service as demonstrating that consumers have encouraging levels of willingness to reduce or shift demand. Most respondents highlighted that whilst individual needs will vary, for most consumers, receiving financial benefit is likely to be the primary incentive for engaging in flexibility.

Most respondents saw government as having an important role to play in removing barriers to consumer flexibility. The main barriers identified by most respondents related to access to low carbon technologies, access to smart metering and half-hourly settlement, and lack of consumer understanding about demand flexibility or its benefits. While most responses tended

to focus primarily on the domestic market, much of the evidence received applies equally to the non-domestic market. However, some responses did highlight issues specific to the non-domestic market. Some respondents raised the concern that few suppliers are offering Time of Use tariffs to small businesses. The non-domestic smart tariff comparison innovation programme was highlighted as a positive development in this space.

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?

17 respondents answered this question.

Most respondents were very supportive of ESOs Demand Flexibility Service (DFS) and wanted to see it continue. Respondents liked that the scheme could help to normalise flexible consumer behaviours and help suppliers develop more innovative products.

Some suppliers highlighted that direct marketing regulations limit the extent to which they can promote DFS to their consumers and cited this as a significant barrier to increasing uptake in potential future flexibility services.

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?

19 respondents answered these questions.

Most respondents agreed that Market-wide Half Hourly Settlement would be crucial in creating incentives for new tariff offerings and for suppliers to encourage consumers to use electricity flexibly.

The importance of consumer consent was a prominent theme. Some respondents stressed the need to encourage consumer acceptance of MHHS so that consumers were not motivated to opt-out of the necessary data sharing. Some (including suppliers and consumer groups) suggested that the possibility of opting out of half-hourly data sharing should be reviewed.

Most respondents emphasised the importance of Market-wide Half Hourly Settlement in creating the incentivises for new tariff offerings and for consumers to shift their consumption. The majority of respondents also emphasised an inter-relationship between MHHS and the roll-out of smart metering. A few respondents identified challenges related to data processing and upgrading IT systems.

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?

27 respondents answered this question.

There was broad consensus that our CfE accurately captured the main barriers and opportunities for the energy retail market to play a greater role in the wider transformation of the energy system.

Most respondents emphasised the importance of smart meters for unlocking greater innovation in the retail market and called for measures to further drive the uptake of smart meters. Respondents put forward a range of proposals for how to increase smart meter coverage. On the regulatory framework, a few respondents raised concerns about what they deemed as increasingly prescriptive regulation, such as prescribed inputs and detailed standards, and suggested that regulation should place greater focus and emphasis on outcomes. A few respondents called for government and Ofgem to take early steps to develop high-level protections for smart tariffs, which could be based on learning from innovators and then built upon by taking an iterative and collaborative approach.

The price cap on default tariffs was a key theme in responses. However, there was no consensus from respondents on whether the default tariff cap was a significant barrier to innovation in the retail market. While some stakeholders argued that the cap remained an important and proportionate protection, most respondents believed that it needs reform. A few responses noted that the move to Market-wide Half Hourly Settlement (MHHS) would complicate the operation of the current cap and suggested that there would be new trade-offs for price protections to consider in future, including the types of tariffs that become the defaults for households.

A few respondents mentioned the need for energy companies to be profitable if they are to make the investment in new products and services that will support the transition to net zero. Respondents mentioned the lack of predictability around profit as playing a role in restricting long term investment in new innovative products and services.

Working better for consumers

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.

13 respondents answered this question.

The CfE set out how the retail market can play a crucial role in making sure that consumers benefit from the transition to a net zero energy system.

Most respondents agreed with our assessment of the benefits to consumers of a more innovative retail market. A few respondents highlighted that greater use of automated flexibility products would be a particularly important development as it would lower barriers to accessing

the benefits of the net zero transition to all consumers, rather than just the most engaged. A few respondents also suggested that a move away from price-based competition focused on kWh prices and towards more service-based propositions which focus on consumer outcomes (such as EaaS models) might boost engagement by more clearly outlining what consumers are being asked to engage with.

