Stuck in the Sandbox

Unlocking greater innovation in the energy retail market

citizens advice

July 2026

Executive summary

With energy resilience becoming increasingly critical to protecting consumers from price shocks, **innovation plays a vital role in helping to reduce costs, improve consumer outcomes, and support the growing electrification of the energy system.** To realise these benefits, the energy retail market must enable people to benefit from cleaner energy and support the adoption of low-carbon technologies, like EVs and heat pumps.

Ofgem and government have considered a range of reforms to the retail market over the last decade, but little change has followed. Energy has not kept pace with consumers or with other sectors, like banking. Work on enabling a wider range of energy supply business models has stalled, and Ofgem's shift towards more innovation-friendly, outcomes-based regulation is progressing slowly. Over the same period, the market has become both more resilient and more concentrated.

Developments such as Market-wide Half-Hourly Settlement (MHHS) and the continued rollout of smart metering provide important foundations for innovation—but under current rules, their full benefits are unlikely to be realised. There are emerging risks that the rules for flexibility services and energy supply are incoherent and increase regulatory friction. More broadly, **progress has been constrained by the absence of a long-term vision for the energy retail market.**

This vision must balance the needs of all consumers. A key finding of our research is that much of the current discourse around innovation fails to reflect the reality for those who don't want to engage with the market or feel that they can't.

This is evident in relation to flexibility, where consumers often face constraints or lack sufficient incentives to shift their consumption. As such, price protection for default tariffs remains vital to ensure fairness—though there is scope to improve how this is delivered to ensure it keeps pace with a changing market.

However, we also identified that **consumers are open to innovation**, particularly where it is **simple to engage with** and **where benefits are clear and tangible.** Cost savings are the primary driver for consumers when using new products, enabled by expectations of fairness and strong protections. Consumers want the confidence that appropriate safeguards are in place, should a service prove unsuitable over time.

Supplier views echo some of the sentiment from consumers. They recognise that innovation is rarely a priority for consumers in its own right and that **innovation must deliver meaningful savings.** Firms report being constrained by prescriptive regulation—and a market that is reactive to changes in regulation and wholesale markets—rather than being able to plan for the longer term.

Executive summary

Recognising the urgent need for more fundamental reform, this research explored 6 policy options across 2 key aspects of the retail market: the Universal Service Obligation (USO) and the price cap.

Reforms across both areas offers an opportunity to support innovation—whether through enabling greater specialisation in energy supply, supporting the pricing structures needed for MHHS, or the wider adoption of flexibility and low-carbon technologies.

Economic modelling showed that all six reform options could reduce retail electricity prices, though their impacts varied considerably. The reforms produced different outcomes in relation to sustainable supplier margins and received varying levels of support from consumers and firms.

We also considered the need to reform Ofgem's regulatory approach and align different areas as new services like flexibility are regulated for the first time.

Bringing together the findings from our economic analysis and research with consumers and firms, this report sets out a package of recommendations that drive good consumer outcomes, minimise unnecessary market risks, and create the conditions needed to support a more innovative market.

Key recommendations

Introduce time-of-use (ToU) price cap variants, and keep the case for a default time of use product under review

Develop a revised Universal Service Obligation (USO) with a smaller number of firms providing this role

Publish a clear innovation action plan, including changes to the USO and price cap

Develop a framework for simpler comparison of time-of-use and flexibility products

Accelerate outcomes-based regulation, prioritising areas which enable consumers to confidently use innovative services

Research timeline

1 Scoping

August 2025

Meetings with industry stakeholders, Government and Ofgem

2 Literature review

September 2025

Synthesising proposals and windows for change

3 Economic modelling

December 2025

Measuring impacts of six reforms against a theory-of-change framework

4 Consumer qualitative research

February 2026

Further testing of the six reforms, and attitudes to innovation more broadly

5 Supplier qualitative research

March 2026

Further testing of the six reforms, and barriers and enablers to innovation

Publication of findings

July 2026

Assessing the impact of reforms across market segments

This work used a mixed-methods approach—including economic modelling by CEPA, qualitative consumer research by Public First and supplier interviews led by Citizens Advice.

Economic modelling

Mixed-methods approach, drawing on: economic theory; secondary research; primary quantitative analysis.

Evidence gathered was applied to a theory of change based framework, distinguishing between:

- Reforms: changes to policy or regulatory arrangements
- Drivers: including customer engagement and lower input costs
- Outcomes: including affordable energy and offer variety

Supplier research

7 interviews with energy suppliers, including policy and decision-makers, lasting 1-1.5 hours.

Discussions centred around:

- Current approaches to innovation
- Barriers and enablers to innovation
- Automation
- Consumer trust
- Feedback on six reforms to the retail licence

Consumer research

A 10-day online community of 64 participants—reflecting a broad range of consumer types with differences in income, tenure, household type, health, disability, and geography, as well as levels of engagement in the market. Participants completed 3 structured tasks and took part in 3 focus groups.

