

## Non-traditional business models (NTBMs) – Supporting transformative change in the energy market

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Minutes of the workshop held on Non-traditional business models.	From Date and time of Meeting Location	Jeff Hardy 23 April 2015 15:00 Ofgem	31 March 2015
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### 1. Chair

Jeff Hardy

### 2. Definition

2.1. There was broad support for the definition although it was noted that:

- It is important to draw distinction between business, business model and service – it was suggested the former was 'safer'.
- It is very difficult to reach real consensus on definitions and who these definitions apply to. This could result in potentially viable NTBMs being excluded from the market or others not following regulations because they feel they do not apply to them.

### 3. Drivers

3.1. There was broad agreement with the drivers suggested but attendees noted a range issues and additional drivers related to the development of NTBMs, including:

- There are various regulatory and policy drivers, at both domestic and EU level. It was noted that these drivers make the difference between something happening or not.
- Need to recognise that there are commercial drivers as it was considered that the discussion document was quiet on this point. There is even the potential for larger profit margins through NTBMs than those currently being seen in the mainstream market.
- Local communities and individuals have a desire utilise local heat and energy.
- Need to recognise that energy might not be the primary driver behind a new NTBM (land reform was cited as an example of a driver).
- Desire for the market to be more competitive and for the UK to be more competitive and to enhance energy system resilience.

### 4. Understanding of NTBMs

4.1. There was broad agreement on the characteristics that were proposed in the discussion paper although attendees also noted:

- This might not match how market players would see or define themselves.
- That if a major global player such as Google entered the market then this could 'bend the market out of shape'
- That there needs to be space for models that don't exist yet.
- That a NTBM doesn't need to be 'smart'; it could for example take the form of a local authority wanting to own local energy infrastructure such as the electricity distribution network.
- There is a need to understand how some of these companies will account for their responsibilities and liabilities.
- That the intersection between innovative offers and the traditional network requirements (eg such as balancing) needs to be understood. Some models could be expected to take more responsibilities than others.

## **5. NTBMs within current regulatory arrangements**

5.1. There was broad agreement to the regulatory issues identified within the discussion a paper although attendees noted some additions, including:

- The need to understand the effect of the growth of NTBMs on existing players; how might it impact on levels of uncertainty and investment decisions.
- The need to understand how consumer protection will be guaranteed if not through supply licence conditions.
- That consideration should be given to regulatory arrangements for heat.
- Need to understand how local regulations support local supply or not and to recognise that infrastructure costs at a local level are different from those at a grid level.
- There is a need to consider the socialisation of costs and how this might affect investment decisions.
- Currently consumers are protected from excessive profiteering but this might not apply to all, such as not-for-profits.
- It needs to be considered when the regulator 'steps in'. It felt that this is sometimes too late in the process, eg third party intermediaries (TPIs).

## **6. Market effects of NTBMs and future challenges for regulation**

6.1. Attendees provided a wide range of comments on the potential costs and benefits of NTBMs, and considered the transformational effect of NTBMs, and the regulatory challenges that this would entail. Specifically it was noted that:

- Wider indirect costs need to be considered. There may be direct costs for non-participants eg their bills may rise as others make alternative choices.
- NTBMs may not be accessible to all. For example – vulnerable consumers might not participate in community energy due to the level of investment required.
- Optimisation bias needs to be considered, and the risks for consumers and actors recognised.
- That there is a need to be specific about where there will be winners and losers resulting from market transformation.
- It shouldn't be assumed that all NTBMs will be supporting the de-carbonisation agenda, they could also push up the cost of this agenda.
- That Ofgem needs to consider if it has the right tools to assess the costs and benefits, and that any assessment will depend on the counterfactual – and how this will take account of market transformation.
- That we shouldn't be too optimistic about the potential benefits of increasing energy literacy among consumers.
- That there is the potential for vulnerable consumers and fuel poor to miss out on the benefit so of NTBMs eg will new business target people with limited income streams, and will Government levers on NTBMs be able to safeguard their interests
- Consumers may be willing to take more risks than they are being given credit for.
- Potential wide-scale beneficial benefits may be the driving force of some NTBMs but that does necessarily mean they will deliver.
- Costs need to be unpacked from risks in the paper.
- That there should be a market trialling/innovation mechanism akin the the Network Innovation Competition.

## **7. Other Points**

7.1. Attendees were invited to raise any other points for consideration. Key issues raised included:

- The need to consider what success looks like – and how do we evaluate consumer benefits.
- Metrics steer policy, using existing metrics do not take into account innovation eg liquidity.
- That some regulatory drivers will collide eg RMR does not sit well with increased complexity.
- That increased complexity will lead to challenges for governance architecture, though this is not to say the existing system is not complicated.
- There is a need for Ofgem to provide clarity on its regulatory approach ie will there be freedom to take risks (with informed and willing consumers).
- That the EU referendum could have a significant impact
- That it could be hard to understand the energy value chain if NTBMs mean it is more fragmented.
- There could be benefits to allowing 'trailing' of NTBMs. This could either be permitted by Ofgem or even managed by them.
- A timeline of benefits would be helpful, some benefits/risks may be short term, others may take longer to be realised.
- It is possible that consumer interest has been over-estimated. Switching rates are low despite big campaigns.
- It should not be assumed that all NTBMs require high levels of consumer engagement, some are based on automation.
- Decentralisation can make regulations more difficult to enforce. E.g. current system does bring issues such as the fuel poor to the forefront. This may be because it is easier to use regulatory levers with the Big 6.
- There can be a market advantage to being 'rubber stamped' by Ofgem, this needs to be considered. Ofgem should therefore not be labelling NTBMs with value judgments ie good and bad.
- Need to be saleable to future governments, how much of this will be relevant after the election?
- Companies need to be prepared to share some of their thinking too. It should not all be down to Ofgem.
- Devolution is already happening, there is already a significant move towards the local.
- Recognise that doing nothing is also a choice.