

# Retail energy market renewal

Reflections from a Citizens Advice roundtable on reforming the retail energy market in the interests of consumers



June 2022

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## Introduction

The retail energy market has been rocked by instability over the past year as wholesale energy prices have risen sharply, with further increases likely later in 2022. These rises have contributed to a succession of market exits, with 31 suppliers leaving the market since the start of last year. We've estimated these failures will cost at least £2.6bn<sup>1</sup>, which in combination with wholesale costs led to a rise in the default tariff price cap of 54%<sup>2</sup> in April 2022. This means energy prices are now at a generational high - with significant increases in fuel poverty and energy debt likely as a result.

The failure of so many companies and ongoing high prices mean that Ofgem is now focused on improving resilience in the sector, including reforms to the price cap design, and tackling the regulatory issues that allowed excessive risk to build up in the market. Meanwhile the government is focused on short-term affordability challenges, with the development of a new energy rebate scheme to be delivered by energy suppliers later this year. This is in addition to expansions of existing ECO and Warm Home Discount schemes, and proposals to extend the energy price cap beyond its current expiry in 2023.

However, ongoing work to prepare the retail market for the future must also continue. Key decisions are needed on the retail energy market's role in delivering net zero and how to enable the innovative products and services that will help consumers do so. These changes should mean better choices for consumers, but could also mean new risks for some, particularly from reforms to gas and electricity pricing to better incentivise low-carbon choices. Not all households will be able to adapt their usage or take up new technologies at the same pace, and there are risks of unfair outcomes during this transition which could undermine public support for net zero. Consumer protections and support schemes will therefore need to adapt to these challenges.

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<sup>1</sup> [Market Meltdown](#) (2022) Citizens Advice

<sup>2</sup> [Price cap to increase by £693 from April](#) (2022) Ofgem

The new tensions and challenges created by increasing prices and retail market turmoil have led to reflection from policymakers about future market reforms, with both BEIS and Ofgem developing new retail market strategies<sup>3,4</sup> and the BEIS Select Committee carrying out an inquiry into the future of the energy market.<sup>5</sup> Meanwhile ongoing reforms of market systems and processes mean industry is also delivering significant changes on overlapping timescales (see Figure 1).

Citizens Advice hosted a roundtable in January 2022 to contribute to this discussion and help identify where there is consensus on the need for reform, and where there is a need for further evaluation. The event brought together senior policy-makers from different government departments and regulators, as well as representatives of suppliers, the broader energy industry, think tanks and academia. The event was held under the Chatham House rule, so this note does not identify the stakeholders who held a perspective, but does give an overview of the discussion and the balance of views. Below we give a high-level summary of the key themes that emerged from the event, and the actions that we will pursue as a result.

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*Since the roundtable was held, the invasion of Ukraine has led to wholesale energy prices rising further, and policymakers have set out new short term financial support and plans to improve the security of our energy supply.<sup>6</sup> This envisages an accelerated deployment of renewable energy by 2030 and acknowledges this adds urgency to wholesale and retail market reforms to accommodate more intermittent sources of energy. The Government will consider this in a forthcoming Review of Electricity Market Arrangements (REMA). The Government also included the Energy Security Bill in the Queen's Speech, which will take forward many of the reforms set out in the security strategy and Ten Point Plan for a Green Industrial Revolution, including support for low carbon technologies and extension of the price cap.<sup>7</sup>*

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<sup>3</sup> [Future of the energy retail market: call for evidence](#) (2021) BEIS

<sup>4</sup> [2022/23 Forward Work Programme Consultation](#) (2022) Ofgem

<sup>5</sup> [Energy pricing and the future of the Energy Market](#) (2021) Parliament

<sup>6</sup> [British energy security strategy](#) (2022) BEIS

<sup>7</sup> [Queen's Speech 2022: background briefing notes](#) (2022) Prime Minister's Office

