

Dr. Jeffrey Hardy
Head of Sustainable Energy Strategy
Consumers and Sustainability
OFGEM
9 Millbank
London
SW1P 3GE

20 May 2015

Dear Dr Hardy

British Gas response to Ofgem consultation on Non-traditional business models: Supporting transformative change in the energy market

Thank you for the opportunity to respond to the above consultation.

British Gas strongly believes that competition and innovation are essential in delivering the best outcomes for energy consumers. For this reason we support Ofgem exploring how to facilitate the delivery of new customer-centric propositions. New propositions from new entrants and existing market participants have the potential of delivering products and services to customers unlike those that exist in the energy market today. We are also pleased that Ofgem is taking steps to engage with companies that are not fully familiar with the energy market and its current regulatory architecture – this may in itself help reduce barriers to entry.

British Gas is committed to supporting Ofgem in developing a regulatory framework that enables innovative propositions.

Below are four key points we believe Ofgem should consider in taking this work forward:

- Any changes to the regulatory framework should be based on evidence that a change is needed, proportionate to any identified risks and should ensure that regulations apply equally to any particular customer irrespective of which supplier or third party they have contracted with for products or services.
- We do not agree that lack of trust is a key driver for market entry; it is the opportunity to engage customers that drives entry.
- It is not accurate to divide the market into binary “traditional” and “non-traditional” categories of “business models”; the picture is much more complex. New entrants can undertake “traditional” activities and existing players can do things that are not “traditional”. We see no reason to impose such an oversimplification, and believe that it could result in confusing regulation.
- There are several working groups both within and outside Ofgem’s remit looking at policy that may impact the development of innovative products and services; whilst it is useful to bring the picture together, it is important to avoid any duplication of effort between these work streams.

Consumer Protection

It is important that the regulatory framework for any innovative products or services is designed to avoid customer detriment. Therefore we agree that this consultation should be looking ahead to identify where there is a risk of consumer detriment in future products and services.

However, any introduction of regulation will need to be supported by evidence and will need to be proportionate to the degree of risk. For example, any regulation designed to offer protection to consumers will need to evidence that there is a risk of consumer detriment if it is not introduced.

It is too early to determine whether facilitating new products and services will require changes to the regulatory framework, and whether these changes should be implemented using prescriptive or principles based regulation. British Gas is willing to work alongside existing and potential market participants to evaluate whether any changes to the existing regulations are required.

We welcome Ofgem's acknowledgement that regulation can hinder innovation and that both existing and new market players can establish NTBMs. It is important that the regulatory framework remains appropriate for all market actors, allows for innovation and affords sufficient consumer protection.

Lack of trust

We do not agree with Ofgem's suggestion that a lack of trust in existing market actors drives market entry. It is the ability to engage a customer that drives entry, as new companies are sometimes able to offer different and innovative approaches to customer service that are particularly attractive to consumers.

Definition of an NTBM

A business model can be understood as applying across an entire company and therefore the use of the term NTBM suggests that it excludes any company operating under a traditional business model, such as energy suppliers.

British Gas provides energy supply and services; these may be considered traditional business models within the definition of the consultation, but other propositions we provide such as Hive Active Heating and district heating would fall within the definition of NTBM.

Our Hive Active Heating has had excellent feedback to date – 96% of customers feel that they have greater control over their heating and it has a net promoter score (NPS) of 77 (NPS is a widely used indicator of how many users would recommend this product to others). This is proof that a 'traditional' energy supplier can deliver an innovative product that delivers excellent customer outcomes.

We see no reason for Ofgem to divide the market into binary "traditional" and "non-traditional" categories of "business models". Such an oversimplification could result in confusing regulation, and perhaps be biased towards new entrants over incumbent organisations. This could result in a distortion in competition and potentially stifle innovation.

It would be more appropriate to use the term 'innovative propositions' and simply define it as an energy product or service that was not envisaged by the current regulatory framework.

Working groups

There are several working groups both within Ofgem and DECC looking at innovative products and services; it is important that they are co-ordinated to ensure they are working towards a holistic regulatory framework.

We note that Smart Grid Forum workstream 6 is due to publish a report this summer, which will set out the key challenges for delivering demand side response and a smarter grid – both at the transmission and distribution level.

This will be looking at many issues including consumer protection and how new entrants can work alongside existing suppliers and network operators. This report may provide some evidence and analysis that Ofgem's NTBM work can build upon and apply to its wider remit that stretches beyond smart grids.

We further note that Ofgem has both a separate Flexibility project and a Smarter Markets programme. The NTBM project may also be impacted by these as well as DECC's Community Energy Strategy and the work of the Office of Low Emission Vehicles.

We note that many of the risks identified within the consultation document are being explored in other work areas within Ofgem and as part of the Competition and Markets Authority (CMA) investigation. It would be helpful for Ofgem to provide a view of how all these workstreams fit together and avoid unnecessary duplication of work.

Other considerations

In the consultation document, Ofgem has flagged up the complexity of industry code governance. Related issues include the lack of consistency in the governance of different codes and the inability for current industry code governance to drive strategic and transformational change.

We have raised our views on industry code governance and the tariff restrictions of the Retail Market Review (RMR) with Ofgem in other fora; these areas should be considered alongside those identified in the consultation document.

It is important that Ofgem's NTBM framework does not go beyond Ofgem's statutory remit. For instance, we note that Ofgem mentions "social cohesion" as a consideration; it is not immediately obvious where such a consideration would fall within Ofgem's statutory objective and duties. To this end, we note the statement in Ofgem's forward work programme that it will not "pursue policies that involve significant imposition or redistribution of costs among consumers"; these, and other such social policy matters, are decisions for democratically elected representatives.

British Gas would like to work with Ofgem to ensure that the NTBMs work facilitates innovative markets and propositions that deliver better customer outcomes. We are also happy to share the details and learnings we have had with our innovative propositions to date.

If you have any questions, please contact Tabish Khan in the first instance on Tabish.khan@britishgas.co.uk.

Yours sincerely

Sharon Johnson
Director of Regulatory Affairs