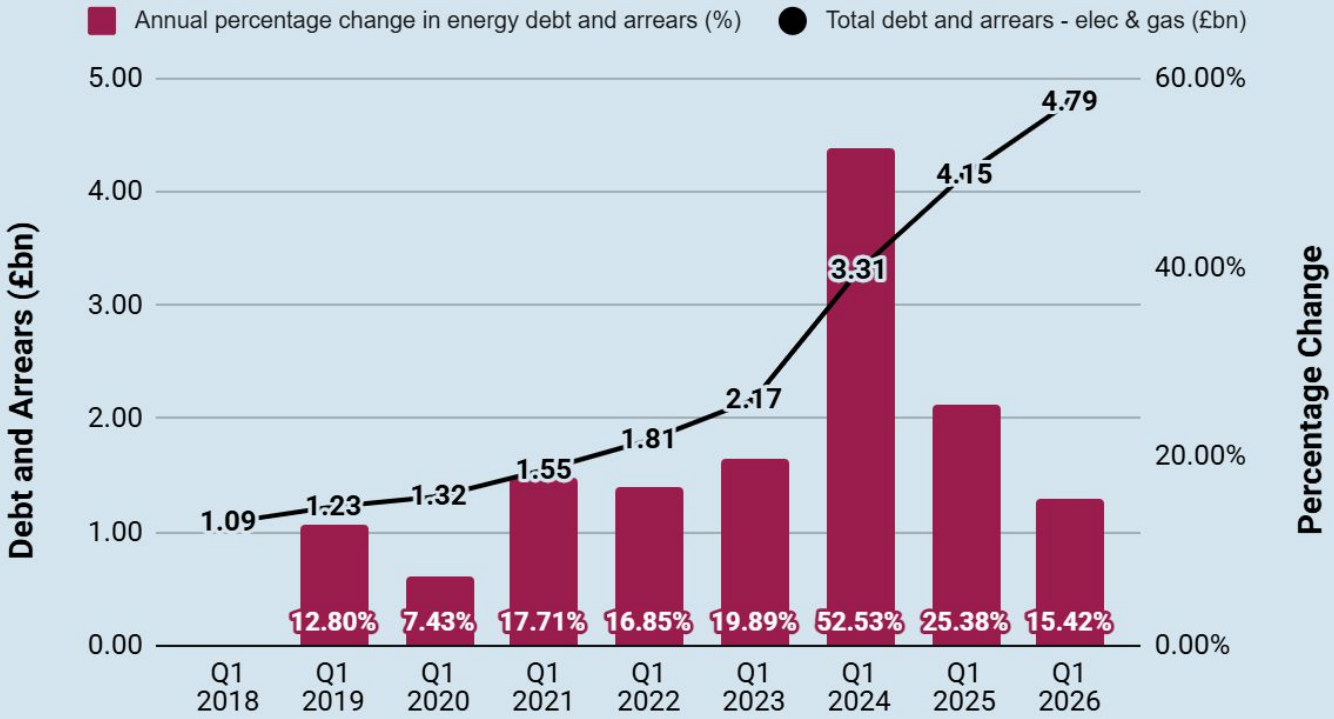
Consumers who are more likely to be under-represented in digital research (those experiencing digital exclusion, those who speak English as a second language, and / or those in energy debt) were reached through 8 depth interviews.

Current landscape—Affordability challenges

The UK electricity system is undergoing a significant transition towards low-carbon and renewable generation. Innovation, and using energy flexibly, will be increasingly important to maintain system reliability and ensure consumers benefit from the transition. All the while, the country remains exposed to major price shocks in the international energy markets—first from the Russian invasion of Ukraine, which plunged the UK into its worst energy crisis since the 70s, and now the crisis in the Middle East.

Average dual-fuel energy bills remain hundreds of pounds higher than in 2020[1], and domestic debt in the sector has doubled to £4.79 billion.[2] Consumers are increasingly concerned about how they will cope with further rises in energy costs, compounded by a 13% increase to standard variable tariffs (SVTs) coming into effect this summer.[3]

Figure 1: Domestic customer energy debt and arrears



Current landscape—Flexibility and market concentration

Enabling significant and rapid adoption of low-carbon technology, complementary tariffs and consumer-led flexibility (CLF) is a key part of meeting net zero goals and bringing down bills. Yet, current uptake of these is far below the necessary levels.

This trend can be seen in the heat pump sector, where installations are increasing, but only around 1% of UK homes are currently heated by a heat pump[4]—with deployment rates among the lowest in Europe. Similarly, although smart tariff adoption continues to grow year-on-year, uptake remains concentrated among EV owners, with domestic penetration standing at just 2.8% in the most recent figures.[5] Options with more simple time-of-use (ToU) features—like free or highly discounted energy periods—have higher uptake, demonstrating more consumer appetite where risks are low and benefits clear.

There are also fewer firms in the market, risking limited differentiation between product offerings. Market consolidation is the new norm, with the six largest suppliers accounting for 92% of the domestic electricity and gas markets[6]. EON's recently announced acquisition of OVO will further increase this concentration[7]. Increasing figures for customers on fixed-term contracts[8] suggest that internal switching is happening more frequently, while switching between firms remains below pre-crisis levels [9].

Necessary changes following the collapse of over 30 suppliers in 2021/22 have made it harder for poorly prepared firms offering unsustainable savings to enter the market, but failure to reform means there is limited scope for quality entry offering specialised propositions.