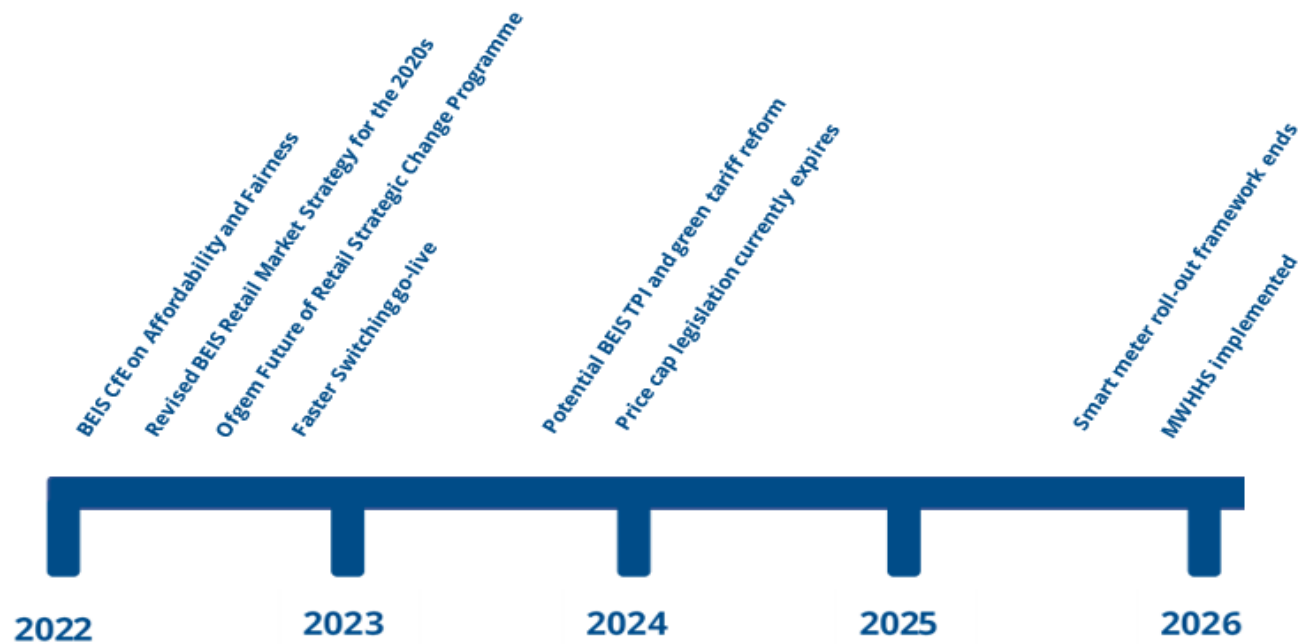


Figure 1: Relevant future retail Ofgem and BEIS reform programmes over the next five years

## Key themes and actions

There was consensus that the overall objectives of the government's future retail strategy (appropriate levels of protection, fair prices for consumers, enabling innovation and consumer choice driving decarbonisation) remained important. However, there was a recognition that given the shocks experienced by the retail sector, security and stability should also be key considerations. **Action 1 - as part of our work following our Market Meltdown research we'll consider how regulatory and policy changes can help support market stability and resilience as a key outcome**

A key aspect of the discussion centred on how success in the retail market is measured. Historically the health of the market has been seen in terms of engagement and particularly annual switching levels. Participants felt it should pivot towards a broader set of metrics including the success of helping customers decarbonise. **Action 2 - Citizens Advice will advocate for clear success measures to underpin objectives in new BEIS and Ofgem retail strategies, particularly for tracking progress with helping consumers make low-carbon choices**

A major theme of the discussion on innovation was the challenge of financing home energy upgrades. Participants felt that successful models that were attractive for consumers had not yet emerged. Interoperability and avoiding lock-in for smart energy services was another major concern. **Action 3 - Citizens Advice will consider how consumer detriment and lock-in can be avoided wherever possible as financing offers for energy efficiency and low-carbon technologies emerge**

There was recognition that the future retail market is likely to feature stronger price signals to reward customers who are flexible with their usage. With a rapidly changing generation mix and more fixed costs, how those costs are recovered may also need more fundamental reform. In the short term, the ongoing cost of living crisis and high wholesale prices were a

major concern. **Action 4** - Citizens Advice will establish an Energy Price Support Review to consider how fair outcomes can be delivered in a future retail market where price signals incentivise low-carbon outcomes. This will draw on insights from a wide range of stakeholders to consider who'll need support and how they can be best protected

