

Response to Ofgem Consultation: Innovation in the Energy Retail Market

Questions relating to Chapter 3 – Innovation in the retail market

Q1: What innovation is currently happening in the domestic and non-domestic retail markets? What is the scale of this innovation?

I am responding to the consultation as secretary and a director of Energy Local Bridport, a cooperative registered with the Financial Conduct Authority. My response is based on our experience of a local electricity supply model, which I believe is the first example in England of local low-cost renewable electricity supplied through the existing grid to householders. Since September 2021 we have been successfully supplying 50 local households with electricity from a 50kW wind turbine owned by a local farmer and connected to the same primary substation in Bridport, Dorset. The cost of the wind energy supply is agreed annually between members of the cooperative and the wind turbine owner and is currently 16p/kWh for the period 1st April 2024 to 31st March 2025. The project has been supported by the national not-for-profit organisation Energy Local CIC and by Octopus Energy, who provide metering and billing services and back-up supply when there is insufficient wind energy to meet members' demand in any half-hour metering period. All participating households (members of the cooperative) need to have smart meters fitted and be customers of Octopus Energy. There are multiple layers of innovation, including an online dashboard developed by Energy Local CIC, which enables householders to view and use low-cost wind energy when it is available and view their electricity consumption per week, fortnight and year <https://dashboard.energylocal.org.uk/bridport?club>

In addition, all back-up power provided by Octopus Energy has been supplied with an innovative Time of Use Tariff.

Q2: What innovation should happen to meet consumers' needs and meet net zero?

We believe that with existing barriers removed, local electricity markets optimising generation and consumption at the primary substation level could be rolled out across the UK. As an example, we have expressions of interest in local renewable electricity supply, similar to Energy Local Bridport, from 10 other towns and villages in Dorset. However, some barriers need to be addressed (see comments below) to enable these opportunities to be realised.

Q3: What will be the impact on consumers of new, innovative products and services? How can we maximise the benefits and minimise the risks?

The level of commitment from household members of Energy Local Bridport has been beyond our expectations. As a local not-for-profit organisation, we highly value transparency and consumer choice. All members of Energy Local Bridport can leave the cooperative and switch electricity supplier at any time and without penalty. In practice, members have only

left the cooperative during the past 3 years if they have moved out of the area, and these members have been replaced. There are currently 90 households on a waiting list, as a maximum of 50 households optimally match the output from the 50kW wind turbine. If there are too many participating households the financial savings per household from the local wind energy supply would be too small. There is very little risk to consumers. No capital investment is required, there is only an annual membership fee of £5. The savings on members' electricity bills have been approximately 20% p.a. over the last 3 years. In addition, participation Energy Local Bridport is very straightforward for consumers- they complete a simple online registration form, which is processed by Energy Local CIC, who also liaise with Octopus for smart meters to be fitted when necessary.

Questions relating to Chapter 4 – Enablers and barriers to innovation

Q4: Are there any additional enablers or barriers to innovation?

There are several barriers to realising the potential of Energy Local and similar models for local energy markets. One potential enabler could be to increase the capacity of electrical generation that can be supplied to domestic customers under licence exempt regulations (i.e. to allow community energy groups to undertake local supply without the need for a partnership agreement with a licenced supplier). However, there would still be substantial barriers, not least metering and billing and procurement of back up supply when there is insufficient contracted local renewable energy generation. It may still be worthwhile for Ofgem to work with the government on increased capacity for licence exempt supply as there are several projects in development aiming for net zero communities. These include multiple sources of renewable electricity generation and grid balancing with batteries, therefore requiring purchase of only a small amount of back -up supply (e.g. Hook Norton Low Carbon in Oxfordshire, Marshfield in South Gloucestershire)

Q5: What is the most significant barrier to innovation? Why?

In the case of Energy Local Bridport, we have 90 households on a waiting list (without any promotional activities). Planning consent has been secured for a community-owned 250kW ground-mounted PV array to potentially supply an additional 200 households without their own solar panels, including social housing tenants. Without need of grant funding for installation, operation and maintenance, solar electricity could be supplied at 14p/ kWh, with 5% interest payments on capital invested, representing a total saving of approximately £500,000 over 20 years to low-income households. However, we need an electricity supply company partner. Octopus Energy has currently put support for any new Energy Local projects on hold (including expansion of existing projects). The requirement for an electricity supply company partner to facilitate community-led local electricity markets is the most significant barrier to innovation at the national level. Whilst not within the direct remit of Ofgem, we would ask you to engage with government to enact legislation such as the Local Electricity Bill <https://powerforpeople.org.uk/the-local-electricity-bill>

Similar legislation was passed by the European Parliament in November 2023 and is currently being transposed into national legislation in the 27 EU member states.

My responses to the questions 6-12 below have largely been covered in responses to questions 1-5 above.

Q6: What innovation is not happening because of regulatory barriers?

Q7: Should we do further work to improve routes to market?

Questions relating to Chapter 5 – Options to improve routes to market for products or services that involve selling energy

Q8: What is the most attractive route to market? Why?

Q9: If you think that we need to improve routes to market, which option do you think should be our top priority and why?

Q10: What are your views on the options presented for amending routes to market? What would be the risks and benefits of each option?

Q11: To facilitate innovation, which licence conditions would most benefit from being reformed?

Q12: Are there any other improvements to routes to market which should be considered as part of enabling significant innovation in the retail market?

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