

Non-traditional business models (NTBMs) – Supporting transformative change in the energy market

Minutes of the workshop held on Non-traditional business models.	From Date and time of Meeting Location	Stephen Bass 26 March 2015 14:00 Ofgem, Glasgow
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1. Facilitator

Stephen Bass.

2. Definition

2.1. The definition did not spur a great deal of discussion as there was broad support. It was noted that:

- Off-gas was raised and it was noted we don't currently have a role in regulating this;
- It was confirmed that our work on flexibility includes and goes beyond demand side response.

3. Drivers

3.1. There was broad agreement with the drivers suggested but attendees noted a range of issues and additional drivers related to the development of NTBMs, including:

- It was suggested another driver should be added on the 'political' agenda, including 'devolution'. Interest is being driven to keep the value of Utilities at more of a local level, with communities or tenants. This dynamic was being driven by both politicians and local communities.
- There was a need to look more closely at alternative and local economic models which reflected and embedded environmental and social values, as well as economics.
- It was important to reflect on the fundamentals of commercial operation and ask why a generator who was making money from renewable energy would want to share the benefits to the local community, rather than sell it to the market for the highest price.
- It was asked whether use of energy infrastructure was a driver for NTBMs. Existing infrastructure was limited, and that it was either necessary to build new infrastructure or to use what we have better – so this could drive new ideas.
- Drivers for NTBMs include energy security of supply, resilience, vulnerability to disconnection (for those on single circuits) and exposure to heating oil prices. Government policy had impacted activity in different ways – the FITs regime had led to a lot of new people and groups getting involved in energy two years ago, but recent scaling back in FIT tariffs meant that business models that worked then might not work two years from now – and this was a driver for innovation.

Selling locally can be a very attractive idea for heat users compared to a straight export to the grid via a PPA.

- The need for back-up was stressed and that this is where aggregation was important in addressing balancing and risk profiles. There was a need for tariffs that rewarded efficiency in energy production as well as renewable energy.

4. Understanding of NTBMs

4.1. There was broad agreement on the characteristics that were proposed in the discussion paper although attendees also noted:

- The supply of energy through 'intermediaries' or third parties could impact communities. The meaning of local was questioned here – some of these 'market maker' deals required around 10,000 customers to sign-up and could be even more.
- The need for consumers to have information so that they could take more control of their energy needs and how they are met was important. Some of the services currently offered to Industrial and Commercial customers may be wanted by local communities too and should become more available as technical platforms develop.
- Social and commercial approaches were not mutually exclusive – a single company could deliver both – these different approaches were interlinked.
- As a starting point for understanding what NTBMs are, our definition was broad and felt it was 'open'. What did this mean in terms of how this fitted in the industry structure (networks, supply etc). If we had a model of a single price day-ahead trading for energy, then local communities could participate. Should we be thinking about opportunities presented to NTBM's in multiple markets (Balancing, Capacity Market)?
- It was clarified that Ofgem was looking at how NTBMs could operate in the existing market with a view to identifying how regulation may need to change in future.
- A discussion developed around the concerns as to whether the expertise to participate in the energy market existed at community level. Various views emerged around the themes including: there was a lot of space for NTMBs to develop, including for communities to partnership with established players; that we should not get too caught up in the physical product because market arrangements mean energy could be produced in one location, traded and then delivered in another location.
- The CARES (Community And Renewable Energy Scheme), run by the Scottish Government, had engaged a lot of local communities and there was no shortage of innovative thinking. This had been a challenge for local communities and for the Scottish Government in terms of what was practical in the circumstances in which local communities operated.
- NTBMs are not a homogenous group, there are organisations who will be thinking more 'mass market' along with smaller players.
- It is important to recognise that the characteristics proposed are framed by what is possible within current regulatory and policy frameworks rather than what

might be possible. For instance, the CE business model is largely a FIT prescribed business model, rather than what CE might want to achieve.

- That there is a need to recognise business and industrial 'prosumers'.
- There is appetite amongst public authorities to take ownership of distribution assets either as IDNOs or to purchase networks from DNOs.

5. NTBMs within current regulatory arrangements

5.1. There was broad agreement to the regulatory issues identified within the discussion a paper. Comments included:

- There was a role for regulation in ensuring that DNOs are open to new ideas, and not to be afraid of losing control of the network. The default position should not to consider new ideas and not to 'just say no' to innovation.
- There was some sympathy for DNOs, given the challenges they faced. It was hoped that the RIIO price control would open and encourage innovation. Some DNOs were now saying they would look at things that they had refused to look at in the past.
- The Code Review process could be used to make a lot of changes over the long-term, but perhaps derogations could be used to promote innovation and to de-risk new approaches, until they could be brought into the mainstream. More [innovative] suppliers would be helpful as they could lobby for better market arrangements.
- It was argued that suppliers faced tight operating margins and needed economies of scale to operate. So it followed that the cost of activities that were social functions should be socialised.
- It was asked whether many new market players would make it more difficult for consumers to get accountability and redress when things went wrong. The emerging debate on NTBMs should not be framed only around communities but about partnerships between communities and market players, like suppliers.
- A note of caution was urged. Increased flexibility in other markets such as banking had led to miss-selling. More flexibility could lead to more risks and this needed to be addressed.
- The group also discussed the need for simplicity to. "If it is simple people will do it".
- It was important to make sure that NTBMs added value to the wider economy and not just to make money, ie in terms of outputs such as maximising renewable generation and improving energy efficiency. It was suggested that legislation should place rules on NTBMs to consider wider social and economic benefits for consumers (a warm home at a decent price).

6. Market effects of NTBMs and future challenges for regulation

6.1. The range of challenges for regulation was recognised by the group:

- NTBMs could be a big disrupter in the energy market. It was suggested that incumbents will suffer at the hands of new entrants, losing market share. Different models would develop under the NTMB framework, some would be commercially focused and others would be aimed at addressing social concerns.

- A question for Ofgem and DECC is how will the costs and benefits of different models be assessed and should some costs be met by government and not directly by energy consumers if those benefits provide government/social aims cost-effectively?

7. Discussion on Ofgem's consultation on quicker and more efficient distribution connections

- The split between what is socialised and what is 'marketised' was discussed.
- There was a dearth of information as to where the balance should be, and no consistent approach to evaluate costs and benefits.
- It was noted that the DNO cost of capital is much higher than private finance..
- The 'big question' is what is the evidential threshold for affirmative action for further socialisation to support CE/NTBMs in connecting.