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## **Citizens Advice and Citizens Advice Scotland response to Ofgem discussion paper - Non-traditional business models: supporting transformative change in the energy market**

**20 May 2015**

### **Introduction**

As the statutory representative for consumers of the GB energy market the Citizens Advice Service welcomes the opportunity to respond to this discussion paper as the beginning of a longer-term engagement on non-traditional business models and the part they can play in the future of the GB energy market.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. Since 1 April 2014, Citizens Advice service took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

The Citizens Advice service is a network of nearly 400 independent advice centres that provide free, impartial advice from more than 3,500 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

In 2012/13 the Citizens Advice service in England and Wales advised 2.3 million people on 6.6 million problems.

Since April 2012 we have also operated the Citizens Advice Consumer Service, formerly run as Consumer Direct by the OFT. This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

In the last four quarters Citizens Advice Bureaux have dealt with 84,000 enquiries about fuel debt, while hits to the energy section of our website doubled in October and November, the period during which suppliers announced their price increases last year. Calls to the Citizens Advice Consumer Helpline seeking advice about energy doubled in the same period.

Citizens Advice believes that NTBMs have an important part to play in the future of our energy market and have the potential to help improve the consumer experience of energy services and help manage future costs.

Our response to the questions raised in the discussion paper reflects the experience of the Service in dealing with the concerns of consumers, evidence from our research base into consumer engagement with various aspects of the energy market and representing the most vulnerable customers in this sector. Therefore, it may be that we have not answered all questions posed in the paper but concentrated on those in which we can offer the most insight.

We trust our response is useful in the discussion of NTBMs and their interactions with consumers but welcome any further questions from Ofgem on any aspect of our response.

## **Chapter One: Introduction of NTBMs**

- What is your view on our definition of non-traditional business models?
- How can we engage with NTBMs more effectively in the future?

The Citizens Advice Service believes that Ofgem's definition of non-traditional business models encompasses the variety of new businesses emerging in the energy market. However, there is some difference between a non-traditional business and a non-traditional service so we request greater clarity on how the definition would apply if a traditional supplier (and potentially a large supplier) was delivering a NTBM service and how they would be treated under an NTBM framework.

In order to engage with the wide variety of businesses, which may differ in their foci due to the differences in motivations, it might be that Ofgem needs to think about alternative channels of communication and also different forms of engagement. It is likely that these businesses will have differing abilities to engage centrally because of location, knowledge, skills and/or size of business. Therefore, it may be that trusted intermediaries will be required to help with engagement and also that Ofgem needs to consider how it engages regionally to facilitate direct engagement with these businesses and other stakeholders.

This consultation provides an opportunity for Ofgem to move towards parity across all energy services including those operating with traditional business models that are currently unregulated, for example, district heating. It is important to note that NTBMs may combine traditional energy supply with other energy services.

Currently the landscape for both consumer advice and consumer protections are fragmented between different schemes, including energy efficiency and microgeneration schemes. We will shortly be publishing two reports examining the current advice and redress, and redress and accreditation frameworks in the energy sector. Both reports identify existing gaps in the support offered to consumers both in the energy supply and energy services markets which the Government will need to address.

Whatever the new entrants' business model, energy supply remains an essential service, and the Citizens Advice Service wants new entrants in the supply chain to meet the responsibilities that come from entering the market. We recommend a review of thresholds and principles that can apply across business models and the supply chain. These need to balance the need to protect consumers, to avoid creating barriers to entry and the need to share costs through the supply chain.

## **Chapter Two: Drivers for NTBMs**

- We would like to hear your views on the drivers for market entry. Do you think there are other important drivers? Those identified in the paper are: low carbon energy transition, rapid technological innovation, lack of consumer engagement and trust and a greater focus on affordability and supporting vulnerable customers.

The drivers identified at a high level seem sensible but the Citizens Advice Service believes it is necessary to have regard to the different levels of political and regulatory drivers - namely those at the European, National and Local levels - in any framework.

The introduction of smart metering systems and related data should enable energy management at the domestic and community level. Alongside energy price rises and the

emergence of new storage technologies, consumers may increasingly see an option to take greater control of their energy bills.

Connected to this we are also seeing an increase in the number of communities wanting to embrace local sustainability in the round which could be another important driver. In these communities there is potential for bringing together local generation, demand reduction and a reduction in energy waste. It could be that such an energy service model is much more likely to happen through a locally provided service rather than the bigger, more central, energy service businesses that are currently more prevalent, or a hybrid model may emerge that brings national economies of scale to the delivery of local sustainability.

There is also the drive to low-carbon heat and while this does fall under the low-carbon energy transition it is worth considering it as a driver separately as it has many different facets to it including community energy, greater levels of electrified heat, district heating (currently unregulated), impact in off-gas communities and its potential in tackling fuel poverty. It is also worth noting here that solutions to deliver low-carbon heat will be location specific and similarly to community energy will require a new way of engagement.