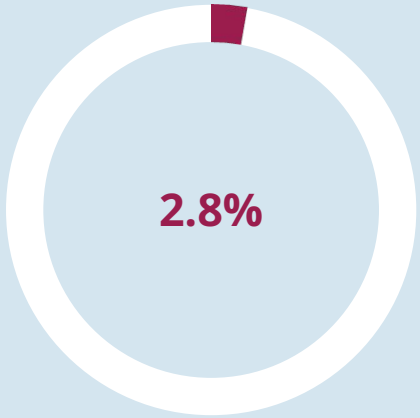


Figure 2: Domestic penetration of smart tariffs

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Figure 3: Number of new supply licences authorised in 2022-2026

Current landscape—Specialisation

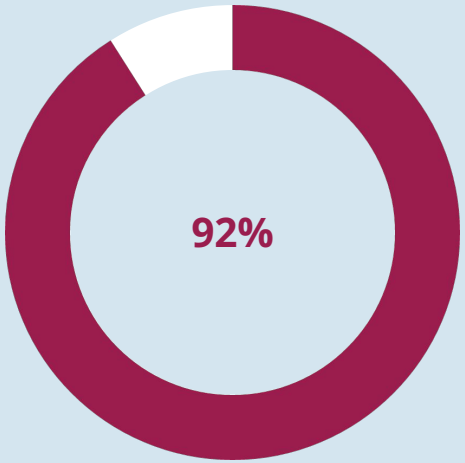


Figure 4: Large suppliers' share of the domestic electricity and gas market

While the market is currently more resilient than it was in the past, having fewer options in the market can weaken competition, meaning suppliers have less of an incentive to innovate or deliver a good service to consumers. **This raises a fundamental question around whether a market dominated by a small number of large suppliers can drive innovation and meet a wide range of consumer needs.**

This challenge is compounded by the Universal Service Obligation (USO). In other essential service markets—like financial services and telecoms—firms are able to specialise. For example they might provide online-only services, or only offer products targeted at specific groups. Energy suppliers are not able to specialise, with all firms required to offer standardised products which are regulated to meet the needs of all consumers.

This makes it harder for new entrants to focus on developing products and services that cater to specific consumer circumstances and energy needs. Stronger controls on new market entrants strengthen the case for USO reform in a safe way, as enhanced resilience requirements make it safer to introduce greater supplier specialisation.

There is also an emerging tension between energy suppliers and flexibility providers who help keep the electricity system balanced by shifting and reducing electricity usage. The latter operate under significantly (and intentionally) more flexible regulation, without a USO requirement. As these services are complementary services to energy supply, there may be appetite from consumers for combined propositions, which would benefit from more aligned regulation. This, along with the need to encourage greater participation in flexibility markets, means that maintaining the status quo is becoming increasingly difficult to justify.

Current landscape—Energy pricing

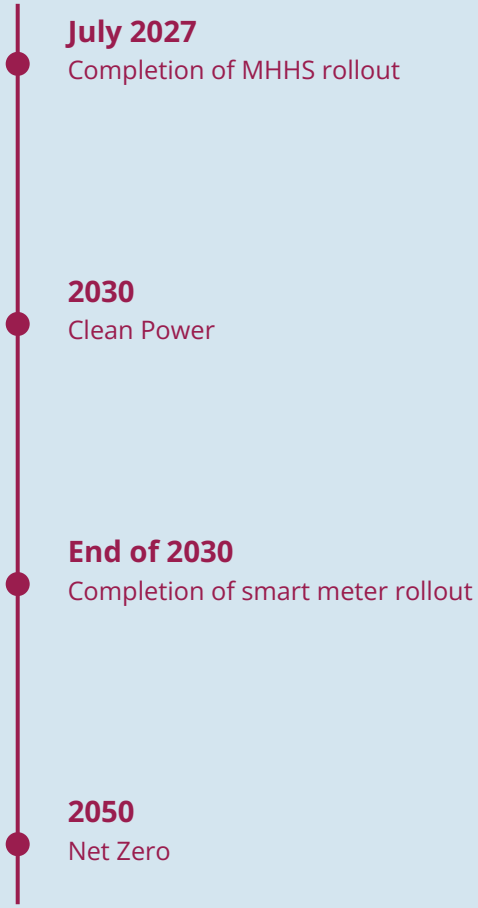


Figure 5: Timeline of relevant milestones

The rigidity of the current price cap structure fails to capture pricing nuance required to make flexible tariffs attractive to consumers and viable for suppliers. Having to offer a prescriptive, non-ToU default product may not align with the active propositions suppliers wish to offer—but this must be balanced against the need for backstop protections, and particularly against loyalty penalties.

There is also the risk that the introduction of the Market-wide Half-Hourly Settlement (MHHS), alongside possible changes to energy charging through Ofgem's Cost Allocation and Recovery Review (CARR), could drive up the cost of the price cap for all consumers if it doesn't account for some time of use variation.

To maximise the consumer benefits of MHHS, suppliers must develop and market a wider range of ToU and flexibility-driven services. With around 64% of electricity consumers remaining on Standard Variable Tariffs (SVTs)[10], the cap acts as a de facto pricing benchmark across the market, limiting tariff variety and reinforcing perceptions that there is little distinction between suppliers and market offerings.

The role of the price cap and Universal Service Obligation (USO)

Supporting greater innovation requires action in two key areas:

Price cap

The price cap is a limit on the maximum unit rates and standing charges suppliers can charge domestic consumers on default and standard variable tariffs (SVTs). It does not limit a household's total bill, which varies in line with consumption.

It was introduced to address the "loyalty penalty" for consumers who did not actively switch supplier or tariff at the end of a fixed-term contract, and may have seen their costs rise as a result.

