

Alan Foster  
Director  
European Business Development  
National Grid  
[alan.foster@nationalgrid.com](mailto:alan.foster@nationalgrid.com)  
Mobile: +44 (0) 7887 627618

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

20 May 2015

Dear Jeffrey,

**National Grid European Business Development (EBD) Response to "Non-traditional business models: Supporting transformative change in the energy market" [consultation published 25<sup>th</sup> February 2015]**

Thank you for the opportunity to respond to the above consultation on non-traditional business models (NTBMs).

We, EBD, are a ring-fenced division of National Grid responsible for developing our business portfolio in-line with our core capabilities. As such, we welcome Ofgem's commitment to fostering innovation within the energy sector and look forward to working in partnership with you to achieve this.

We believe that NTBMs, as defined in the consultation, could deliver benefits to consumers and the wider energy sector. It is encouraging that Ofgem are seeking to help overcome the barriers posed to NTBMs by regulation.

At the core of the argument for NTBMs is deriving further consumer benefit through innovation. Innovation can come from new entrants, but it will also come from traditional players, if the incentives are adequate. Any future flexibility and adaptability in regulations should be available to both new entrants and traditional market players.

We are keen to engage with any effort to make regulations more responsive to the needs of innovative and disruptive technologies and business models. We have included an annex to this letter outlining our responses to some of the direct questions raised in the consultation document.

We are happy to discuss further should that be helpful. For further details, please contact Hannah Kruimer [Hannah.kruimer@nationalgrid.com]. This response is not considered confidential. We are therefore happy for it to be published on the Ofgem website and shared for the purpose of the consultation.

Yours sincerely,

A handwritten signature in blue ink that reads "Alan Foster". The signature is written in a cursive style with a large initial 'A'.

Alan Foster

Director  
European Business Development  
National Grid

## **Appendix: Detailed response to consultation questions**

### **Chapter: One**

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

Ofgem have given a broad definition of NTBMs in the consultation, and we welcome this approach. Any definition of NTBMs must not preclude the participation of any business that can bring forward innovation that helps Ofgem meet its desired consumer outcomes.

From our perspective the assurance given to existing market players in section 1.6, that, "They (NTBMs) may be new entrants or existing providers that offer a novel product or service", is particularly important. We are committed to developing our business in-line with core capabilities while embracing the added value that innovation can bring.

For example, as a developer of electricity interconnectors we understand the value, to the wider energy system, of the innovative ancillary services that they can offer and their potential ability to deliver increased transmission capacity. It is important that traditional infrastructure operating in a non-traditional way is part of any consideration of NTBMs.

### **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?*

Clearly it is difficult to identify the full range of regulatory issues that might arise in the future, but we endorse the work done by Ofgem to identify challenges to small scale NTBMs attempting to enter the market. Due to the potentially diverse nature of NTBMs we would encourage Ofgem to keep an open mind to challenges posed by existing regulations and to be prepared to provide flexibility on a case by case basis.

We agree that a lot of the issues identified are substantial barriers to new participants in developing NTBMs. We would also like to add that these barriers also impact on traditional market players providing innovation through non-traditional business models.

We recognise the importance of consumers deriving value from NTBMs, and regulations should facilitate this. As a business development directorate we look to innovation within our projects to derive added value both for consumers and our business. We are open to non-traditional business models if they will help deliver this value. Traditional players in the energy market could help unlock such value through, for example, anticipatory investment, if sufficiently incentivised to do so.

Anticipatory investment in one area can provide long term cost, and therefore price, reductions in another; delivering value to consumers, developers and the wider energy system. Such investment can help realise, for example, meshed offshore infrastructure and smart grids; increased spend in one area provides benefits in another. As it stands there are insufficient incentives to help realise these benefits. Therefore, we would encourage Ofgem to think about regulatory issues in a broad way, considering those that directly affect new entrants as well as those that impact on traditional players.

## **Chapter: Five**

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

Regulatory policy-making and decision-taking should have as broad a scope as possible. It should consider the full range of issues right across supply, transmission, distribution and so on. We strongly endorse an approach that considers not just the directly impacted consumers, but also the energy system as a whole and those consumers who may be indirectly affected. We advise against attaching too much importance to any one benefit at the expense of a more holistic consideration.

*How could regulatory arrangements change to accommodate NTBMs?*

We believe that regulations must be able to deliver a clear, dependable and enduring deal for developers, in order to support and encourage investment. We do, however, see the benefits of introducing flexibility on a case by case basis, where a rounded assessment of the project presented demonstrates benefits. We have identified introducing flexibility in terms of scope and speed as potentially beneficial. Where it is merited, the ability to alter the scope of regulations or speed up the process could be beneficial. This would enable Ofgem to facilitate innovation.