Citizens Advice is concerned about the implications for vulnerable consumers, who will (in general) be less likely to participate in new energy services due to upfront costs, tenure, knowledge and/or skills. However, some of the new entrants in the energy retail market are focusing on pre-payment users or social housing residents who have traditionally been underserved by the incumbent suppliers, and we hope that this gives confidence to others to provide both traditional and new services to vulnerable consumers and communities.

### **Chapter Three: Our understanding of NTBMs**

- Have we accurately described the NTBM environment? Have we missed something?
- We'd like to learn more about organisations using NTBMs. If you are prepared to discuss this, please contact us.

The Citizens Advice Service believes the description in the discussion paper of the NTBM environment is an accurate one. However, it is worth noting that further thought needs to be given to how we understand and define NTBMs. Citizens Advice is particularly keen to have clarity on how consumer protections apply. At present there are gaps in protections between different schemes, including energy efficiency and microgeneration schemes. These need to be addressed with the understanding that the energy services market will

continue to evolve, and a consumer protection framework needs to handle issues across supply, generation, and efficiency.

#### **Chapter Four: NTBMs within current regulatory arrangements**

- Our main focus in this paper is on regulatory issues arising from future energy market transformation, but we recognise that there are relevant issues within current regulation. Please let us know if there are any other issues.

The current industry code governance framework is very likely inhibiting not just for NTBMs, but also smaller more traditional players in the market. As the consultation paper notes at Paragraph 4.9, the codes do not just present a simple 'compliance' challenge, they also play a key role in determining the *nature* of the market itself which cannot be overlooked when one is thinking about the environment within which NTBMs might emerge. The codes, for example, set out who can connect to the transmission and distribution networks; how energy consumption is measured and billed; and how information moves around the market.

As the consumer representative on the code modification panels, the Citizens Advice Service has first-hand experience of the way the fragmented and complex governance model has effectively acted as a break on change to these fundamentals of the energy market. The protracted process to mandate half hourly settlement for industrial and commercial energy consumers under BSC modification P272 and the related modification to the DCUSA – relatively simple changes in the big scheme of things – is a prime example of this and one the CMA cited in its Updated Issues Statement as pointing to potential problems with the code governance framework.

As well as considering how code complexity and fragmentation impacts NTBMs and might be addressed, Ofgem should align the code 'objectives' with Ofgem's statutory duty to protect the interests of current and future consumers. As it stands, the code objectives are cast in narrower terms, around the concepts of 'efficiency' and 'competition' – criteria that tend to favour established players. A broader set of criteria would, among other things, provide an avenue for the proponents of NTBMs to make the case for change in language and terms that is more familiar to a non-energy industry audience – an audience that has not grown up in the old centralised, and very technocratic, energy system.

In addition, a shift towards principles-based regulation should be examined and could be a positive step insofar that it is accompanied with an enhanced focus on ensuring companies' compliance with the regulations. This should include providing additional

assistance to companies to help them understand and meet their regulatory obligations, with a focus on supporting new entrants in particular.

An emerging issue as we move to a low-carbon energy future will be for the transformation of the energy market in how we deliver heat to homes. Currently, this market is unregulated and the Government is not yet minded to set out regulations for this market. A new, voluntary scheme called Heat Trust is aiming to provide some level of consumer protection in this sector but at this time it is unclear what impact this will have for consumers.

A recent report looking at district heating schemes by Which? found that a wide variety of schemes exist with vast differences in terms of billing, efficiency of systems, availability of advice and how complaints are handled. There is no consistency or minimum level of consumer protection with consumers often stuck paying for heat even if they choose not to use it and prefer to use an alternative form of heating. With the government committed to delivering low-carbon heat and heat networks identified as a key technology in achieving this aim (alongside heat pumps) the number of business operating in this sector and householders connected will only increase. Therefore, serious consideration needs to be given to regulating the heat sector sooner rather than later to ensure heat networks are developed from the outset with the consumer in mind<sup>1</sup>.

It is also worth noting that without regulatory systems in place that protect consumers across all energy services there is the potential for customers taking part in trials of new business models and/or systems to suffer detriment and wait indefinitely while issues are resolved. This trial and error approach can often disproportionately affect lower income tenants as Housing Associations are often the testing ground for new schemes.

## **Chapter Five: Market effects of NTBMs & future challenges for regulation.**

- What are the benefits of different NTBMs to energy consumers?
- Potentially greater levels of engagement, prices etc. Making sure the consumer benefits in a way in which they need to. Better advice - local and face to face potentially?
- Are these benefits experienced by all energy consumers or only those directly receiving the NTBM's services?
- Are there additional wider benefits to the energy system and beyond it?

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<sup>1</sup> Changeworks have recently conducted some qualitative research on tenants and social landlords experiences of district heating and they also found a very varied landscape pointing to significant differences in the consumer experience. This report is due out soon and is titled [Identifying the fair share: billing for district heating.](#)

- Which of these benefits should be taken account of in regulatory policy-making and decision-taking and why?
- Are there energy system costs or risks from any of the NTBMs? How might these be addressed?
- How will NTBMs help to drive innovation within the energy system?
- How could NTBMs potentially transform the energy market and what fundamental challenges to regulatory arrangements could this entail?
- How could regulatory arrangements change to accommodate NTBMs?
- What role do NTBMs and other parties have in managing energy market transformation and regulatory change?