The cap is updated every 3 months and is based on estimates of supplier costs, including wholesale energy prices, network charges and policy costs.

In the context of innovation, the cap can affect suppliers' ability to differentiate through pricing and recover costs for developing new products. It also may reduce commercial incentives for innovative offerings that are priced at a premium, relative to standard tariffs. It could lead to worse outcomes if people on flexible products default onto a single unit-rate product that costs them more.

Reforms like MHHS also create risks that a single unit rate price cap will increase in cost over time—if people who can benefit from flexibility are more likely to move off the cap, and if high users who could be flexible but choose not to stay on the cap to avoid paying a fair share of costs.

Universal Service Obligation (USO)

The USO is defined through various licence conditions, and guarantees access to essential electricity and gas services for all consumers. This includes requirements to:

- Offer a domestic supply contract to any consumer
- Provide SVT contracts in line with price cap
- Provide ongoing supply after a fixed contract ends, if someone falls into debt, and after a change of tenancy
- Offer certain services, including a range of payment methods

The USO is relevant to innovation because it can limit the extent to which suppliers are able to specialise in serving particular customer groups or tailor services to specific consumer needs. This could include supply to people with low-carbon technologies, or more local energy supply models.

The approach in energy differs to other essential services sectors like banking, where a number of the largest banks offer basic bank accounts, and broadband, where there's a single USO provider. Both have higher levels of overall satisfaction than the energy market.

Stronger controls on new entrants, introduced after the 2020-21[11] energy crisis, serve as an enabler for USO reform. By increasing confidence that new suppliers are financially resilient and capable of meeting regulatory expectations. Licensing requirements provide a stronger foundation for introducing a more specialised market without compromising consumer outcomes.

The pace of change has been slow

While there has been progress outside of the retail licence—via new services, code reforms and other enabling measures—there has been no real progress within it. The consequence is that innovation remains at the edges of the market, prevented from reaching into its core.

Over the last decade, Ofgem and DESNZ have explored many options to unlock greater innovation in the retail market. There have been at least 5 consultations and reviews in this area since the Competition and Markets Authority's (CMA) 2016 energy market investigation, but these haven't led to any meaningful change. The outcome has been piecemeal reforms, rather than answering more fundamental questions about the future shape of the retail market. This research seeks to shift discussion towards the latter.

Ofgem's Regulatory Sandbox and changes to systems and infrastructure—such as smart metering and MHHS—have built the foundations for innovation, but without reform of retail market rules, the benefits of these changes may fall short of their full potential.

The move towards outcomes-based regulation could introduce a level of flexibility into the retail licence needed to enable new products and services. However, its impact is likely to be limited in isolation, as it relies on incumbent suppliers to deliver innovation. Recent proposals by Ofgem prioritise change in areas with limited scope for innovation, particularly in product design. Their plan for implementation is also slow, not matching the urgency for change.[12]

Against this backdrop, there is an urgent need for bold and cohesive reform to the retail licence. The question is no longer whether change is needed, but which reforms are capable of enabling as many consumers as possible to access the benefits of cheaper electricity.

Outcomes-based regulation is an important enabler for innovation

Ofgem continues to design its approach to an outcomes-based approach to regulation, which has the potential to be an enabler for innovation. Through this framework, there is an opportunity for the regulator to create a balanced system that focuses on key outcomes for consumers. However, it must also retain more prescriptive regulation in areas that carry higher levels of risk, such as prepayment and billing. These outcomes could be aligned across regulated energy services, including new flexibility providers to ensure consistency. It must be done efficiently and at pace in order to make a difference.

The framework could also play an important role in strengthening trust in a sector which historically has experienced challenges. While trust and satisfaction in the sector have increased in recent years, they still remain below the levels seen in other essential services.

An **outcomes-based approach can support greater innovation.** For example, some prescriptive licence conditions can create barriers for new entrants, as well as existing suppliers, who want to develop and scale up new products and services. Where firms have confidence that innovative offerings will be assessed based on the outcomes they deliver, rather than compliance with detailed rules, they are more likely to invest in innovation. This increased increases confidence in the market.

As products and services get more complex, outcomes-based rules that ensure products are fair value and designed to meet consumer needs are critical. can give people confidence to engage, and provide the regulator with tools to intervene if needed.

Crucially, **innovation and consumer protection should not be in conflict.** A well-designed outcomes-based framework should provide greater flexibility in how suppliers meet regulatory requirements by allowing them to innovate, and also remain accountable for delivering the best outcomes for consumers.

The reforms tested as part of this research were targeted across the price cap and Universal Service Obligation (USO)

Price cap

Simple Time-of-Use (ToU) price cap:

A static ToU default tariff cap with two variable charge rates (a higher day rate and a lower rate at night) is introduced, while retaining the current cap on the standing charge.

Complex ToU price cap:

A dynamic ToU tariff cap with different rates for 4-hour time blocks is introduced, while retaining the current cap on the standing charge. The 4-hour time blocks are based on electricity forward agreement (EFA) blocks. The tariff will include seasonality, with different rates in summer and winter.

Mass opt-out collective switching:

The accounts of disengaged consumers are regularly auctioned to suppliers who compete to serve these consumers at the lowest price. Consumers can 'opt out' of being switched at any time by choosing an alternative supplier or tariff offer.

