

# How can regulation support flexible solutions, new business models and innovation

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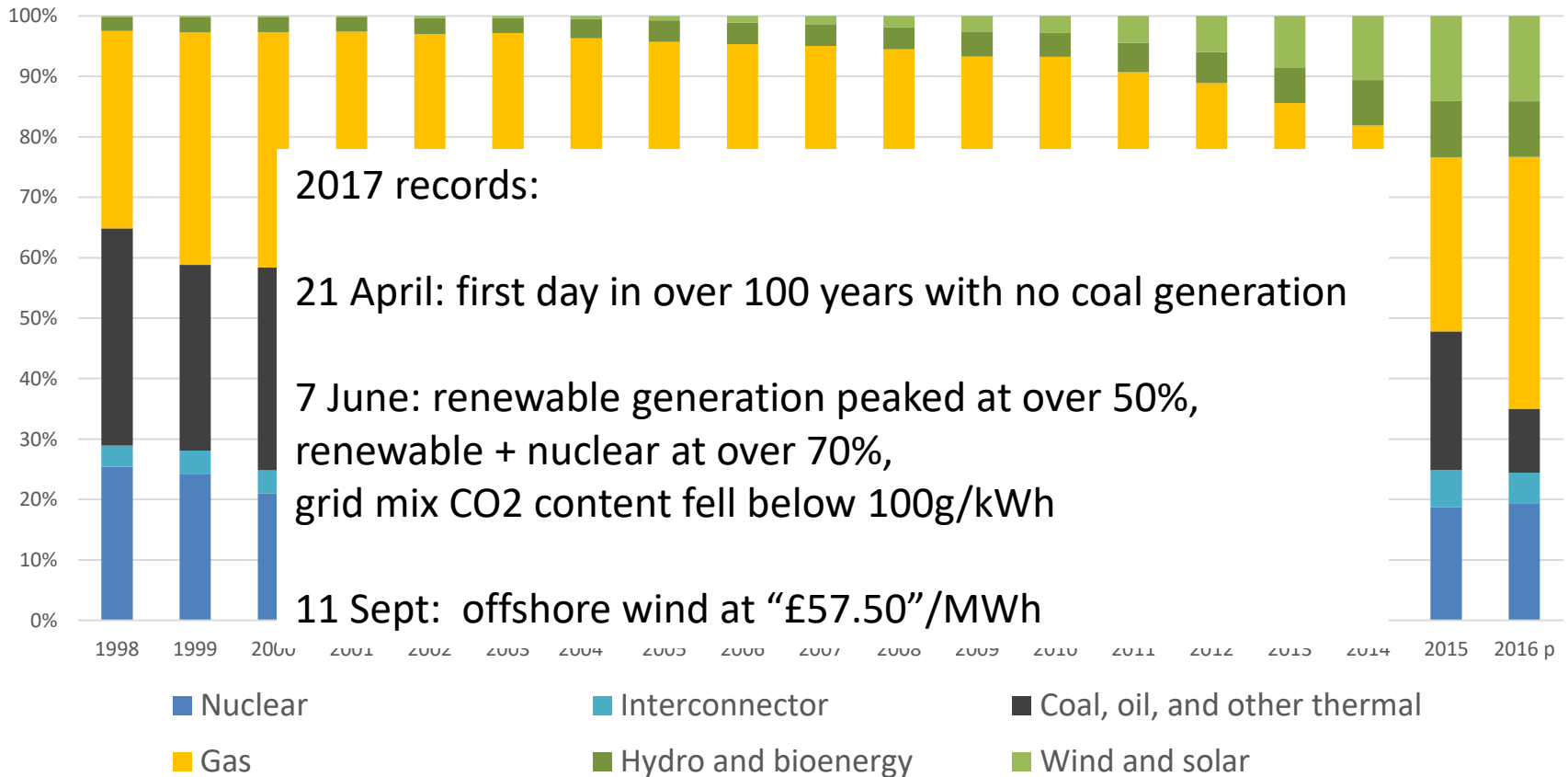
**BIEE policy conference: Is there a Plan?**  
21 September 2017

ofgem

# Outline

- Context: recent and expected developments in GB
- Regulatory response
  - In general
  - Flexibility and smart systems
  - Innovation and new business models
- Conclusions

