Response to Discussion Paper: Non-Traditional Business Models: Supporting Transformative Change in the Energy Market

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The introduction to Ofgem's discussion paper includes the invitation: "We might also have missed something that you think is important. Please tell us if so." The primary objective of this response to the paper is to address an issue that is not explicit in the discussion, and that we believe should be more openly considered.

This paper appears to us to provide an excellent overview of the current and emerging market changes in the energy market of Great Britain. Understanding what is happening in the market place is clearly a vital source of intelligence to inform the design of regulatory arrangements for Great Britain.

The regulatory role and the broader policy-making activities of the UK government need to ensure, between them, the dynamic stability and coherence of the whole energy system, while ensuring it is able to fulfill its purposes in changing circumstances. This requires, in our opinion, a National Governance structure for the industry.

Whether such a National Governance structure is inherent in the thinking is difficult to ascertain from this one document, and the following comments outline the sorts of activity that we suggest are needed.

The paper importantly identifies "lower bills, lower environmental impact, improved reliability and safety, better quality of services, and better social outcomes" as desirable outcomes for consumers, and notes that many of these issues are drivers for the emergence of non-traditional business models. We see these as key objectives for the regulation and wider governance of the energy system, and they should shape the measures by which potential changes are evaluated.

A key area of responsibility for National Governance would be ensuring the cohesion of the market. This is particularly critical in times of disruptive change. It is clear that energy is an essential service, and, as stated in the paper, as the regulator 'we have to balance getting out of the way with the paramount need to minimise potential risks and keep costs to existing and future consumers down, and to ensure all consumers – especially those in vulnerable situations – are treated fairly.' These significant and serious responsibilities require a clear and comprehensive picture of how the market is currently changing and may change in future, and a preparedness to act to ensure that the changes do not leave the consumers disadvantaged as result of gaps, or confusing overlaps, between provision. Where elements may in future be missing or disconnected, there is the opportunity to plan where they should be covered by the market in order to provide the market with the space to innovate in these areas, as well as ensuring that all governance functions themselves are in place.

Other governance responsibilities relating to the functioning of the whole system include:

- Ensuring that the market has space to take full advantage of new opportunities, such as those provided by new technology.
- Developing mitigation strategies in relation to future risks in order to reduce the chances of the risk being realised.
- Ensuring the market is able to evolve to address current issues such as lack of consumer engagement. It should be noted that this is not a once off response, but rather it needs to be combined with the trend from consumer to prosumer and the potential for local communities to take responsibilities for their own power requirements as outlined, for example, in the '1000 Flowers' scenario research.

The emergence of transformational change in the market place is clearly a fantastic opportunity for regulation to steer changes to achieve government objectives. However, this can only operate effectively, for all stakeholders, if functions within Government, cooperating to ensure consistency of intent and action, are working ahead of the field, with eyes firmly on the future, and enabling and supporting positive changes to be embedded in the future energy system. This should include ensuring participation in the planning process from the full range of stakeholders, and careful iterative consideration of both the scope of the system to be governed (raising opportunities, for example, to provide governance of synergies between electricity, gas and other energy vectors) as well as the intended purposes of the system. We maintain that an overall future systems architecture would be extremely useful to support such an initiative, and would inform the governance and regulatory function, enabling a coherent and planned response rather than piecemeal provision for each emerging trend.

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