Universal Service Obligation (USO)

Single default supplier*:

A single default supplier is nominated by the regulator to take over the obligation to provide universal service on behalf of all domestic customers who do not enter into a contract or who fall into debt.

Multiple default suppliers*:

Multiple suppliers take over the obligation to provide universal service on behalf of all domestic customers who do not enter into a contract or who fall into debt. Multiple suppliers compete to provide service to customers, and supply is provided for a set period of time before service contracts are auctioned off.

Split meter model:

A split meter model is introduced that allows consumers to have multiple suppliers providing energy within their home for different purposes or from different sources. Primary suppliers would retain the universal service obligation, while secondary suppliers would be free to specialise.

** Expressed as 'Default SOLR' models in CEPA's modelling*

Overview of findings

Reform	Market outcomes			Retail electricity price impact	Consumer exit poll scores (/5)	Consumer feedback	Supplier feedback
	Affordable energy	Sustainable supplier margins	Variety of offers				
Price cap reforms							
Simple ToU price cap	**Improvement**	**Improvement**	**Improvement**	**-0.6%**	**Status quo benchmark: 2.58** 2.66	*Simple day/night pricing is easy to understand and familiar*	*Similar to the existing Economy 7 cap*
Complex ToU price cap	**Improvement**	**Improvement**	**Improvement**	**-0.9% to -1.3%**	2.31	*Complex, and tracking prices felt stressful*	*Overly complex, and an unnecessary level of regulation*
Mass opt-out collective switching	**Improvement**	**Deterioration**	**Improvement**	**-2.0% to -5.1%**	2.27	*Repeated switching seen as risky and disruptive*	*Concerns raised around supplier resilience and quality of service*
USO reforms							
Single default supplier	**Improvement**	***Direction of impact may vary***	**Improvement**	**-1.3% to -1.8%**	**Status quo benchmark: 2.97** 2.58	*Concerns about concentrating responsibility and weakening incentives to deliver a good service*	*Potential negative impact on competition, customer experience, and resilience*
Multiple default suppliers	**Improvement**	***Direction of impact may vary***	**Improvement**	**-2.0% to -3.0%**	2.69	*More acceptable than the single model, with competition seen as an incentivising good service*	*Marginally better than a single SoLR, but complex*
Split meter model	**Improvement**	**Deterioration**	**Improvement**	**-1.3% to -2.2%**	1.67	*Confusing, involving high effort*	*Already underway and likely to become ubiquitous (without reform)*

Table 1: Summary of findings from commissioned research by CEPA and Public First, and Citizens Advice's research with suppliers

All reforms tested showed decreases in retail electricity prices

When modelled against outcomes of affordable energy, sustainable supplier margins and variety of offers, the introduction of a simple ToU price cap showed positive impacts on all three. It also demonstrated a small positive impact on average electricity prices. One of the factors driving this change is an increase in consumer engagement—defined as the extent to which customers search for better prices and measured by the volume of switching.

A complex ToU cap may also have a positive impact on all three outcomes, and the scale of the change in prices is estimated to be slightly higher than a simple ToU cap. The complex ToU cap also showed a positive impact on input costs, while other reforms only had, at most, a weak positive impact on the same variable. Results for both versions of ToU price caps show an improvement in sustainable supplier margins.

By contrast, mass opt-out collective switching appears to reduce supplier resilience and could compress sustainable supplier margins. It did, however, demonstrate an estimated reduction in prices of between 2.0% and 5.1%—the highest of all price cap reforms tested as part of this research.

Reforms enabled by changes to the USO resulted in a variation, or deterioration, in sustainable supplier margins. Both the introduction of a single and multiple default supplier were shown to have positive impacts on the affordability of energy and the variety of offers available to the consumer. Both reforms were modelled individually, and they are estimated to reduce retail electricity prices by 1.3% to 3.0%.

A 'split meter' model may lead to reductions in retail electricity prices broadly in line with those achieved by a single default model. However, the results suggest it would lead to a deterioration in sustainable supplier margins—making it the only reform with a more clearly harmful impact on supplier resilience.

It's important to note that while the scale of price impacts may be small in percentage terms, they are comparable to other key cost drivers in the retail market (for example, bad debt costs contribute around 2.7% of bills[13]). Effects will also vary between consumers, given some will benefit more than others based on usage patterns and engagement. Reforms could complement other interventions to maximise the benefits for consumers.

The cost of implementation may vary, but is likely to be lower for those options which build on the current system. It may also be higher for more radical reforms, like opt-out switching and multiple supplier models.

