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Jeffery Hardy
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Dear Jeffery

Re: Non-traditional Business Models: Supporting Transformative Change in the Energy Market

Cornwall Energy welcomes the opportunity to respond to Ofgem's consultation *Non-traditional Business Models: Supporting Transformative Change in the Energy Market*.

Cornwall Energy is an independent advisor and commentator on energy policy, regulation and markets in the United Kingdom. Our customers include suppliers, generators, public bodies, service providers, financial institutions, law firms, and a large number of new entrants and non-traditional businesses.

We strongly support Ofgem's recognition of non-traditional business models (NTBMs) and their importance to the operation and transformation of the energy market. We however, have no strong views on the technical and operational aspects of the proposals set out in the consultation.

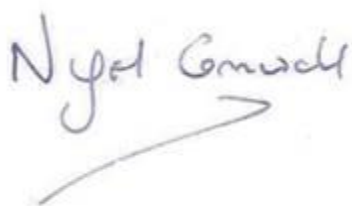
The country has just emerged from a general election with a Conservative majority government who campaigned on the principals of decentralised empowerment and entrepreneurial spirit. In line with these objectives the government should send a strong signal that it wants to enable local communities to take action to meet their own needs, lower their energy costs, and support sustainable development.

Given that in DECC's latest *Public Attitudes Tracker* almost 8 out of 10 people supported the use of renewable generation and the same number highlighted concerns about future price rises, the public appetite for alternative, sustainably powered solutions to the status quo is clear and delivers DECC and the regulator a clear mandate to drive real change in this sector.

While we have seen some welcome steps towards this goal, including this consultation, they have so far been limited in ambition and disjointed in focus, restricting the potential benefits these can provide. We have therefore attached our updated *Local Energy Manifesto*, which details the structural changes that we believe must be made to the industry processes to enable NTBMs to operate in a true local trading environment, bringing substantial benefits to consumers, generators, and suppliers alike.

Specific answers to the consultation questions are attached below.

We would be delighted to provide additional comments and clarification if this would help.

A handwritten signature in blue ink that reads "Nigel Cornwall". The signature is written in a cursive style with a long, sweeping underline.

Nigel Cornwall

CHAPTER: One

- *What is your view on our definition of non-traditional business models?*

We consider that the provided definition is a suitable starting point for increased NTBM engagement work.

- *How we can engage with NTBMs more effectively in the future?*

There is no such thing as a 'typical NTBM' and recognition must be given by the regulator to the diverse nature of NTBMs and this should be factored into all engagement undertaken. We recommend that a limited number of roundtable events are held to allow NTBMs to express their views without placing an unnecessary strain on their resources.

CHAPTER: Two

We would like to hear your views on the drivers for market entry. Do you think there are other important drivers?

The drivers identified in the report are broadly correct. However we consider that two more important drivers should be highlighted: increased engagement by some customer segments; and government support mechanisms for environmental and social schemes.

CHAPTER: Three

- *Have we accurately described the NTBM environment? Have we missed something?*

Based on our interactions with new and prospective market entrants, we believe that report underestimates the diversity of NTBMs, and places too much focus on smaller conventional utility players. Additionally we would like to see greater consideration given to the benefits NTBMs can bring to not just consumers, but all areas of the market such as networks and generators.

CHAPTER: Four

- *Our main focus in this paper is on regulatory issues arising from future energy market transformation, but we recognise that there are relevant issues within current regulation. Please let us know if there are any other issues?*

The current regulations are incredibly prescriptive and damaging to innovation, with the Retail Market Review removing considerable individuality from the supply sector. Additionally the outdated industry processes are predicted on national players and prevent the offering of true local supply and all the associated benefits that this can bring. In the attached manifesto we set out a number of limited, progressive changes that would unlock this area of the market and bring about a host of improvements.

CHAPTER: Five

- *What are the benefits of different NTBMs to energy consumers?*

The benefits of NTBMs to customers are diverse and depend on the particular NTBM. However, in general NTBMs can bring with them increased competition and new processes and efficiencies to drive down costs and support the increased deployment of renewable generation. Additionally many NTBMs focus on customer interactions and so can increase consumer engagement and trust in the industry.

- *Are these benefits experienced by all energy consumers or only those directly receiving the NTBM's services?*

Again this depends on the particular NTBM but in general benefits are felt by both customers and non-customers (albeit to a lesser extent).

- *Are there additional wider benefits to the energy system and beyond it?*

As noted above NTBMs can help support competition in renewable generation, network management, and customer engagement. These in turn help to support security of supply, the achievement of carbon targets and meaningful community energy programmes.

- *Which of these benefits should be taken account of in regulatory policy-making and decision-taking and why?*

All benefits resulting from NTBMs should be taken into account when Ofgem undertakes decision making as they represent a positive impact on the sector. We believe that the regulator should take its decisions based on the most attractive cost benefit ratio possible. Conversely Ofgem should explicitly consider in its decision making progress impacts on the prospects and costs of entry by NTBMs.

- *Are there energy system costs or risks from any of the NTBMs? How might these be addressed?*

NTBMs bring with them the same risks as all new market entrants, but these are far outweighed by the potential benefits they offer. Additionally the extremely high levels of credit required to operate in the industry protects against the risk of default. The greater risk brought by NTBMs is that their new way of operating will undermine the

traditional consensus by showing more attractive possibilities, a change of direction and priorities that Ofgem should be alive to.

- *How will NTBMs help to drive innovation within the energy system?*

By entering into the market and bringing with them new business models, technologies, processes, and services NTBMs will help to drive innovation. Additionally we see NTBMs being the first to embrace new technologies or business models where they see them providing an advantage, such as smart prepayment metering or integrated micro generation.

With their smaller focus and in many cases environmental or social outlook, NTBMs will also embed the principles of decentralisation within the energy sector, with the potential to reshape the industry into a more democratic, engaged, and low carbon industry. These are principles which the previous government has shown its strong support for, and further detail the benefits in the attached manifesto.

- *How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?*

NTBMs, if properly supported by the government, regulator, and industry codes, have the potential to rewrite the energy sector within GB. If the industry processes change to allow true local supply as called for by many NTBMs then the system could be metamorphosed into a decentralised system where prosumers actively engage in the market to self-match their generation to demand innovative, tailored supply offerings are made.

- *How could regulatory arrangements change to accommodate NTBMs?*

We suggest that the arrangements between industry codes be rationalised. Additionally Ofgem should be given a critical friend role similar to code administrators when dealing with new entrants. Finally the regulator should increase its efforts to reach out to NTBMs to understand their focus and the unique challenges they face in entering and operating in such a complex, regulated environment.

- *What role do NTBMs and other parties have in managing energy market transformation and regulatory change?*

As identified by the CMA the regulatory and governance change processes are too resource intensive for the majority of smaller players, including NTBMs, to engage with. We therefore believe more should be done to support NTBMs and new entrants in navigating this area.

NTBMs can all drive change by their commercial actions which often reveal the need to alter industry processes to accommodate an innovative and beneficial new approach.