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20 May 2015

Dear Jeffrey,

Non-Traditional Business Models Consultation

Thank you for the invitation to respond to the above document. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

Executive Summary

The current market is a legacy of a nationalised industry where large fossil fuelled power stations generated and delivered to passive end consumers. This is now been challenged by NTBMs and consumers themselves, but policy and regulations are trailing behind.

The current, prescriptive, “one size fits all” supply licence is constraining innovation and deterring market entry. It suits the current traditional market participants to have prescriptive regulations that reflect their market model as it restrains competition. We believe Ofgem should move quickly to a more principled based form of regulation, this may mean that current incumbents have different licences to independents that better reflect their business model.

By supporting a more diverse and competitive market, Ofgem would be serving existing and future consumers as this will help improve resilience of the market and speed up decarbonisation. Of course, the period of transition may be difficult, but this should not deter Ofgem from achieving the prize.

Finally, we would encourage Ofgem to consider how it engages with participants. Its current process of lengthily consultations and multitude of working groups best suits the large incumbents who are better resourced to engage. This allows them to embed the traditional market models in new regulations.

We have answered your specific questions with reference paragraph below, expanding where necessary.

Q1. What is your view on our definition of non-traditional business models?

By definition, non-traditional business models need to include models not yet known. The market is developing and thus any definition needs to ensure it does not exclude business models that do not fit the definition.

We believe the current definition works well, although we would like to see some reference to geography as we believe there is a pressing need to recognise that not all business models have the desire to be nationwide even though the market arrangements enforce this on current participants.

Q2. How can we engage with NTBMs more effectively in the future?

One of the biggest concerns for NTBMs in the current market is the presumption that any change starts from how the traditional market players operate. The classic example is the introduction of RMR which was implemented to address problems in the traditional market model, and as a result is now having to issue derogations to allow NTBMs to operate effectively.

Part of this problem is that any dialogue between industry and Ofgem is dominated by the larger traditional players, which can then cloud the judgement of decision makers in Ofgem. Ofgem's recent Independent Suppliers forum (held in association with DECC) is a useful start, but we need to go much further.

We would propose that Ofgem has several NTBM champions within the organisation who not only have ongoing dialogue with NTBM operators, but continually challenge Ofgem policy makers to consider whether new regulations or policies support or work against NTBMs.

Finally Ofgem must stop relying on Energy UK to provide industry led solutions. Whilst Energy UK's position allows it to act as a useful co-ordinator for traditional business model operators. It does so to mitigate the impact on its traditional members rather than to deliver a new market model.

Q3. We would like to hear your views on the drivers for market entry. Do you think there are other important drivers?

What drives NTBMs into the market is often complex, but generally stems from the fact that the traditional model operators are not reacting to external change. This essence is captured in several of the drivers captured.

One driver that should be captured separately by Ofgem is localism. This is perhaps driven by the lack of trust in the existing market players, but is enabled by technological innovation and the low carbon transition which allows smaller scale generation rather than the traditional mega-sized remote coal fired power stations of the past. As customers have more generation within their community, then there is a desire to sell the surplus locally. There is a genuine desire to create a "farmers market" scenario in energy.

This of course creates difficulty for the market as it was vested out of a nationalised industry, and ill suited to a scenario with thousands of participants, not least challenging to Ofgem to regulate in its current one size fits all licence regime.

Q4. Have we accurately described the NTBM environment? Have we missed something?

It is worth noting that the descriptions provided here are for NTBM that have managed to enter the market despite the market structure, often by developing a way around barriers that frustrate the NTBM from being as efficient as it could. We urge Ofgem to also consider what NTBMs have failed to enter the market that may exist in other countries.

Under Local services, there appear to be a presumption that local service offerings will be by community or municipal organisations. It seems to discount the concept of a commercial company focusing on a local/regional offering, which is not the case.

Q5. 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 other relevant issues.

Although it is partially captured we believe Ofgem needs to consider separately from regulatory compliance, the pace of regulatory change and the costs of change. Currently, most of our “change management” resource is focused on regulatory change rather than on changes we would like to make to enhance our customer offering. Currently we have in progress regulatory changes for:

- Smart metering
- EBSCR
- REMIT
- TRAS Service
- QR Codes

In addition, at a policy level we are engaging in the development of the following changes forthcoming:

- Next Day Switching
- Half-hourly settlement
- Changes to the PSR

We are also conscious that additional changes are likely to occur as a result of the CMA investigation and more generally the change in Government.