## Electricity supplied by fuel type

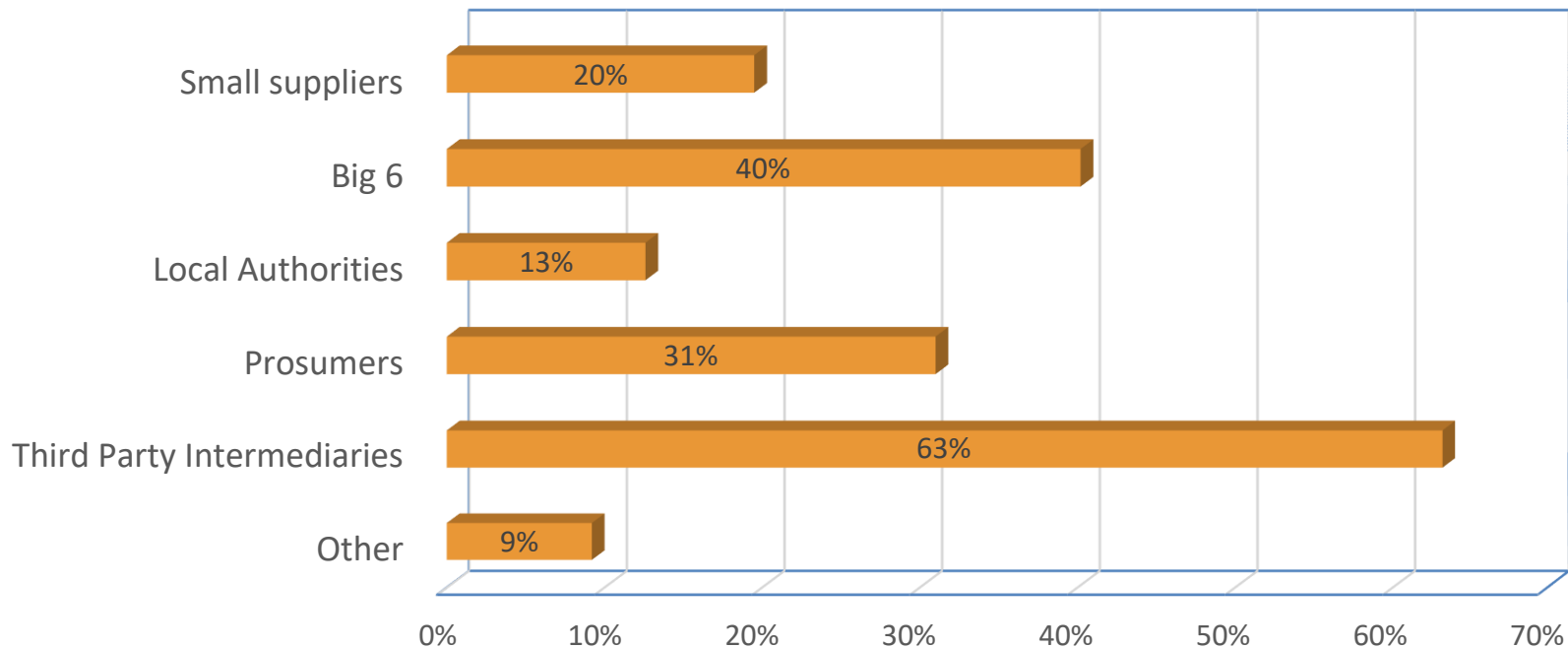


In late 2016, we said:

- We expect to see:
  - a smarter and more flexible system
  - decentralisation and local energy schemes
  - increasing interdependence of services
  - a more diverse commercial environment
  - better service for consumers enabled by new and smarter technology
- Decarbonisation of heat is arguably the biggest policy challenge
- Supplier hub model may not survive
- Many sets of scenarios don't provide a plausible range

# Who will be the most powerful players in the GB energy retail market in 10 years time?

Audience votes (up to 2 votes/person)



5-D: Decarbonisation, Decentralisation, Digitisation,  
Democratisation and Disintermediation

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.

**Florence School of Regulation,  
Policy Brief 2015/04**

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## How should regulation respond?

- Not “fit and forget” regulation, multi-year projects to design optimal regulation are risky
- Less prescription, balance principles and predictability with agility – set direction, learn, adapt
- Fewer formal consultation documents, more engaging with new ideas
- Further improving the role of economics and analysis



# Our goals for the regulatory framework governing GB wholesale and networks

**Ensure a regulatory framework that drives innovation and supports the transformation to a low carbon energy system that delivers the sustainable, resilient, and affordable services that all consumers need.**

Incentives on system operators and network owners that are aligned with the interests of consumers

Charges for monopoly services that reflect incremental costs and benefits

Recovering sunk costs in a way that is fair and minimises harmful distortions

Regulation that is neutral between different technologies, systems and business models

Using market based approaches where it is in consumers' interests

A predictable regulatory regime that supports efficient investment and allocates risk efficiently

## The Innovation Link is:



1. Fast, frank **feedback** on the regulatory implications of disruptive, new business propositions

2. A “**regulatory sandbox**” to enable innovators to trial new products or services without all of the normal regulation

## What’s happened so far?



80 start-ups have been helped. These include retail, smart grid, local energy, storage, personal apps

Sandbox discussions are ongoing – finding regulatory barriers outside Ofgem’s control

The next round of sandbox will open for screening in October 2017

Launched in December 2016 and has been warmly received by innovators and stakeholders

## **Change is accelerating**

Technology, business models,  
consumer behaviour...

A great opportunity

### Regulatory response:

- Balance predictability (regulatory stances) and change
- Markets where feasible – more flexible
- Cost and value reflective pricing
- Principles where outcomes matter, prescription for consistency
- Network regulation based on outcomes (RIIO)
- Support for trials and demonstration
- Practical help for innovation
- Breaking the supplier hub?

**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.**