The benefits of non-traditional business models to consumers can depend upon whether the NTBM being delivered is location specific or if it is aimed at a specific set of consumers. However, we do broadly agree with the benefits and costs outlined in table one of the discussion paper.

We welcome the potential that NTBMs bring in terms of the downward pressure that could be applied to consumer bills from having more actors in the energy market, and also the positive knock-on effect they could have on better customer service and greater levels of engagement between energy service providers and consumers.

The Citizens Advice Service is particularly interested in how NTBMs will affect the smart meter rollout. In one sense there is a potentially positive move to suppliers who are focussed on a certain group of consumers, and who will shape their offer accordingly. For example, the services offered to prepayment customers should improve as the cost-to-deliver falls; and the development of supply in partnership with housing associations could mean that the smart meter rollout is actively used to engage residents in energy saving behaviours and energy efficiency programmes (the latter dependent partly on the future of the Energy Company Obligation) .

However, there is also a risk with the smart meter rollout approach, where meters are delivered by the suppliers. This was determined when there were a small number of large suppliers. As the number of suppliers increases, the voluntary aspects of the rollout (such as how vulnerable consumers are helped) become more difficult to monitor and some consumers may miss out on the help they need. This approach to the rollout also means the opportunity is missed to make the link more systematically between smart meters and their better information, and locally-delivered energy efficiency programmes that could help consumers use that information to lower their bills<sup>2</sup> .

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<sup>2</sup> Citizens Advice (2014), *Raising standards, cutting bills: Healthy homes - a costed proposal to end fuel poverty through higher standards and fairer funding*.

NTBMs that deliver a particular service locally could have a positive effect on other energy services or energy-using behaviour, for example installation of solar PV schemes influences consumers times of household energy demand or installation of energy efficiency measures. Recent research by the Citizens Advice Service looking at the consumer experience of solar PV has found that in certain user groups almost 50% have consciously changed their energy use behaviour and post-installation some have installed further energy saving measures<sup>3</sup>. The research also shows that 46% of consumers had installed PV based on a recommendation from friends or family. In addition, we have anecdotal evidence that local communities looking to generate their own energy also start to investigate other actions they can take to save energy and maximise the use of the energy they generate locally<sup>4</sup>.

It has often been noted that there is a tension between suppliers' core business and their obligations, through regulation, to install energy efficiency measures. The supplier obligation hasn't turned energy companies into energy service companies as might have been hoped and it has proved to be particularly ineffective at providing measures to the most vulnerable customers, at realising potential cost efficiencies through area-based delivery and at providing whole-house solutions (the current delivery model of single measures is much more disruptive and it can be difficult to get further, needed but more expensive or disruptive measures in at a later date). NTBMs could potentially reconcile these two roles and play a greater role in the delivery of energy efficiency schemes in future, particularly in conjunction with local authorities and their in-depth knowledge of the local housing stock and local residents needs.

With the introduction of greater automation and access to data in the energy market via smart meters the issue of data privacy is an ongoing concern. The Citizens Advice Service wants to ensure that any data taken from consumers' energy use is used appropriately. There is a potential risk as we move to a greater number of players in the energy market, including those that operate NTBMs, that consumer data is open to more potential misuse even unintentionally. Any future regulatory framework for NTBMs will need to include adequate data protection for consumers as a core obligation.

The provision of advice and redress for consumers is critical to a fair and accessible energy market. The Citizens Advice Service has recently commissioned research on the effectiveness of the advice and redress framework in the energy services sector. It finds the advice and redress landscape is already complex and not fully meeting the needs of consumers. Introducing different regulatory requirements for different companies adds

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<sup>3</sup> Citizens Advice (2015), forthcoming follow up report to Keeping FiT in 2011 due for publication 21 June 2015.

<sup>4</sup> This anecdotal evidence is further supported by DECCs plans to convene a Community Energy Efficiency Working group to maximise interest from communities in deploying energy efficiency measures.

further complexity to what is already a complex market, particularly for consumers. This should be a key consideration for Ofgem, DECC and other parties governing the development of energy services. Part of the answer could be in simplifying the interface for consumers through a single point of contact, and a revision of the existing framework to ensure schemes interface with each other so consumers do not fall through gaps.

Having greater variety of generation capability at the central and decentralised levels could have positive benefits for securing energy supply across the GB market. However, with increasing levels of both variability and decentralised energy supply it is important that this is managed to ensure the overall system is efficient, cost-effective and that there is continuity of supply for consumers, especially more vulnerable customers who need a reliable energy supply.

The area of consumer bills is one which quite rightly always attracts attention when discussing the future of the energy market. A greater number of suppliers and service providers in the energy market could lead to increasing issues in the area of billing. While a greater number of market players can exert downward pressure in the market they can also add complexity and it could be more difficult for consumers to know if they are getting a good deal on their energy. It will be important that consumer protections are consistent and adequately enforced across billing and complaints to ensure they are adequately protected regardless of where they choose to purchase their energy from.