All this needs to be managed, which for NTBMs creates two issues. Firstly, that it is the traditional large suppliers who dominate discussions on change, especially at a detailed level. This results in new regulations reflecting the traditional way of doing things, and can inadvertently disrupt the NTBMs unique offering. Secondly, the cost of continually having to refresh systems and processes falls disproportionately on NTBMs who are generally smaller.

Q6. What are the benefits of different NTBMs to energy consumers?

Diversity in business models provide consumers with the ability to choose a supplier best suited to their need or preference. The current market perception of six large energy suppliers causes disinterest in the energy market, especially when all six operate similar business models.

This diversity, should not just drive down costs, but would also increase customer service standards. For smaller businesses every customer counts.

Q7. Are there benefits experienced by all energy consumers or only by those receiving the NTBMs service?

All consumers would benefit from increased competition which should drive down costs and increase customer service standards. However, NTBMs tend to be innovators and as such may develop innovative products which if successful could be replicated by traditional businesses for the benefit of their own customers.

Q8. Are there additional wider benefits to the energy system and beyond it?

Although it would depend on the type of NTBMs that succeed, then a greater number of players in the market operating different business models would improve the resilience of the energy market. Of course the move from a highly centralised model, inherited from a nationalised industry may

cause medium term disruption, but the final outcome should be beneficial not only to the energy market, but to UK plc by virtue of its diversity and resilience.

We also believe that such a move would increase the pace of decarbonisation, not just of the energy market, but the wider economy with the electrification of heat and transport.

Q9. Which of these benefits should be taken into account of in regulatory policy-making and decision-taking and why?

We would argue that it is not the job of the regulator to pick winners and set the market to benefit those business models. All the perceived benefits should be considered when assessing policy and regulation as well as the costs of excluding certain business models. Of course, all business models, even those who operate as not for profit need to be commercially viable, so regulations should seek that to be so except where it is not in the interest of current or future consumers.

Q10. Are there energy system costs or risks from any of the NTBMs? How might these be addressed?

As mentioned above, the current system is designed around the nationalised industry, where large power stations delivered power to passive consumers. As the market moves to a more decentralised model where the grid operator has less power to dictate what generation source should be used it will create instability. However, the arrival of NTBMs based around demand side management or storage should counter this problem. It is very important that market signals demonstrate the issues arising such that NTBMs can come forward with solutions. One key to this is to consider whether the current simple classification of participants as either suppliers or generators should be reviewed.

Q11. How will NTBMs help to drive innovation within the energy system?

Most NTBMs enter the market because they believe they have innovations that will attract customers. This may be as simple as providing a better or cheaper service, or something more substantial. This in turn should drive competitors to also innovate to mitigate the actions of new entrants.

The more accommodating the regulations are, then the greater the opportunity will be for innovation to come forward.

Q12. How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?

NTBMs have the ability to engage consumers with their energy usage and deliver solutions to delivering a decarbonised energy system. One fundamental challenge to the regulatory arrangements will be the significant increase in the number and diversity of market participants. This creates an issue for Ofgem that relies on engagement with large, well resourced participants operating similar models to set policy and regulations. Going forward it will need to set regulations on outcomes rather than prescribing the actual delivery method.

Q13. How could regulatory arrangements change to accommodate NTBMs?

The regulatory arrangements need to be refocused on the principles of regulation. They should deliver the rules that allow market participants to interact to make the market work, but not dictate how participants managed themselves before the interface. There should also be some

additional high level outcomes to ensure consumers are treated fairly, especially where competition cannot give the consumer an alternative solution.

As the number of market participants' increase, then using energy suppliers and network operators to deliver social policies should cease and they should be left to deliver what they entered the market for.

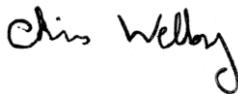
Q14. What role do NTBMs and other parties have in managing energy market transformation and regulatory changes?

NTBMs are by virtue of being new to the market will be small and cannot engage with Ofgem and Government to the same degree as existing traditional players. They can provide Ofgem with guidance as to what they need to open up the market to enhance the ability of NTBMs to compete, but Ofgem's current approach to engagement via a multitude of working groups and lengthily consultation documents will need to change. Ofgem's current move to having more 1:1 face to face meetings with parties is an important step in their evidence gathering.

Ofgem will also have to understand and deal with the preference of the existing large players for the certainty and comfort that prescriptive regulation brings, which they have developed with Ofgem in the first place.

I hope you find this response useful. If you have any questions or require clarification, please do not hesitate to contact me.

Kind regards,



Chris Welby

Policy & Regulatory Affairs Director