

Our Ref: ORG13-A3004
Your
Ref:

Dr Jeffrey Hardy
Consumers & Sustainability
Ofgem

20 May 2015

By email: sustainable.energy@ofgem.gov.uk

Dear Jeff

Non-traditional business models: supporting transformative change in the energy market

Thank you for providing the Scottish Environment Protection Agency (SEPA) with the opportunity to comment on the above discussion paper.

SEPA recognises the speed of change in the energy market currently and welcomes the attention of Ofgem to these changes. Going through the discussion paper SEPA would make the following comments:

It is important to ensure that these new business models are captured by existing regulation/legislation in order that unintended consequences requiring regulatory change can be addressed. The paper captures the drivers for market entry well. There is potential for much innovation that will combine technologies in new ways and it is important to be flexible in responding to that. The definition of Non-Traditional Business Models (NTBMs) is comprehensive and embraces that flexibility.

A potential example of NTBMs could be local authorities entering the market as energy providers and it is important to consider how activities such as those would be licenced and regulated.

The GB energy system was originally designed around a centralised market with few suppliers but now every house has the potential to become a power source and smart meters are going to be essential in order to balance and ensure equitable demand management. Ofgem has a role to inform and engage consumers that this can be accompanied to their (consumers') personal benefit. SEPA is encouraged that you will be following up on the State of the Market report to address these concerns as well as continuing to address fuel poverty.

SEPA would encourage Ofgem to ensure that consumers are not exploited by businesses charging for services that are freely available. There is a need to ensure that all NTBMs add value for consumers and SEPA welcomes the engagement of the Competition and Market Authority (CMA) to investigate this on behalf of consumers. Energy Service Companies (ESCOs) and how they operate can be a significant force for good and it is essential to ensure that is how they develop. They can fall outside current regulation particularly with regards to heat provision.



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SEPA recognises that Ofgem's role in heat is limited; however it is a major component of the changing energy market. Scotland has ambitious heat targets and SEPA is keen to see them achieved. Maximising the use of surplus heat and the provision of renewable heat are essential prerequisites to meeting the heat targets and contributing to Scotland and the UK's wider climate change targets. SEPA supports the sustainable use of heat and would encourage continued positive actions from Ofgem in that area.

Ofgem's programme to assess potential regulatory issues with Third Party Intermediaries (TPIs) is a welcome inclusion and SEPA would encourage environmental scrutiny alongside consumer benefit. There is a strong role for Ofgem as an 'honest broker' and SEPA would encourage them to build on initiatives such as their 'confidence code' for price comparison websites. The existence of these 'tools' needs to be further promoted. It is important to consider the environment and how environmental consequences can be sustainably addressed.

It is reassuring to see that Ofgem is very aware of the potential regulatory challenges and developing their thinking at this (relatively) early stage. Environmental sustainability should be a key driver of any new controls. There are potential gaps in the current regulatory powers and it is good to see Ofgem addressing this.

Properly managed NTBMs will be beneficial to consumers and to the environment; but there is a need to ensure that adequate regulation and licencing is in place to ensure that. SEPA look forward to continuing to work with you to accommodate these new developments.

As a public body committed to openness and transparency, SEPA feels it is appropriate that this response be placed on the public record. If you require further clarification on any aspect of this correspondence, please contact Eric McRory, Principal Economist, SEPA Stirling Office, at the address shown.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paula Charleson', enclosed in a thin black rectangular border.

Paula Charleson
Head of Environmental Strategy