## Objectives of a future retail energy market

The roundtable opened with a broad discussion on what the overall objectives of the future retail energy market should be after the current cost of living squeeze. The existing BEIS vision of the retail market<sup>8</sup> was outlined as a starting point for discussion as to whether these objectives were still the right ones given market conditions:

- Consumers should receive appropriate levels of protection and pay a fair price for their energy
- Energy companies should invest in innovative products and services
- Consumer choice and active market competition contribute towards a lowest-cost flexible energy system, which helps drive decarbonisation

Immediately, attendees highlighted that recent events had emphasised the need to consider market resilience as a core objective of the future energy market. It was identified that a key question was how to create market stability and security. Stability should mean that companies have the confidence to invest and consumers have the trust to engage, especially given that the costs resulting from the Supplier of Last Resort process risked damaging trust in the institutions of the market. To address this, contributions included that there is a need to sharpen financial regulation of suppliers by Ofgem, and that there should be ongoing monitoring to address this, as well as consideration of the historic role of retail energy in providing inherent market stability and supporting security of supply through long-term contracts and agreements.

Attendees generally agreed that the three pillars of protection, innovation and decarbonisation were still the right objectives, but identified tension between them that needs to be resolved by better aligning them. For example, focus on cost meant

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<sup>8</sup> [Energy retail market strategy for the 2020s](#) (2021) BEIS

energy efficiency policies such as the Energy Company Obligation (ECO) had recently drawn criticism in some quarters, even though higher energy efficiency will be essential to meet decarbonisation goals. Equally, competition is important in driving down costs and delivering innovation, but has an impact on stability. Some participants argued that stability was not desirable at all costs, and that while some new entrants will become enduring highly innovative change-makers, not all would be successful and this was a necessary function of the market.

There was also recognition that while retail energy offers had been largely “one size fits all” until now, different consumer characteristics meant this is impossible on an enduring basis as the electric vehicle roll-out, time-of use tariffs and other opportunities for consumers to become active participants in the energy system emerge, but some consumers are more able to engage with these opportunities than others, raising fairness questions.

Participants also recognised throughout that the retail market did not operate in isolation; the rest of the energy sector has a significant bearing such as balancing price signals and allocation of levies, which need to be reflected in the retail market if innovation and new products are to be made viable.

There was disagreement on the extent to which the retail energy market is truly innovative or has the scope to be innovative. Some participants recognised that much innovation so far has been disappointing - focused largely on streamlining customer service costs and there is limited scope beyond that, with potentially a need to consider previous proposals around centralising and fixing costs<sup>9</sup>. Others offered counter-points that retailers have a significant potential future role in innovation, particularly if incentives encourage innovation around unlocking flexibility, with suppliers already having a direct relationship with consumers, as well as potential to continually help prompt and educate consumers on how to use energy in a low-carbon way.

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<sup>9</sup> [Cost of energy: independent review](#) (2017) BEIS



Finally, one intervention recognised the need to not look at the market in silos and that locally-led approaches with community buy-in can help build consumer support for decarbonisation, with regulation needing to be flexible to accommodate other operating models such as heat networks, which will also play a key part in decarbonisation.

## **Delivering decarbonisation**

Moving to discussion of the objectives in detail, the discussion on decarbonisation opened with a recognition that decarbonisation was the primary goal that can't be sacrificed, with an open question posed as to what other ways incentives in the retail energy market could improve the speed of decarbonisation.

One participant defined two key challenges. The first challenge was trying to build the smallest possible zero carbon energy of the future, minimising investment on unnecessary generation assets with instead demand following available supply. That transition would be local and national, as some areas would suit some solutions better than others. The second was low-carbon journeys, as every consumer will need to go from the status quo to zero carbon, with the impacts of this being unknown for most consumers now. Therefore, there is a role for the retail market, or other market participants, in shaping a "low-carbon journey" for each consumer that is bespoke for them and as "pleasurable" as possible, meaning a consumer stays with their supplier through that journey because they trust them.

