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Submitted by email to: [futuresupply@ofgem.gov.uk](mailto:futuresupply@ofgem.gov.uk)

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Dear Neil,

### **Future supply market arrangements – call for evidence**

CGI welcomes the opportunity to input to Ofgem's call for evidence on the 'Future supply market arrangements'.

We designed, implemented and continue to operate on behalf of ELEXON the systems that support balancing and settlements in the British electricity market.

#### **Topic 1 - Guiding criteria to evaluate a successful supply market**

Q1 What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

- Broadly the criteria outlined are sensible. However, the understanding of the interaction between the different markets and the different participants in those markets will be vital in ensuring that all organisations offering energy and energy related services (including intermediary and other services) to consumers are able to compete on a fair and equitable basis, where that is reflective of the balance of value that they create for the consumer.
- As well as promoting competition and innovation for new products and services that increase choice and benefit the consumer, it is vital that any new measures do not inadvertently impact competition or create barriers to consumer choice for the products and services from which they benefit under the existing market arrangements.
- The market is changing from one where energy is supplied on demand to one where consumers' flexibility in WHEN energy is consumed has a value.
- This brings with it the need to value, balance and settle how the positions taken in different markets (ancillary services, wholesale, balancing, etc) by one party will increasingly impact on other parties. This is in terms of both the potential for value stacking (when multiple parties can create value from access to the same flexible resources either concurrently or at different times), or in terms of value conflict (where value is generated for one market participant or group of market participants at the detriment of other market participants, for instance where there is a network constraint that prevents the dispatch of flexible resources and the value associated to the use of the flexible resources is greater than the value generated though the deferral of investment in reinforcement of the distribution infrastructure).
- As identified in the criteria, the access to appropriate data in a timely manner will be vital to the success of any new market arrangements, and identifying the rights of access to data and the mechanisms that enable that access within relevant data protection regulations will be essential.

## Topic 2 – Barriers to innovation

Q2 What are the most significant barriers to disruptive new business models operating in the retail market? Please draw a distinction between regulatory barriers and commercial barriers (eg there may not be enough potential consumer demand to justify market entry).

- Whilst some participants in the current markets have found their business models are not compatible with the regulatory framework and have to adapt, other new entrants to these existing markets have successfully adapted. Therefore, any changes to existing regulation should continue to address the risks, where still relevant, that the existing market regulations have been established to control. This is important in order to ensure that consumers do not lose some of the protections or choices from which they benefit today.
- The primary barrier to consumers benefiting from the new opportunities that are emerging in the supply of energy is the timely access to the data required to operate new services and access value from those services across the different markets for energy, capacity and flexibility services.
- The ability to settle energy on a half hourly basis is important in enabling the value of demand side flexibility to be properly reflected to consumers. Elective half hourly settlement is enabling consumers who choose to give access to their consumption data to benefit from their energy flexibility.
- Other barriers exist relating to the current level of consumer awareness of benefits, the current costs of enabling technologies and perceived value of these services by the consumer. These barriers are identified in research ([Energy Flexibility: Transforming the Power System by 2030](#)) commissioned by CGI in 2016. This may well relate to the value of flexibility today still being relatively low compared to where it will be by the middle of the next decade. Research ([Demand Side Flexibility in UK Utilities: Transforming the Power System by 2030](#)) commissioned by CGI in 2017 established that the industry expects a tipping point in the value of flexibility around 2024. This date is consistent with the current scheduled retirement of dispatchable generation assets, and hence the potential loss of existing sources of flexibility within the system. That said, the market arrangements need to be developed now to be ready for the growth in the market for flexibility services.
- Impact of data access and the importance of visibility of the actions of network users to the effective operation of the networks by the DSOs, especially in peer-to-peer trading and energy service dispatch, needs to be understood if the full value of flexibility services is to be delivered to the benefit of consumers.
- We have observed through our role in providing the systems for ELEXON that an increasing number of proposals are being received to modify the Balancing and Settlements Code. If consumers are to genuinely benefit from the innovative and potentially disruptive new models that are being established, then these proposals must lead to either a reduction in overall costs in the market or an increase in the value created. Future supply market arrangements must enable this value to flow through to the consumer. These future arrangements must also avoid simply redistributing the existing costs (or worse, cause an overall increase in costs) between parties to the commercial advantage of any specific group of market participants at the expense of another.

## Topic 3 – Alternative default arrangements

Q3 What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?

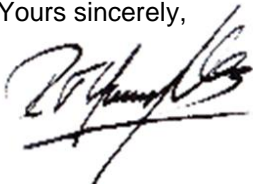
- CGI is not in a position to provide evidence on this topic.

## Topic 4 - Consumer protection

Q4 How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it? We are especially interested in frameworks that enable a wider variety and increased number of market participants to provide supply.

- Consumer protection should be considered holistically. Any review of the regulation of different market participant roles should not be limited to intermediaries. Any party that represents energy and related services to the customer should be held accountable for the way in which they represent their propositions if customer trust is to be maintained and improved.
- In the true sense of an intermediary – a party (such as price comparison web sites or supplier switching services such as Flipper) that is fronting the services of another party (such as an energy supplier) to a consumer need to meet standards to ensure that their offerings do not misrepresent what the customer will experience from the market participant that actually provides the service. Failure to properly reflect the service the consumer will receive and set clear expectations puts customer trust in the market at risk. This risks creating dissatisfaction and increasing cost to serve for the energy suppliers, which will ultimately be reflected in consumer bills and the level of engagement in the market.

Yours sincerely,



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