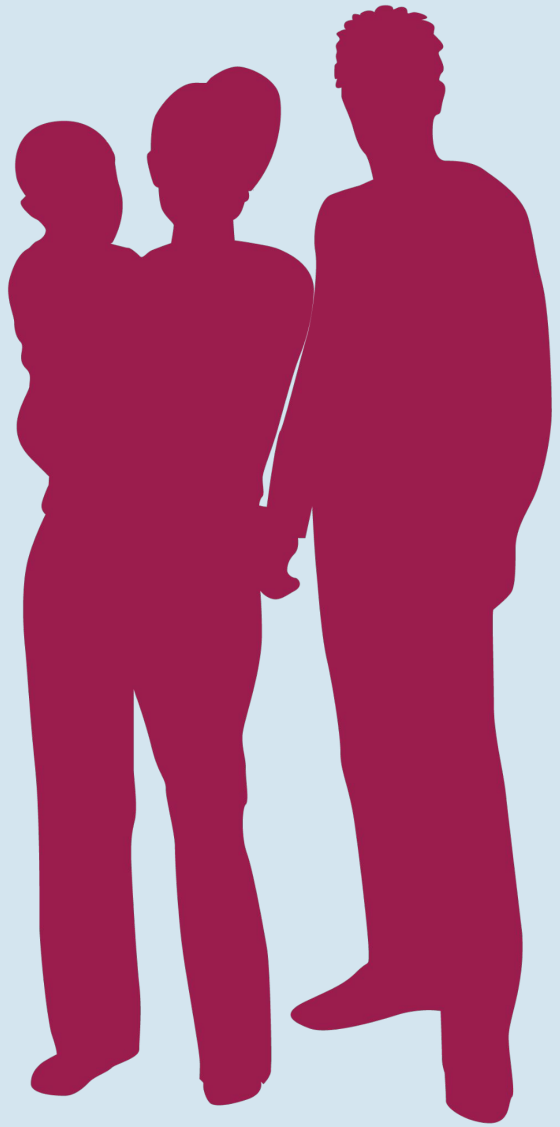
Reform must balance the needs of different consumers

Much of current policy hinges on encouraging greater consumer engagement and flexibility. However, our qualitative research with consumers reveals a disconnect with most consumers' reality, in which energy is an essential service where expectations centre on affordability, reliability, and minimal effort. It was widely experienced as uncompetitive, difficult to navigate and offering limited opportunity for better service.

Broadly, our research confirmed that energy use is shaped by inflexible routines for many consumers. Where certain regular activities could be moved to different times of the day—such as the charging of devices or using the dishwasher—these were seen as small changes relative to total energy use.

Inflexibility was more pronounced for families and working households, as well as retired participants and those working from home. These individuals have greater *theoretical* flexibility but in practice, follow habitual routines. Even among consumers with low-carbon technology, there was a perception that behaviour change was marginal or isolated, and not a model that could be scaled. Because of these patterns, many participants felt that flexibility should sit with the system and not customers, with some pointing to storage and greater automation as ways forward.

The status quo of minimal consumer input and engagement cannot be easily overcome and may act as a fundamental constraint for some options. Across all the reform options that were explored, consumers were sceptical of those that required closer monitoring of prices, major adjustments to their behaviour or managing multiple services. This demonstrates the importance of retaining simpler default options with protections built in, and automating benefits from engaging with flexibility where possible.



Consumers aren't resistant to innovation, especially when its impact can be measured in pounds

Despite barriers to adoption and attitudes held by consumers, there was a general consensus that change is needed in the energy market.

Consumers showed an openness to change, an interest in using energy flexibly, and trying new products and offerings—but only where this improves their situation materially, and solves a practical problem. This is likely to become more important where services can ensure good outcomes from low-carbon technologies like heat pumps and EVs, or which support their take-up.

In particular, exit scores by participants at the end of the research demonstrated an openness to evolutionary changes to the system—with a simple time of use default performing better than the current approach to the price cap. Overall, this means receiving cost savings fairly and for minimal effort. **There was a preference for savings to be clearly demonstrated in pounds,** as opposed to other metrics that are less tailored to their circumstances, like average values or kWh savings.

When asked to look at different markets for examples of 'good' innovation, consumers highlighted banking, insurance and broadband. They emphasised that in these markets, many innovations were **delivered to them rather than being actively sought—providing clear value-add and ease of use**. The link between these improvements and their finances was more clear and intuitive in sectors like banking, when compared to the energy sector.

Cost savings as the primary enabler for engaging with innovation

The research identified key enablers for consumer engagement with an evolving energy market:

Cost savings: these remain the primary catalyst for engagement, but the threshold is high. The necessary savings consumers highlighted as sufficient to consider switching to a ToU-style tariff were typically in the range of **15–20%**[14], or more where complexity is involved. Consumers expect clear, personalised savings—explained in pounds and of a scale sufficient to justify the effort of making a change. Rewards and incentives, such as free energy periods or loyalty schemes, were generally seen as positive, but secondary to benefits that can be communicated in pounds and pence.

Fairness: while consumers are comfortable with some households benefiting more from innovation where they've made specific investments (such as purchasing smart technologies), they reject outcomes where households face higher costs due to constraints they cannot realistically change—including working patterns, caring and disability, or housing conditions. Consumers expect firms to proactively support these groups and are not open to reforms that leave them behind.

Certainty: assurance that change will deliver benefits is essential, alongside efforts to maximise choice. Consumers are open to alternative tariffs where they can clearly see what they will pay and what they will save, based on their own usage. For financially stretched households, certainty of savings mattered as much as the value itself. Offers involving variable outcomes, tracking prices, or the risk of higher bills were seen as risky. As consumers begin engaging more with new offers, there should be clear exit options to ensure they aren't locked into unsuitable deals.

Strong protections: the price cap is widely viewed as a necessary safeguard, especially for those who do not or cannot engage with the market. The dominant view across groups was that reforms should build on the price cap and not seek to replace it. There was significant scepticism that removing or relaxing the price cap would lead to fair pricing. Consumers expect any move towards more time-of-use pricing in the price cap to retain protections, including safeguards for those unable to shift usage, clear upper price bounds, and simple tariff structures that limit exposure to unexpected costs.