15. What more can retailers do to build greater trust with their customers? What can government do to support this?

18 respondents answered this question.

Most respondents noted the importance of retailers providing clear communications on billing and tariffs and fast customer service in building greater trust with customers. Alongside this, respondents noted the importance of accessible and easy-to-navigate websites, to support customers when comparing tariffs and services.

A few respondents suggested that trust could be built by retailers having clear processes in place to reassure consumers about how their data is used, and by providing clear channels to exercise both transparency and choice, as well as the ability to correct or amend data sharing over time.

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?

17 respondents answered these questions.

There was a consensus among most respondents that longer-term contracting would allow consumers to access LCTs more easily by spreading high upfront costs over the length of the contract. Some respondents noted that longer contracts can also provide long term guarantee of energy savings.

The majority of respondents agreed that we need to balance consumer protections with the ability of suppliers to recoup the upfront costs of energy assets. Respondents outlined that it is important that the consumer protection framework allows consumers to exit a contract early in exceptional circumstances. Some respondents noted the need for greater clarity on how current licence conditions would be applied to deals which included bundled assets.

On potential solutions or mitigations in this area, some respondents suggested that there needs to be strong rules to ensure that marketing of long-term deals is transparent to avoid consumers ending up with inappropriate arrangements in the first place. A range of specific proposals were put forward, such as tying loans for assets to properties rather than individuals, requiring separate technology specific agreements alongside tariffs, and different mechanisms

to allow consumers to switch suppliers before having paid of the value of an asset through a bundled contract.

18. What opportunities and benefits might better use of consumer data by retailers provide consumers in the future? We would welcome specific evidence on:

i. What data sets, when shared with authorised third parties or suppliers, are necessary to support consumers with more tailored interventions?

ii. 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?

iii. 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.

23 respondents answered this question.

The majority of respondents saw increased access to data as a key enabler of a future retail market.

In terms of important datasets, most mentioned half hourly consumption data and MHHS data. A few mentioned others including EV ownership, solar PV propensity, heat pump propensity, building fabric adjustments, load, and frequency at the meter level.

Lack of access to key data was raised by the majority of respondents as a barrier to innovation. The main issues raised were in relation to half-hourly consumption data (which is normally restricted to the customer's supplier) and tariff transparency.

The need for consumers to access their own consumption data more easily, including historic data, was identified as key for consumers to understand their own usage and find the best tariff. A few respondents also mentioned the importance of a consistent approach across suppliers, so that consumption profiles are comparable.

Consent and UK GDPR was mentioned in most responses. Some respondents emphasised the importance of ensuring consumers retain control and choice in how they share data, and that this was crucial if there is to be greater trust. While no respondents questioned the importance of consent, some did point to specific areas where current consent or UK GDPR rules were acting as a barrier to innovation.

The majority of responses suggest that better use of data could enhance the ability to identify vulnerable consumers and offer support. Some responses called for increased coordination of Priority Services Registers (PSRs) across suppliers, government and between sectors.

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?

16 respondents answered this question.

The majority of respondents noted that the difficulty of easily comparing or assessing the benefits of smart products and services is a significant risk to consumer perceptions of these offers. Therefore, the majority of respondents suggested that it will be increasingly important for consumers to have access to easily understandable and transparent tools to compare different smart products and services.

The importance of high standards of service and consumer protections across the market was highlighted. Some respondents suggested that there should be stronger regulation to ensure that retailers provide clear, simple, and transparent tariff information, alongside a greater regulatory focus on consumer outcomes and satisfaction. A few also suggested that it is particularly important that consumers are aware of and understand the standards that they should expect, and what routes there are to lodge complaints and access dispute resolution if those standards are not met.

Some respondents noted that concerns around data access and transparency are likely to become increasingly important. They suggested that consumers should be able to easily access information about how their data is being used and easily revoke or amend their consent.

