

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

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1. Why did we publish this discussion paper?
2. What is a NTBM?
3. NTBM drivers
4. Our understanding of NTBMs
5. NTBMs within current regulatory arrangements
6. Market effects of NTBMs and future challenges for regulation
7. Other points?

1) Why the discussion paper

- Recently, there has been a wave of new entry to the energy market and many of these entrants have new and non-traditional business models (NTBMs). This is a trend we expect to continue.
 - Licence Lite enquiries
 - RMR derogations
 - White labels
 - New suppliers
 - Etc...
- Some of these NTBMs could in the future transform the energy market and deliver desirable outcomes for consumers. These include: lower bills; lower environmental impact; improved reliability and safety; better quality of service; and better social outcomes.
- This discussion paper is the start of a longer-term engagement with NTBMs through which we want to better understand their drivers, consumer benefits (and risks) and how they could transform the energy market and how regulation may impact upon them both now and in the future.
- We need your help to build this evidence base so that we have foresight of future regulatory issues and are able to take action that is in the interests of existing and future consumers.
- You might also be interested in Ofgem's work on [Flexibility](#) and [quicker and more efficient distribution connections](#).

2) What is a NTBM?

Business models offering new products or services, or new ways of delivering these, that are different to those traditionally provided in the existing energy market. Those offering such services have diverse motivations (technological, social and environmental as well as financial) and ownership arrangements, and operate at various scales. Over time NTBMs have the potential to transform the existing energy system.

Discussion point:

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

1. Low carbon energy transition
2. Rapid technological innovation
3. Lack of consumer engagement and trust
4. A greater focus on affordability and supporting vulnerable consumers

Discussion point:

- Are there other important drivers for NTBMs?

4) Our understanding of NTBMs

- Characteristics of NTBMs
 - Value proposition
 - Motivations
 - Organisational arrangements
- Types of NTBM:

Local services	Bundled services	Customer participation
<ul style="list-style-type: none"> • Community • Municipal • Housing Associations 	<ul style="list-style-type: none"> • Energy Service Companies • Multi-service providers • Market services 	<ul style="list-style-type: none"> • Peer-to-peer • Demand side flexibility • Prosumers • Next generation intermediaries

Discussion point:

- Do you have any thoughts on the characteristics and types of NTBMs?
- We're interested in NTBM case studies, can you help with us identify them?

4) Our understanding of NTBMs

Local services

Community Energy
(1000's organisations +
Ovo Communities)

Municipal Energy (eg
London, Nottingham,
Bristol, etc)

Housing Associations (eg
Carbon Savings Alliance)

Bundled services

Energy service
companies (ESCOs)
(eg Woking)

Multi-service providers
(eg Utility warehouse)

Market services (eg
supplier-in-a-box
provider Utiligroup)

Customer participation

Peer-to-peer energy (eg
Open Utility)

Demand-side flexibility
(eg Tempus Energy)

Prosumers (eg Rent-a-
roof PV)

Next gen intermediaries
(eg Power of attorney
sites)

5) NTBMs and regulation

Issues particularly affecting small-scale NTBMs

- **Set up costs for suppliers**
 - BIS Challenger Business project
 - DECC/Ofgem Independent Supplier
 - CMA
- **Regulatory compliance costs**
 - DECC/Ofgem Independent Suppliers project.
- **Environmental and Social Obligation thresholds**
 - DECC
- **Code compliance**
 - Licence Lite

Potential issues related to market structure

- **Vertical integration**
 - CMA
- **Liquidity**
 - Secure and Promote license condition
 - CMA
- **Imbalance costs**
 - Electricity Balancing Significant Code Review
- **Code modification**
 - Code Governance Review
- **Network Connections**
 - Community Energy Grid Connections Working Group
 - RIIO-ED1 incentives
 - Anticipatory investment consultation
 - CMA
- **Lack of customer engagement**
 - RMR
 - CMA

Emerging regulatory developments

- **Impacts of demand-side response and other new sources of flexibility**
 - Flexibility project
 - Smart Grid Forum
- **Third Party Intermediaries**
 - TPI programme
 - Updated confidence code
 - Non-domestic TPIs consultation forthcoming

Discussion point:

- Are there other current regulatory issues?

6) Market effects of NTBMs

Direct energy system <u>benefits</u>	Economic	<ul style="list-style-type: none"> • Consumer bill reductions through increased engagement and competitive pressure • Avoided/reduced network costs: losses, connection, reinforcement, transmission, distribution • System balancing cost reductions: eg if NTBMs enable greater demand management • System diversity, flexibility and reliability/resilience • Innovation effects: new products, services and processes may drive down costs and enhance consumer choice • Increased market engagement may have knock-on effects: eg, success rates for energy efficiency projects, demand reduction, behavioural change, etc
	Environmental	<ul style="list-style-type: none"> • Carbon impacts through both fossil fuel and demand displacement • Additional environmental impacts: eg air quality (and associated health effects), impact on natural beauty
	Social	<ul style="list-style-type: none"> • Increased energy 'literacy' may lead to greater support for renewables deployment and demand-side programmes • May focus particularly on vulnerable, fuel poor or 'hard to reach' energy consumers
Direct energy system <u>costs</u>	Economic	<ul style="list-style-type: none"> • Additional grid connection costs (connection and potential reinforcement) • System integration costs: eg more back-up generation required or better distribution system management (such as local balancing) • Higher coordination costs due to increase in number of market participants • Equipment costs: eg in consumer premises • Increased costs associated with managing greater system flexibility eg reliance on higher levels of intermittent and distributed generation • Potential risks to personal data, privacy, consumer protection, etc
	Environmental	<ul style="list-style-type: none"> • Carbon impacts • Additional environmental impacts eg air quality (and associated health effects), impact on natural beauty
	Social	<ul style="list-style-type: none"> • Potential marginalisation of vulnerable consumers and others not able to access new (digital) services and products
Wider indirect <u>benefits</u>	Economic	<ul style="list-style-type: none"> • New jobs and enhanced local skills • Economic development (potentially in areas with fewer opportunities) • Regeneration of local areas and enhancement of investment potential
	Environmental	<ul style="list-style-type: none"> • Greater understanding of low carbon energy may have knock-on effect on other behaviours: eg heating and transport choices • Community and municipal energy projects may lead to broader environmental awareness and schemes focused on the enhancement of green infrastructure and biodiversity
	Social	<ul style="list-style-type: none"> • May provide funds for non-energy-related projects through community funds/trusts • Wider social impacts on local communities: eg social cohesion or community development

6) Market effects of NTBMs

Discussion points:

- What are the benefits, costs and risks of NTBMs? Who do these accrue to?
- Do you agree with the line that we've drawn between direct energy system effect and wider indirect benefits?
- How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?

7) Any other points?

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