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Dear Dr Hardy,

RenewableUK is the leading trade association in the area of renewable electricity generation, with nearly 500 member companies ranged across the wind, wave and tidal energy sectors. Scottish Renewables is the voice of the renewable energy industry in Scotland with over 320 members covering all renewables technologies. As such, market transformation that could facilitate the deployment of these technologies is of keen interest, and so we would like to share some thoughts on your consultation regarding Non-Traditional Business Models. For most of our members this is a new agenda, so we do not have much in the way of evidence to bring to this discussion, but we do want to highlight some areas where we think development would be fruitful.

We are intrigued by the possibility that new market models might allow additional value to be captured by distributed renewable generators, in particular through retaining value in a direct generator-customer relationship. For this reason we are very keen that Ofgem pursues this agenda and works to provide a regulatory framework that facilitates such business models. It should be noted, however, that such models will only cover a relatively small niche area of the power market, and it is vital that any changes to regulation should promote a level playing field for all market participants.

We are interested in the success of business models that diversify the possible routes to market for renewables. Models such as peer-to-peer or community supply would create a direct link between generators and consumers, and we would encourage Ofgem to focus attention on those models that create such a link. We would also encourage attention on the Energy Service Company (ESCo) model, which could allow small-scale distributed renewables to be part of a wider, least-cost, least-risk proposition. One benefit of promoting these models is that they could help spread acceptance of renewable energy technologies, and hence reduce the cost and risk of development. This would reduce the cost to consumers of these energy sources.

The other general area where we would like to see Ofgem promote NTBMs is where they facilitate higher penetrations of variable renewables. Businesses that can provide local balancing services through demand side response or storage can facilitate more variable technologies like wind onto the local network at least cost. Clearing regulatory barriers to aggregating DSR and storage can lead to lower imbalance exposure and a more stable system, even with large penetrations of variable renewables, and so should be a priority. Lastly, there could be some significant benefits in promoting investment in private wire solutions, since these are likely to be more innovative and entrepreneurial than regulated networks, thereby creating greater security on grid availability for developers. Ofgem should be open to considering business models operating between the regulated provision of network access and the buying and selling of power over networks, integrating physical and market access.

Consequently, we believe that Ofgem needs to focus even more on the role of the DNOs and the investment they will have to make to enable the market transformation that NTBMs are a key part of. Active management of the distribution network, perhaps including a Distribution System Operator role, is going to be necessary in a world where active consumers, prosumers, storage and distributed generators proliferate. Even before the RIIO-ED1 settlements go live, there is also a case for facilitating higher capacity in the networks than was envisaged in the DNO business plans. Ofgem should work with the DNOs to allow flexibility in the plans so that new and beneficial business models are not impeded by business cases that were perhaps started before the potential and speed of new technologies was fully comprehended. There are investments required, but there should be significant benefits to be reaped.

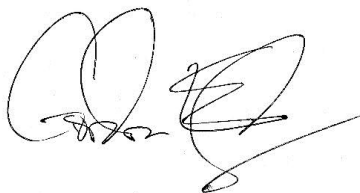
In this vein, we would also like to point out that a number of the items described as 'direct costs' of NTBMs in Table 1 of the discussion paper would be more correctly termed investments in the capacity of the system to allow NTBMs. In most cases, those promoting new business models are seeking to improve efficiency and capture more value for the consumer, and so are almost certainly a net benefit if the regulation allows these efficiencies to be exposed and exploited. The costs involved are part of the transformational investments required as the system changes to a new paradigm, and should be viewed as investments and not costs. On the benefit side, we note that if NTBMs facilitate DSR and storage, then we can expect lower volatility in wholesale power prices than would otherwise be the case, which will have a consumer benefit.

In addition, the consultation document discusses the concept of licence lite in a municipal context. We think the concept might apply to private operators, not just public operators and private operators working under a concession from a local council. The renewable generator for example might become (through a subsidiary) the network operator for a local area which could be a mix of industrial/commercial/residential consumers. We also wonder if there could be additional forms of connection agreement. Currently there are distribution connection agreement and transmission connection agreements with little flexibility available to generators in terms of connections. Perhaps a form of contract could be developed to permit connections utilising only a local section of the network.

In general, we believe that a continued and indeed enhanced focus on removing regulatory barriers to local power supply on one hand and DSR and storage on the other should be a key result of the NTBM consideration process started by the discussion paper. Some creativity is required to encourage facilities that combine different renewable technologies on a single site or virtually, and/or combine renewables with DSR and storage. Exposing opportunities to extract value for consumers is always going to be beneficial, and this is a ripe area for exploitation.

RenewableUK and Scottish Renewables would be keen to engage further with this agenda as Ofgem takes it forward, and would be happy to facilitate contact with our members if that would be helpful.

Yours Sincerely



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