A focus of discussion was defining metrics of success. Some participants advanced the view that annual switching rates, driven by price, have been seen historically as the key measure of market health, but this has not driven decarbonisation or stability, and is not suitable for the future retail market. There is therefore a need to define a wider range of measures of success focused on decarbonisation, such as around competing to reduce a consumer's carbon footprint, with existing ES Catapult work on setting carbon standards for energy highlighted<sup>10</sup>.

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<sup>10</sup> [Setting carbon standards for energy key to achieving 'Net Zero' economy](#) (2019) ES Catapult

There was recognition that debates have been ongoing around defining green tariffs, including through a recent BEIS call for evidence<sup>11</sup>, but that the broader point is to move away from price to some sort of metric on how suppliers are helping customers to decarbonise and how effective they are at doing that. There was also acknowledgement that in defining these success measures there is a need to be conscious of unintended consequences, such as suppliers having a preference for solely attracting early adopters of new low-carbon technologies.

Finally, one participant recognised that while decarbonisation as a market-wide objective was essential, for an individual consumer in the context of a cost of living crisis, investing in the capital assets such as electric vehicles and heat pumps to enable decarbonisation would not be a priority. The challenge was therefore to consider how to enable uptake and consider the balance of decarbonisation measures being incentivised initially, but ultimately having to become mandatory in the longer-term.

## **Enabling innovation**

Considering the role of the retail energy market in unlocking innovation, again, prompted contention among participants. Some participants expressed the view that there was limited scope for further innovation to lower cost-to-serve and improve customer service, while others argued there was a significant spread across industry in success in lowering cost-to-serve and there was real potential to go further, with invisible innovation still having a way to go to improve service delivery.

An area of agreement was the need to focus on interoperability and ensuring that there are attractive long-term finance options for consumers. Frameworks raised included the Green Deal, car financing and mobile phones as all offering models of bundling but with different advantages and negatives. The parallel was drawn with car financing that didn't mean you were tied to filling up at a particular pump, while mobile phones lock people into paying high rates of return on handsets. The risks of lock-in of service and technology also ran deeper than financing, with loss of functionality raised as a concern,

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<sup>11</sup> [Designing a framework for transparency of carbon content in energy products: call for evidence](#) (2021) BEIS

and there being a need for independent advice to give consumers the right information to navigate these more complex offers.

There was broad agreement that the financing challenge was solvable - finance providers would be willing to lend to consumers to decarbonise and improve their homes, and there may be a role for suppliers - but whether or not this would involve directly providing finance, or signposting consumers to financing, was an open question for some. Overall there was a view that regulation of these financing services must sit with financial rather than energy regulators.

Another contributor highlighted the need for regulatory reform to maximise the potential of technology and data, some of which is already available. The example given was that there is already an obligation around the number of smart meters that need to be installed, but there is nothing in the existing regulation to ensure the meters work well, whether suppliers are linking services to them or whether customer service is enabling consumers to get the most out of their smart meters.

## **Protecting consumers and ensuring fair prices**

The question of fair prices opened with discussion about the transition to a world where many energy costs will be fixed and, with no marginal costs, it could be arbitrary who pays. Therefore, you may not have to ration based on consumption, but instead energy pricing may increasingly become a distributional question. However, it was recognised that gas generation - which will be part of the capacity mix well into the 2030s - would continue to set prices under the current wholesale market framework, and if there aren't the right price signals to customers, there is a risk of paying for more energy than is needed, or a risk of shortfalls. Overall, there was a broad consensus that the question of wholesale market reform couldn't be separated from the development of the future retail energy market.

There was also a question raised by a participant over the effectiveness of existing interventions, such as the price cap, which arguably have cost more as a result of supplier failure than they have saved consumers, while a lighter touch "price to beat" may be a more suitable enduring model. Another argument recognised that while retailers will have a significant part to play,

others such as third-party intermediaries (TPIs) will also play a key role. To ensure fair competition they must be on a level playing field of protections, with BEIS's work on regulating TPIs being an important step. It was further recognised that, overall, there was an enduring need for good consumer advice and advocacy to navigate a landscape that will become increasingly complex.