Minimal effort: consumers are most receptive to solutions that reduce the need for active engagement, preferring default options and automation where benefits are delivered without effort. Acceptance of automation is conditional on strong protections, transparency and accountability, with oversight from a strong and proactive regulator.

A reactive market makes forward-planning difficult for firms

Findings from suppliers echoed sentiment from consumers in several ways.

Generally, they recognised that innovation was not a priority for most consumers—who are more motivated by price than innovation when engaging with the market. Combined with market consolidation, they saw little distinction between suppliers and offerings from a consumer perspective.

There was an awareness that customers want to see the benefits of innovation translated into pounds, which can be difficult when cost savings are marginal or need to be heavily caveated to not diminish trust.

While responding to increasingly diverse consumer needs emerged as an overarching challenge, trust was recognised as a critical component of the market—one that suppliers could influence directly. They highlighted a range of mechanisms, such as social media, and proactive and tailored communications, as important opportunities to build trust. As such, suppliers felt innovation should focus not only on products and services but also on improving the overall customer experience.

Views from suppliers were varied on the future of regulation but ranged from loosening regulation to some extent to full removal of the price cap. The latter is the biggest distinction between suppliers and consumers, who overwhelmingly viewed the price cap as the litmus test for fairness.

Over-prescriptive regulation

Suppliers felt that innovation is blocked by reactive, inflexible regulation. Ofgem's current approach was seen as dictating actions, and eliminating room for creativity and flexibility.

Price cap structure

While some did not see the cap as a significant blocker, others felt it hinders competition and prevents discretion in cost recovery. This rigidity can reduce resilience and the viability of innovative services..

Market conditions

High energy costs, price fluctuations and unsustainable debt levels create uncertainty—forcing reactive responses and preventing forward-planning.

Awareness of consumers' needs

Suppliers cannot effectively develop innovative products and services where consumers are unable to articulate their needs.

Discussion—next steps for USO and price cap reform

The research reveals different priorities that policymakers need to balance.

On USO reform, there is alignment between consumer views and the economic analysis, suggesting there is scope for more specialist suppliers while protecting people who want to remain on traditional products and services. The current USO risks leaving the market over-reliant on incumbent firms to deliver innovation, with new flexibility providers kept to the fringes.

There are steps which the regulator could take immediately. The USO could be softened by removing requirements for smaller firms to support legacy services like cash payments and traditional prepayment, or closed schemes like the Feed-In Tariff.

Our findings also suggest that removing USO requirements from some firms would balance the need to enable more innovation with minimising risks to supplier resilience. Similar to banking, the USO would be provided by the largest firms only.

Continuous access to supply would remain vital. The experience of moving consumers through trade sales and supplier of last resort events, as well as proposed changes to the change of tenancy process, demonstrate that this can be achieved safely.

Care would be needed to ensure that there is fair competition between firms. Cost-sharing mechanisms already ensure that the burden of providing services like prepay is shared fairly. Consideration of further mechanisms may be needed to ensure USO firms deliver a quality service to consumers.

The evidence on price cap reform suggests there is openness to a simple ToU price cap, but the risks of some consumers losing out are potentially greater, given this means changing what happens to people by default. There are important trade-offs between keeping average costs down and protecting people from unfair outcomes.

Policymakers should plan around a system where defaults remain an important part of the market for many consumers and also recognise that the price cap is a key safeguard against which fairness is measured. Arrangements should continue to encourage engagement where it delivers value, given consumers who actively switch experience lower costs and higher levels of satisfaction.

Ofgem's current assessment is that the initial impact of MHHS on the price cap will be small, but could grow over time.[15] Their proposal to develop a ToU price cap variant is a proportionate next step which allows for suppliers to test different approaches and better protect people coming to the end of time-of-use contracts from paying more than they need to.

More significant reform is not supported by the evidence at this time, but this should be kept under close review. The balance of trade-offs may shift as wholesale market conditions evolve and if Ofgem's Cost Allocation and Recovery Review (CARR) reshapes the allocation of energy system costs.

Other changes required to support innovation

Consumers want firms to take greater initiative in identifying suitable tariffs, automating processes to reduce consumer effort, and developing new products and services.

Firms argue that the reactive nature of regulation often hinders firms from innovating, with prescriptive rules limiting their ability to respond to changing consumer needs and market conditions. A lack of protections in key areas around fair value and product design also makes it harder for consumers to confidently engage with more complex services.

Citizens Advice has long supported a future framework that embeds greater discretion and higher standards, including through a Consumer Duty or outcomes-based regulation. However, consumer acceptance will also depend on clear expectations about how the framework operates in practice, alongside a strong and proactive regulator capable of monitoring and enforcing consumer outcomes.

Ofgem's proposals for delivering outcomes-based regulation are too slow and fail to prioritise areas which can best enable innovation. It should accelerate its plans to enable consumers to benefit from innovation more quickly and remain protected as the market evolves.

The consumer preference is for benefits to be automated where possible and with appropriate protection, with simple and clear choices.

Regulatory oversight is one such safeguard, built on principles of transparency and accountability. The new regulatory framework for flexibility providers should align with the outcomes required for supply wherever possible to minimise the impact of regulatory boundaries. Reform of the USO for energy supply should limit unnecessary barriers for newer firms providing services that integrate flexibility and supply.

