NON-TRADITIONAL BUSINESS MODELS:
SUPPORTING TRANSFORMATIVE CHANGE IN THE ENERGY MARKET

Discussion Paper – February – May 2015

Response by Energy4All Limited ('E4A')
20 May 2015

Introduction

We are very pleased to have been asked to contribute our views and are keen to remain involved in the process of development of NTBM and energy market transformation.

E4A and associated co-ops have been operating in the energy sector for more than 15 years, primarily focussed on energy generation. E4A has worked within the traditional energy market establishing energy generation projects using the NTBM of cooperative ownership. The co-ops E4A has set-up and continues to support have had to adapt to the existing structure of the market so E4A has considerable experience of the barriers and constraints that face NTBM.

In our experience the energy market is not adapted to accommodate the specific characteristics of the co-operative model of community ownership (except by the introduction of the FIT) and it is difficult for smaller enterprises to interact efficiently and cost effectively with the current energy market structure. By definition, minor amendments are unlikely to bring about the kind of change that will be transformative. If it is truly transformative change that is desired, that change must begin with a look at the fundamentals, and not focus solely on tinkering with the existing system.

Energy4All

E4A is a non profit distributing social enterprise, owned by the co-ops it set s up, which promotes and delivers community owned renewable energy generation and is keen to enable community groups to deliver other forms of carbon reduction, including through supply and demand management, once the regulatory framework effectively permits this. E4A's two-fold mission is:

- To support the UK's transition to a low carbon economy; and
- To do so in a way that engages ordinary people in renewable energy projects, and the issues of climate change, energy security, etc.

E4A has made a series of public share offers for co-operative bodies seeking to build and operate renewable energy generation, raising over £45 million of capital enabling co-ops to own wind and solar projects in England, Scotland and Northern Ireland, engaging local people in each project, so that thousands of ordinary people have a stake in renewable energy generation through democratic and ethical structures. E4A's associated co-ops now have more than 11,000 members.

Ofgem approach

E4A considers that the approach being taken by Ofgem to this engagement on NTBMs starting with the status quo is entirely valid. However, in Section 4 we make the point that it may also be helpful to consider how a restructured energy sector could better facilitate the involvement of traditional

and NT business models and the delivery of goals for consumers, energy security and environmental protection.

Section 1

We consider the definition of NTBM given in the discussion paper to be sensible and helpful in underpinning the prevailing consultation and discussion.

The footnote on P 6 provides Ofgem's view on "transform", this could include " ... innovation in social/consumer engagement ..."

With regard to on-going engagement, as well as continuing exchange of information through seminars, workshops and further written submissions, we advocate the inclusion of representatives of NTBMs in the internal discussions at Ofgem. For example, representatives of community energy groups (e,g. Community Energy England), representatives of peer-to-peer enterprises, Energy and Multi Service Companies, , etc.

We suggest that technical language used in discussion documents and communications is clearly explained so that discussions can be understood by all stakeholders.

We also advocate that opportunities for demonstration or trial projects are created. E4A would be interested in participating in such projects. For example, community based businesses aiming to generate electricity and supply to a small membership and/or customer base could be given exemption from balancing supply with demand, perhaps through working with an established electricity supplier with supply balanced to end users on their standard tariffs and making use of smart metering technology.

Section 2

In addition to the drivers set out in Section 2, which are valid, we would add that community energy activity can also be driven by the desire for greater community resilience. Increased resilience comes about from local control of energy generation and supply and the retention of the value of the energy within the local economy. Such a driver is particularly powerful in a decentralised supply system.

Two other drivers relate to resource consumption and exhaustion of low cost sources (peak oil) and an ability to manage energy costs more effectively by reducing price volatility at a time of rapidly fluctuating commodity costs.

There is the view that the current system of energy sector governance and regulation is unresponsive, inaccessible to individual consumers and communities and favours large corporates (which incidentally have little incentive to deliver demand management or reduction). Communities are driven to seek out and develop alternatives in order to counterbalance this position and realise their aspirations.

Section 3

We feel that the description of NTBMs currently seen in the market is a fair and comprehensive reflection.

We would add that successful community energy businesses, whilst non-traditional in some respects, still require a focus on the basic characteristics of sound business. At E4A we are always concerned to create a link between ethical motivation and the other drivers set out in Section 2 and sound business practice. Community energy enterprises need to raise capital from investors and raise debt from lenders in order to deliver their (usually capital intensive) projects. It is therefore essential that the projects undertaken are commercially sound. In addition to attracting and retaining capital and funding the cost of debt finance, community energy businesses, as social enterprises, are also seeking to provide a social 'bonus' to the local community from the profits of the enterprise.

It is worth noting that community energy enterprises (as part of seeking to have a wider positive impact on the local area) often actively seek to engage with the local community so that their project becomes an education resource, e.g. supporting school visits.

Due to the difficulty of participating in supply we have not to date engaged in NTBM for supply except at one community which is located on a private wire and at one host site of a community owned generator which is engaged in a trial. We would be pleased to engage with you further.

Section 4

As far as we understand the detail of energy sector framework and regulation, Section 4 appears to be a good description of the current situation and provides useful information for the ongoing discussion.

We wish to comment that whilst it is valid to examine the current position, role and future development of NTBMs in the existing market framework, alternative ways of thinking are likely also to be required if change is to be truly transformative.

In particular regulation should permit the easy access to the market for the purposes of innovation, trial and small scale supply.

Is there an opportunity for a parallel discussion thread which does not commence with the status quo but starts with a blank slate? The current system has been designed for large players with a vertically integrated structure in mind. How could it be done differently? Such a discussion would seek to examine what opportunities there are for innovation in the relationships between energy sector consumers, networks, suppliers, small and large generators and other potential new market players and what regulatory framework would arise as a result of these redefined relationships. This could then be compared with the existing structures to see what changes could be most effective.

Section 5

We would agree with the benefits, both Direct and Indirect, listed in the Table in Section 5. The following may also be considered:

- Creating a direct link between generation and consumption;
- Creating an alternative distribution channel increasing competition and reach;

- Facilitating and trialling technical and social innovation;
- Energy price reduction and reduced price volatility;
- Other financial benefits including return on investment in the energy system and increased local economic activity;
- Support for local energy and environmental projects;
- Establishing a link between locally available and diffuse energy resources and local control and ownership, leading to proper, beneficial and sustainable management of the resources;
- Developing community capacity and inspiring further community action.

Incidentally OFGEM should perhaps seek a review of its principal objective of protecting the interest of consumers to a more balanced set of objectives, including for instance making greenhouse gas reduction an equal primary objective rather than one tacked on somewhat as an afterthought as an incidental consumer interest.

The benefits will be experienced most directly by those using the NTBM services but economic, community and environmental benefits will be felt more widely. As the potential of NTBMs becomes more widely understood more people will wish to get involved and enjoy the benefits.

Over time, increased participation in the energy sector by non-traditional stakeholders, through NTBMs, may lead to wider and better understanding of the costs, risks and benefits of energy sector participation. The future energy sector structure should enable multiple smaller-scale, more local actors to serve their community of energy consumers.

A new evolving structure for the energy sector will need to manage risks such as balancing the system and the associated technical issues and costs. Responsibility for the long-term planning, management and investment in the system needs to be considered, but should take into account the potential offered by NTBMs.

E4#nergy4All Limited, 20 May 2015