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:

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

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

18 respondents answered these questions.

There was a consensus from respondents that there is a small minority of early adopters, such as those with EVs, who have a good understanding of non-standard tariffs, but the majority of consumers do not understand these deals.

The majority of respondents highlighted the need to help customers understand non-standard tariff offerings and their benefits to both individuals and the wider energy system. Some respondents also suggested developing an industry-wide comparison tool and establishing a

central energy advice service. A few referenced previous work in this area, including the government-funded Smart Tariffs, Smarter Comparisons project.

Some respondents emphasised that suppliers could improve their customers' understanding through consistent, clear and accurate communications. It was mentioned that communications should be accessible, offered across multiple channels, and available in different formats, to cater to different learning types, people with disabilities, low literacy, low English language skills or low digital skills.

A few respondents suggested that the government should play a greater role in educating consumers on the journey to Net Zero, and the steps that consumers will be required to take to achieve decarbonisation targets.

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:

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

    ii. 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?

32 respondents answered these questions.

Most respondents highlighted the necessity of ensuring backstop arrangements are put in place to ensure that energy is affordable for the most vulnerable and that they are not excluded from the benefits offered by the future market.

Most suggested that any protections should be targeted towards those who might require them the most. Most respondents used a catch-all term of "vulnerable" to describe this group, with some respondents explicitly stating that protections be targeted at those at risk of fuel poverty, on low incomes, or who have high energy dependency. A few respondents mentioned specific groups at risk, including those with a terminal illness, people with disabilities, people who are blind or partially sighted and older people.

In terms of specific interventions, some respondents felt that government should provide more support for energy efficiency measures, particularly for those on low incomes, as a means of reducing their energy bills in the long term. A few suggested that increased support with

accessing low carbon technologies would be important for enabling some groups to access the benefits of greater innovation. A range of other specific suggestions were put forward.

Respondents broadly agreed that we had captured the main non-price opportunities and risks to consumers presented by a more innovative market. Some raised the issue of regulations for Third Party Intermediaries, with most of these agreeing with Ofgem's recommendation for government to introduce TPI regulation.

More resilient and investable

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.

12 respondents answered this question.

Most respondents emphasised the importance of a financially resilient retail energy market and the role for sustainable competition, arguing that this would not change in a more complex future market. A few respondents suggested some specific ways in which the current measures to achieve these broad objectives should change.

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?

9 respondents answered this question.

The majority of respondents noted that SAR and SoLR have fulfilled their function well in the context of current market structures. Some (including suppliers) stressed agreement with Ofgem's introduction of measures to improve the financial resilience of suppliers.

Some respondents expressed uncertainty about the likely structure of the future market. However, most noted that any increased diversity in the future market (especially bundled services and service-based offers) has the potential to disrupt the existing supplier failure mechanisms, which are based on a broadly homogenous offering from suppliers to consumers.

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?

15 respondents answered these questions.

Respondents emphasised the source of incentives outside the retail market in driving innovation. This includes price signals in wholesale, balancing, and flexibility markets which reflect the value of demand-side flexibility at different times and in different places. Some respondents also noted the sources of risk outside the retail market, including in forecasting system costs such as BSUoS or CfD levy costs, and the risk that hedging incentives are not aligned between suppliers and generators. Other respondents cited issues such as the need to 'rebalance' policy costs between gas and electricity and the need to think broadly about fairness across the 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?

1 respondent answered this question.

The respondent noted the key role of Contracts for Difference and Regulated Asset Base (RAB) in supporting investment in low carbon technologies and suggested that any changes in this area should build on these mechanisms rather than replace them.

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

3 respondents answered this question.

Respondents did not raise additional issues relating to the resilience and investability of the retail market that were not captured in the CfE itself or responses above.

This consultation is available from: www.gov.uk/government/calls-for-evidence/towards-a-more-innovative-energy-retail-market-a-call-for-evidence

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