Take-up of innovative products and services will be strongly shaped by the extent to which consumers are able to take-up low-carbon technologies, and lower electricity prices would improve the commercial case for such tech, and other innovative propositions.

This requires associated reforms, including removing levies from electricity bills and providing support for home upgrades through the Warm Homes Plan. This should include enabling firms to design propositions which integrate technologies with supply and flexibility services.

Conclusion

Achieving clean power and improving energy resilience will require deeper reform of the retail energy market. This report identifies a clear path forward, but one that is reliant on acknowledging the reality that many consumers cannot be expected to become active market managers, or radically change their behavior. This means changes must:

- **Improve consumer choice and competition**
- **Remove unnecessary regulatory barriers and upgrade protections as the market becomes more complex**
- **Retain price protection for those who struggle to engage, but ensure this can evolve over time**

Innovators should focus on services which combine greater automation with simple control. While consumers are not resistant to innovation and recognise they must play some role in enabling it, there is a strong preference for benefits to be automatically applied—reducing the need for ongoing engagement. There is also a role for greater specialisation to meet the wide range of consumer needs in the market today.

Maximising the contribution of consumer-led flexibility will involve policymakers ensuring the right guardrails are in place. Consumers should be able to adopt innovative products in a low-risk environment, with clear routes to exit arrangements that prove unsuitable over time. Ensuring the benefits of innovation are passed through to consumers remains a central challenge. Benefits must be clear, tangible and deliver meaningful value.

There is a gap between the financial benefits consumers said they would need to change their behaviour in the qualitative research and those which are likely to be available for households without low-carbon technologies. Industry must aim to develop propositions, along with funding from the Warm Homes Plan, that support the take-up of technologies so these benefits can be widely accessed.

Reform should ensure that consumers who are unable or unwilling to engage are not unfairly disadvantaged. Developing existing protections, like the price cap, can help minimise overall costs and maintain confidence that the market is functioning with consumers' interests at the forefront.

Further work is needed to better understand the distributional impact of consumer-led flexibility on different subsets of consumers. Citizens Advice has recently commissioned LCP Delta to research this further. As part of this, we will explore how the kinds of products and services enabled by the reforms proposed in this report could drive better outcomes.

The government and Ofgem must move beyond incremental change and implement structural reforms that balance good consumer outcomes and market needs. The challenge is no longer evidencing the case for reform but delivering it at the pace required to support the energy transition.

Recommendations to support innovation

Table 2: Improving defaults tariffs and consumer choices

Introduce a Time-of-Use (ToU) price cap variant	Alongside the current default cap—to be reviewed in 18 months—with the aim of enabling more consumers to flex and protect people at the end of ToU contract.
Monitor impact and assess the case for a default ToU tariff	Looking at consumer experience of the ToU price cap variant, and the impact of MHHS and CARR reforms on the cap, to assess whether a ToU default will deliver benefits.
Develop a framework for simpler comparison of time-of-use and flexibility products	To demonstrate annual bill impacts, potential savings and key characteristics in a clear format, to make comparison between offers less complex for consumers.
Support trials of new services, specifically targeted at groups who are less likely to benefit from innovation	Building on the split standing charge trial. Exploring options that meet the needs of specific consumer groups, and that could boost participation in CLF, such as weekend pricing structures.

Table 3: Building confidence for consumers and industry

Accelerate delivery of an outcomes-based regulatory framework	Prioritising areas of regulation which can enable product innovation and improve confidence when using new services, including outcomes to ensure fair value
Ensure outcomes-based regulation delivers safeguards for innovative tariffs and fair value	This could include opt-out windows, enhanced cool off periods, and caps on peak prices to ensure consumers aren't trapped paying more on products that prove unsuitable.
Align outcomes between suppliers and flexibility providers	Introducing appropriate safeguards for consumers to use new services with confidence and to ensure coherence between regulated services
Review SLC0 and explore the case for upgrading this to a Consumer Duty	Assess how SLC0 is applied alongside outcomes-based rules and consider if enhancements are needed.

Table 4: Enabling specialisation and improving competition

Increase thresholds for requiring suppliers to deliver legacy policies	Including requirements relating to payment methods, where reform would not undermine consumer protections or risk unfair competitive advantages.
Future-proof Change of Tenancy (CoT) processes for compatibility with a multiple default supplier model	Ensuring that consumers moving into a property are automatically assigned to a USO provider where their incumbent supplier does not provide USO services.
Introduce exemptions from the USO for small suppliers	Prior to a multiple USO model being rolled out, to unlock greater specialisation in the market.
Develop a revised Universal Service Obligation (USO) with a smaller number of firms providing this role	For domestic consumers who don't enter into a specific contract with an alternative provider, to allow suppliers outside of this arrangement to innovate and specialise in certain aspects of supply.

Table 5: Setting clear direction and tackling barriers[14]

Publish a clear innovation action plan, including changes to the USO and price cap	Building on Ofgem's Markets Regulatory Vision, to provide clarity on how it will meet the needs of an evolving market
Government action to support people where there are prohibitive upfront costs for low-carbon technology (LCT)	Use funding through the Warm Homes Plan to address financial barriers in uptake of LCTs, including by enabling combined energy service propositions

Endnotes

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16. The recommendations in Table 5 are not proposed in chronological order and are aimed at setting an overarching and strategic approach.

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