HOW SHOULD OFGEM MEASURE RETAIL INNOVATION?

Ofgem's Call for Input on proposed sector-health indicators closes on 7 April 2026

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As part of its wider Call for Input on sector-health indicators, Ofgem asks what measures of innovation in retail energy markets should be included, and whether any of them should have targets attached.[1] It points to a broad set of things it wants to understand, including product and service diversity, supplier investment and improvements in customer experience. As Ofgem sets it out, the purpose of these indicators is to support its reporting on both its own performance and the health of the sector to provide a way of tracking whether the market appears to be developing in line with the regulator's wider objectives.

That matters because the backdrop to retail energy is changing. As more households adopt EVs, heat pumps, solar panels and batteries, suppliers are responding to a wider range of technologies, services and consumer needs. At the same time, digital tools are making it easier to automate usage, tailor offers and combine supply with new services. And a more dynamic electricity system will increasingly depend on households being able to shift or manage demand in response to price and system conditions.

That creates a sensible case for measures of what is happening in the market. But the starting point should not simply be a list of new products to count. Retail innovation is too broad for that. And in a competitive market, suppliers already have reasons to innovate where doing so helps them win or retain customers. The more useful question is what Ofgem wants innovation in a healthy retail market to help deliver - and then what indicators might reveal whether the market is moving in that direction.

Three outcomes matter most

Ofgem's Market Strategy and Vision to 2030 does not set out a formal list of retail-innovation outcomes to measure. But it does

[1] Proposed indicators of Ofgem performance and the health of the energy sector.

AUTHORS

Lucy Grigoriadi
Director

Caitlan Russell
Senior Principal

set a clear direction of travel for retail markets. Against that backdrop, three outcomes seem especially important.

Support for a more flexible energy system

As the energy system becomes more electrified and more dynamic, retail markets will increasingly need to offer products and services that help households respond to price and system conditions. Ofgem's Call for Input explicitly identifies consumer-led flexibility as one area where innovation in retail markets should be visible, and points to smart time-of-use tariffs as one possible indicator.

Support for the wider energy transition

Retail innovation can also help households adopt and use low-carbon technologies and services, from EV charging to heat pumps and batteries. In that sense, innovation is not only about flexibility. It is also about whether retail markets are helping consumers participate in a more electrified and lower-carbon system.

Broad participation in that transition

A healthy retail market is not one in which the benefits of innovation accrue only to consumers who are already highly engaged, digitally confident or able to invest in new technologies. If innovation is to matter from a public policy perspective, it needs to be capable of reaching beyond a narrow group of early adopters. That does not mean every new proposition needs mass-market uptake from the outset. Early adoption will often be concentrated among consumers better placed to bear the risks, costs or complexity of something new. The more important test is whether successful innovation starts to diffuse over time, rather than remaining permanently confined to a small segment of the market.

These are not the only outcomes that matter. Retail innovation may also contribute to better customer experience, stronger engagement or lower bills. But these three stand out in the current context because they capture the role retail markets will need to play in a more electrified and more dynamic energy system.

Then look for evidence that the market is moving in that direction

Once the outcomes are clear, the next question is what observable indicators are consistent with them.

In practice, the most useful indicators are likely to combine two elements: **availability** and **adoption**: Availability shows whether the market is developing the kinds of offers and services that could support the desired outcome. Adoption shows whether those offers are gaining traction. Neither is enough on its own. Availability may overstate progress if propositions remain niche. Adoption may still reflect wider constraints in the market. Taken together, though, they provide a more useful read on whether innovation is beginning to shift the market in the right direction.

For consumer-led flexibility, relevant indicators could include the availability and uptake of smart time-of-use or dynamic tariffs, managed EV charging, routes into flexibility schemes, and other services that automate response to price or system signals.

For the wider energy transition, relevant indicators could include the availability and uptake of propositions linked to EVs, heat pumps or batteries, and integrated offers that help households adopt or use low-carbon technologies more effectively, or reduce the hassle, cost or risk associated with doing so.

For broad participation, the emphasis is slightly different. For this outcome, the point is not to expect every new proposition to be mass-market from the outset. Early-stage innovation will often begin with a narrower group of consumers. The more relevant question is whether, over time, the market starts to generate offers that can work for a broader range of households, and whether take-up begins to spread beyond early adopters. That suggests three kinds of indicators:

- availability of propositions that do not depend on ownership of high-cost assets, such as offers that can create value without requiring an EV, battery or heat pump
- availability of lower-friction propositions, for example offers that reduce complexity, require less active engagement, or are accessible through mainstream customer channels;
- distribution of uptake over time, where data allow - for example whether successful innovative offers remain concentrated among a narrow group or begin to diffuse across different customer segments.

What should these indicators be used for?

A final question is what these indicators are meant to do.

Innovation metrics are unlikely to tell Ofgem directly whether regulation is holding back innovation. At best, they can provide a first-stage signal that innovation appears weaker than expected, or is developing in a different way from what the future retail market may require. If so, that should trigger a second-stage assessment of the reasons, rather than an immediate conclusion that regulatory barriers are to blame.

That matters for target-setting too. It is not clear that target structures make much sense for innovation metrics of this kind. In many cases, it is difficult to see how such targets could be calibrated credibly in the first place. Even if a target were missed, that would not necessarily show that the market was unhealthy. It might reflect slower technology uptake, consumer caution, housing stock constraints, differences in digital readiness, or simply the normal diffusion pattern of early-stage innovation. Nor would it show that regulation was the reason.

That suggests these indicators are likely to be more useful as diagnostic tools than as hard targets. Their role is to help Ofgem build a picture of whether the market is moving in the right direction, not to provide a simple pass-fail test.

For more information, contact Lucy Grigoriadi (loukia.grigoriadi@frontier-economics.com).

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WWW.FRONTIER-ECONOMICS.COM

HELLO@FRONTIER-ECONOMICS.COM

+44 (0) 207 031 7000