

## Ofgem's Innovation Plan

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- Government request for an Innovation Plan addressing 3 issues to provide assurance on regulatory framework:
  1. How new technology is likely to shape the sectors being regulated
  2. How legislation and enforcement frameworks could adapt to new technologies and disruptive business models to encourage growth
  3. How regulators could better utilise new technologies to generate efficiency savings and reduce burdens on business.

- BIS definition of innovation:

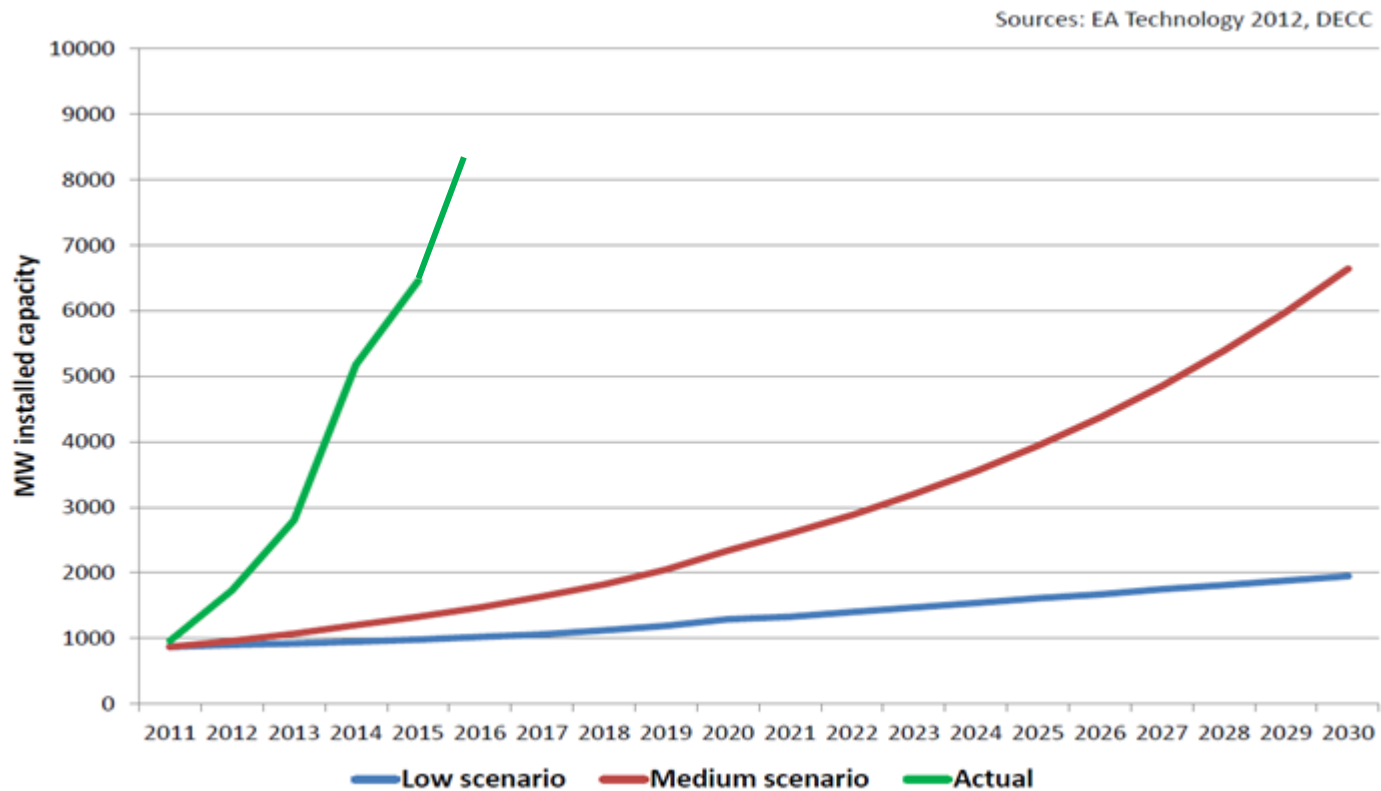
*“the application of knowledge to the production of goods and services. It means improved product and service quality and enhanced process effectiveness.”*

- Change in the energy sector

*“the ... power system will keep changing and evolving throughout the coming decade. Nothing that we know from the past might be taken as granted. Technologies, system and market parties’ behaviours and strategies, hence business models, will come to change and surprise us”*

# Q 1: Technology and the regulated energy sector

- In energy, change is fundamental and accelerating
- Various drivers:
  - Technology
  - Behaviour
  - Policy and incentives
  - New business models
- Blurring boundaries within the electricity and gas systems
  - Demand and supply (“prosumers”, storage, responsive demand)
  - Transmission and distribution and off-grid
  - Controls, aggregation, disaggregation, internet of thingsInteraction with heat, transport, financial services – whole system issue



Outturn vs expectations. Cumulative capacity now stands at 8.7GW (at Dec 15)

## Q2: Our regulation and innovation

- Regulation hasn't stood still – changes big and small
- Our overall stance – we want to:
  - Rely on competition to drive innovation against a level playing field
  - Encourage the industry to experiment and innovate if it offers benefits to consumers, recognising that innovation has risks
  - For monopolies, use incentives and funding mechanisms
  - Remove undue regulatory barriers – recognise prescription may be a barrier
  - Ensure adequate protection for consumers from potential risks of innovation, and consider where we can help address lack of coordination
  - Engage with those developing innovative approaches to understand their ideas and concerns and work in partnership with government and others
  - Be an innovative regulator, seeking better ways to improve outcomes for consumers while being mindful of the benefits of predictability

# Q 2: Our regulation and innovation – competitive markets

- We want to ensure regulation supports innovation in competitive markets

## Examples of work in this area:

Future Retail Regulation

Flexibility

Half Hourly Settlement

Non-traditional business models and local energy

## Q 2: Our regulation and innovation – networks

- Incentives for innovation in electricity and gas networks

### Examples of work in this area:

RIIO framework

Network Innovation Competitions

Competition in networks



## Q 3: Technology, regulation, efficiency

- Innovation in E-Serve scheme administration – eg RHI systems
- Promoting industry change – eg switching programme
- Improving our tools – eg providing and using information, stakeholder engagement

- Open to change our **regulatory framework** to facilitate innovation
  - Specific projects listed above and in our forward plan
  - Recognise risk of change over-load/uncertainty
- Ongoing **stakeholder engagement** to identify barriers and opportunities
- New **horizon scanning** initiative

- **Open consultations**

	<u>Deadline</u>
– Simplification Plan	11 February
– Forward Work Programme	17 February
– Future Retail Regulation	11 March
- **Future engagement**
  - Flexibility call for evidence in Spring 2016
  - Horizon scanning workshops
- **LinkedIn**
  - Open blog on Innovation Plan
- **Comments on today's presentation:** [Sustainable.Energy@ofgem.gov.uk](mailto:Sustainable.Energy@ofgem.gov.uk)

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**