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Siemens responses to Ofgem discussion paper on non-traditional business models: Supporting transformative change in the energy market

Dear Dr. Hardy,

We welcome the opportunity to contribute to Ofgem's discussion on the impact of non-traditional business models within the energy market and the role of the regulator in protecting long term consumer interests, whilst encouraging the entry of new innovative approaches in delivering consumer benefits.

Siemens has a prominent role in the UK energy market, being leaders in offshore wind generation and interconnectors, and involved in the whole electricity supply chain. Additionally, Siemens portfolio and relationships within the emerging UK Energy Sector, around smart grids, smart buildings and connected communities, gives us a comprehensive overview of the UK Smart market. This activity is embedded within our Siemens Energy Management division which understands and demonstrates the requirement for holistic approaches towards creating a low carbon future.

Moreover, previous years of the innovation stimulus initiative, which was introduced by Ofgem, Siemens has been actively engaged and identified as a valuable partner to various Tier 2 projects, such as Low Carbon London, SoLa BRISTOL and CLASS. This has provided us insights on the Smart Grid industry with an understanding of the regulatory environment as well as the drivers of the need for Smart Grid investments and the implications to stakeholders.

We have given careful consideration to the dialogue presented in the discussion document and this letter sets out Siemens Energy Management divisions comments and responses to some of the discussion points.

Market Drivers

Siemens believes that the low carbon energy transition is at present the most important driver for Non-traditional approaches, as traditional approaches in this area find it difficult to create traction in the existing regulatory regime. Lack of consumer engagement and trust (in traditional utilities) can stimulate a demand for non-traditional offerings but will often be stifled under the regulatory requirements of the market. This could be tackled by creating a market that others can enter more easily, but whether this would have much impact on the issue of trust is not easily ascertained – the market power of the big 6 is too strong.

A driver for entry into the Energy market may come from outside the sector and be in response to shifts in global economies and commodities such as oil prices. Market volatility can force businesses to rethink their business plans and look to engage in other markets which can provide security to their revenue streams. These businesses

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could offer new thinking and innovative offerings from their traditional markets which could benefit the energy sector.

Access to new revenue streams and business diversification could be considered a driver. New entrants to the market may be completely uninterested in vulnerable or dissatisfied customers or renewables, and may simply see a way of applying business models used in other industries or sectors in order to turn a profit if the business case is there.

Another driver may be the desire for devolution of powers from centralised to local government. This will inevitably lead to a greater focus on local authority engagement and community-based desire for a greater level of energy independence. This will not necessarily focus on Low Carbon transition but instead on securing cheaper energy for local consumers, social enrichment for the region (local jobs and business opportunities) and creating a potential revenue stream for the municipality through participation in the national energy market.

Future energy transformation and current regulation

- At present there is little information and guidance on the Demand Side Flexibility Market proposals and how to engage. Demand side response has the potential to greatly transform how the energy system is balanced and operated but also introduce a wealth of new services and stakeholders into the market. Today, there is very little visibility into Ofgem's considerations with respect to regulatory impacts in this area. Siemens would like to see visibility and timelines for the introduction of blended National Grid/DNO ancillary service market contracts. Siemens believes the introduction of blended contracts would rapidly increase the uptake of DSM in the UK and contribute savings to UK CO₂ and consumers spend on energy. Innovative constrained managed zones on the distribution network also have the potential to further speed up the market.

Uncertainty is a major concern within the energy industry. NTBM's are generally providing new offerings in response to achieving the governments carbon reduction targets but the government has been known to make sudden changes in market support mechanisms (e.g. Feed in Tariff reductions for PV in 2014, change in policy for on-shore wind subsidies 2015, etc.). NTBM's will emerge around municipal and community energy but only if the government continues to support their development. Reinforcement of the work developed by the DECC during the previous administration (e.g. the community energy strategy) will allow new participants to continue developing business models and relationships with the confidence that stable market conditions will exist in coming years.

Benefits of NTBMs

Today, consumer interests lie primarily with the cost of energy and security of their supply. As new affordable technology / services become available and social awareness of energy use increases, the shift towards prosumers and flexible networks will become more prevalent whereby the expectation will be a positive impact on the consumer cost of supply. Through use of consumer technology (e.g. applications, software, etc.) there will be possibilities for further developments and a potential for increasingly disruptive business models to enter the energy supply chain, which could have far reaching impacts at a local and national level.

Accommodating NTBMs and concluding thoughts

Other means of stimulating change in the energy sector may come from unlocking access to sources of revenue through regulatory change, for example by relaxing the rules on contestability for construction, operation and maintenance of the LV network.

Innovation within the industry should be allowed to progress naturally without the constraint of regulation. New services and markets should be tested under observation with consideration of their benefits and risks before developing the regulatory framework which will ultimately ensure value for customers. By removing the barriers to disruptive innovation, an agent can be created which will push the incumbents to re-think their offerings and create further consumer value.

To this end, it is believed that regulation should only apply where there is a sustainable market and consumer need for a particular innovation and business model.

With kind regards,



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