Concluding thoughts on the retail market regulatory framework centred around the need for regulatory change, as the underlying business model of selling more units to consumers hasn't changed since privatisation. Therefore, the important principles of future retail offers need to be established. Ofgem must provide space to retailers to innovate in delivering outcomes without the regulator predicting the models and services that might emerge.

To discuss any of the questions raised in this paper, or receive upcoming research, email [energyretail@citizensadvice.org.uk](mailto:energyretail@citizensadvice.org.uk).

## Annex - Previous Citizens Advice research on consumer protections for net zero

Below is a selection of our extensive [previous research](#) on how to ensure consumers are informed, engaged and protected in the drive to meet net zero and the reform of the retail energy market necessary to achieve the transition.

<a href="#">Room for Reform: Embedding fair outcomes for tenants in tomorrow's retail energy market</a>	June 2022	The 20% of people who live in rented homes experience worse outcomes in the retail energy market than other tenure types, including disproportionate levels of fuel poverty. Future retail market and renting reforms need to take account of their needs, so they can benefit from new products and services and aren't unfairly penalised.
<a href="#">Tackling gaps and overlaps: a discussion paper addressing the energy advice challenge</a>	April 2022	Access to independent and impartial advice is required as we ask people to make changes to their homes to meet our net zero targets. Developing a comprehensive energy advice strategy will be essential to meet those targets well.
<a href="#">Raising the bar</a>	April 2022	An upgrade of energy retail regulation based on the FCA's new Consumer Duty could deliver higher standards and protections in the decade ahead. This would put more onus on suppliers to achieve good outcomes and fill key gaps in consumer protection as more complex energy products and services emerge.
<a href="#">Smartening up: How to improve people's confidence in smart</a>	November 2021	The mass uptake of smart home technology will help meet the government's net zero targets. This report outlines the key priorities

<a href="#"><u>home technology</u></a>		that the government must get right to help people feel confident about smart home technology.
<a href="#"><u>The net zero protections puzzle: Helping people piece together home energy improvements</u></a>	October 2021	Achieving the UK's climate change goals will require changes to every single household. Our research shows the process is currently too complicated and things go wrong too often. The government should establish a mandatory accreditation scheme for businesses and firms who want to be active in the home upgrades market.
<a href="#"><u>Rough trade? Balancing the winners and losers in energy policy</u></a>	June 2021	Energy markets and policies don't serve everyone well, resulting in better outcomes for some than others. This paper explores the key characteristics that result in some consumers getting a better deal than others, and whether reforms could deliver better outcomes.
<a href="#"><u>Demanding attention: Managing risks with demand-side response, to improve consumer experience</u></a>	January 2021	This report provides insights into areas of consumer protection most relevant to the evolving world of demand-side response, with a broad analysis of how far existing policy and legislation addresses these areas.
<a href="#"><u>Stuck in the Middle: How to improve protections for people using energy third party intermediaries</u></a>	March 2020	As we move to net zero, third-party intermediaries will become even more important to the energy market. It's vital to put in place the right regulation to protect consumers using these services.
<a href="#"><u>Zero Sum: How to prioritise consumer protections to ensure nobody is left behind on</u></a>	January 2020	It will be essential to communicate and help people with the changes necessary for net zero. Government and regulators should work together to create a net zero 'consumer protection promise'.

the path to net zero

Clear and in control: Energy consumers' views on data sharing and smart devices

December 2019

Data and technology offer an opportunity to reshape the energy market to make sure the needs of customers come first. Understanding and managing when, how and why we use energy in our homes could make the future energy market more attractive and easier to navigate, but the data preferences of consumers are central.

Future for All: Making a future retail energy market work for everyone

July 2019

To achieve a fair, inclusive future energy market, barriers to engagement will need to be overcome through action by businesses, regulators, government and third sector bodies. We set out a number of detailed recommendations to ensure as many people as possible can benefit from the retail energy market's evolution.

Smart EV charging - What do drivers and businesses find acceptable?

June 2019

Citizens Advice commissioned research into smart EV charging to find out whether existing and forthcoming offers are acceptable to potential users, and what would make them more attractive.

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We're here for everyone.

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