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Dear Jeffrey

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

Thank you for the opportunity to respond to the above consultation. This letter should be treated as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. It is not confidential and can be published via the Ofgem website.

Ofgem's consultation is very open and wide ranging, covering issues from new suppliers to new network technologies. As the energy system evolves, regulation must be open to new approaches, ensuring the balance is maintained between customers' short and long term interests, whilst allowing new ideas to be explored by both new entrants and existing participants.

UK Power Networks is exploring new business models in two projects funded through the LCNF tier 2 competitions (Smarter Network Storage and Vulnerable Customers and Energy Efficiency). The innovation framework Ofgem has developed has worked well for network related NTBMs to be explored and is a good process for allowing the technical, commercial and regulatory aspects to be explored in a controlled manner. Ofgem should ensure that the opportunities the LCNF/ NIC has provided remain to allow new business models to be tested and developed.

Our answers to the consultation questions are provided in the appendix to this letter and we hope that you will find our comments helpful. If any part of our response requires further explanation or clarification, please do not hesitate to contact me.

Yours sincerely



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## Appendix

### CHAPTER: One

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

We generally agree with Ofgem's definitions, noting that it is broadly encompassing of any new services and market propositions. NTBMs should reflect new ways of operating the energy systems.

#### **How we can engage with NTBMs more effectively in the future?**

It is important Ofgem engage with NTBMs to understand their business propositions and how they add value to consumers. The regulatory framework should be open to new propositions but Ofgem must be clear about its duties to customers both in the short and long term.

### CHAPTER: Two

#### **We would like to hear your views on the drivers for market entry. Do you think there are other important drivers?**

For network operators, technological change in the types of equipment connected and the provision of information to drive behaviour are key drivers that are visible in the projects funded through the low carbon networks funds. The need for non-traditional models may also be driven by the need to develop new regulatory models to allow new technologies (e.g. storage) to deliver different services (e.g. capacity and frequency response), possibly with different financing requirements, given the uncertainties and risks of developing the different technologies and business models.

### CHAPTER: Three

#### **Have we accurately described the NTBM environment? Have we missed something?**

Ofgem's list of types of organisations is largely focused on supply and generation. There is little mention of services to network operators other than demand side flexibility. Ofgem must consider both new entrants operating independently but also the creation of consortia of existing and new participants where these are necessary realise all the benefits of innovation.

#### **We'd like to learn more about organisations using NTBMs. If you are prepared to discuss this, please contact us (see Appendix 1 for contact details).**

UK Power Networks is currently running the Smarter Network Storage (SNS) LCNF project which is looking at the different business model requirements needed to make the case for maximising the value of storage. Our Vulnerable Customers and Energy Efficiency (VCEE) LCNF project involves existing suppliers and community groups in a consortium to improve services to vulnerable customers and networks.

### 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?**

The paper addresses the main regulatory issues but Ofgem needs to give further consideration to regulation across the boundaries between elements of the current energy system and how the different drivers can affect innovative solutions, for example the SNS project has to manage drivers for providing system balancing services with providing capacity services to the network operator.

The regulatory boundaries that reflect the existing market structures are likely to be important areas to consider if regulators want to support innovation.

System technical standards may also need to develop to ensure that these are appropriate, allowing innovation but protecting the operation of the system. We are aware of the work ongoing with the smart grid forum on how best to ensure standards develop and support the review of the governance processes, acknowledging the need to ensure a responsive process.

It is important for Ofgem to ensure that the regulatory framework does not become overly complex for new or existing participants.

## **CHAPTER: Five**

### **What are the benefits of different NTBMs to energy consumers?**

#### **Are these benefits experienced by all energy consumers or only those directly receiving the NTBM's services?**

#### **Are there additional wider benefits to the energy system and beyond it?**

The three questions above are very open and given the scope of different NTBMs being considered we cannot make substantive comment in relation to these other than that the development of smart grid services and integration of new technologies should offer benefits to all energy consumers (eg lower system costs) and wider societal benefits (such as CO<sub>2</sub> reductions). Ofgem must continue to ensure that the right balance of benefits between existing and future consumers is maintained and that the incentives are there to ensure investments (such as the Innovation Roll out Mechanism) support the delivery of wider system and societal benefits.

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

Ofgem needs to ensure that all benefits and the costs of achieving them are suitably accounted for in its policy-making. Regulators are often best placed to make the policy trade-off between short and long term costs to consumers and the direct and societal benefits they receive.

#### **Are there energy system costs or risks from any of the NTBMs? How might these be addressed?**

Each NTBM will come with a different risk profile which is likely to change as innovative models become better understood and the market and regulation adapt to them. Customers value a reliable supply of energy and new business models should be tested to ensure that they do create value in one area but destroy value in other areas.

#### **How will NTBMs help to drive innovation within the energy system?**

NTBMs should allow new approaches to be explored in a contained manner and allow new services to be developed that existing licence arrangements, rightly designed to protect customers or investors, might otherwise restrict. NTBMs should allow existing and new participants to create additional value without putting at risk the benefits of the existing arrangements.

**How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?**

**How could regulatory arrangements change to accommodate NTBMs?**

NTBMs delivering new services, such as those being considered in the SNS and VCEE projects may require new licencing arrangements and a consideration as to any restrictions in existing licence arrangements, if for example it became clear that distribution network operators should be able to provide and operate storage.

**What role do NTBMs and other parties have in managing energy market transformation and regulatory change?**

It is important that the costs and benefits of NTBMs are clear and well understood, whilst creating the incentives to innovate and allowing markets for new services to develop whilst ensuring suitable protection against excessive costs for customers.