

Ofgem
**Non-traditional business models: Supporting
transformative change in the energy market**

Response from Sustainability First

20 May 2015

Summary

1. This response is addressed only the question of whether the range of non-traditional business models (NTBMs) considered in the consultation document is wide enough. In our view, it needs to be extended to include “virtual prosumers”, as described below.

Response

2. Sustainability *First* welcomes the opportunity to respond to this consultation. NTBMs can provide a useful contribution to the continued development of the energy market through the creation of new types of market actors, but they can also assist through improving awareness and understanding in consumers of the use and production of energy.
3. Ofgem’s initiative to gain a better understanding of NTBMs and their regulatory implications is therefore to be welcomed. However, there is a danger that, by focusing too specifically on “business” models as such, useful models might be excluded.
4. The range of NTBMs rightly includes community energy projects. Community energy projects cover a wide range of different activities, as indicated in paragraph 3.15 of the consultation, such as the more efficient use of energy and the business of buying and selling of energy. But a key driver of many community projects, as has been clear from recent community energy workshops and conferences we have attended, is to minimise the need for the external business of buying and selling electricity by aiming so far as possible to be self-sufficient in energy use - by using local generation and demand-side measures to encourage energy use when it is locally available¹.
5. Previous regulatory initiatives, such as Licence-Lite, have been aimed at distributed generators who wanted to have a business of supplying electricity but for whom the complexities of code-compliance (MRA, DCUSA, CUSC and BSC) made this too onerous. However, this approach assumed that the supplier’s obligations had nevertheless to be met specifically. This is of course not the case for individual consumers, or even prosumers, who have no code obligations.
6. A domestic customer has complete freedom to vary their usage, or to add generation, with their supplier having responsibility for balancing, taking account of diversity between their very large number of customers. With the exception of very large users, who may themselves be parties to the BSC, larger customers, including those with standby generation, are not regarded as licensed suppliers if they use all their generation onsite and balancing implications are dealt with within the terms of their supply contract without them needing to be code signatories. (A demand-only customer with a half-hourly meter will of course be settled on the basis of their actual half-hourly usage.)
7. Additionally, a customer with demand and generation behind a single meter can, if they actively manage their maximum import demand and their import units:

¹ Further encouragement may well be given to this trend by the introduction of the requirement that new homes should be zero-carbon from 2016.

- Reduce their DUoS payments and Triad payments
 - Receive demand-side management fees
 - Reduce climate change levy and other “green levy” payments such as ECO, RO and the cost of small and large-scale FITs
8. These financial benefits, which are likely to increase in future, together with the avoidance of the need for code compliance, provide a significant incentive to **individual** “prosumers” to manage their electricity generation and use behind a single meter to be as self-sufficient as possible in their use of electricity. But these benefits are largely denied to locally-based groups of prosumers who might wish to be collectively as self-sufficient as possible (although recent trials by DNOs under the LCNF and elsewhere are starting to tackle the network cost aspects of local aggregation).
9. If local groups of prosumers were permitted to aggregate their net supply/demand balance and be treated as a single “virtual prosumer” for settlement purposes, they could gain the benefits available to the single prosumer of reduction in network charges and green levy, and this would give considerable financial encouragement to the development of such groups. And as a prosumer, rather than a registered supplier, they would avoid the need to comply with the industry codes or have someone comply with the codes for them.
10. There would of course need to be size limitations to such ventures. Since all other customers would have to meet the costs that the “virtual prosumer” has avoided, if the “virtual prosumer” approach became too popular, we could end up with a “death spiral”, with fewer and fewer customers paying ever higher amounts of green levy and network charges. And the situation where customers within the “virtual prosumer” had different suppliers would need to be dealt with. But despite these limitations, we consider that the “virtual prosumer” concept has value and should be examined further.