

Executive summary

HOMEflex Compliance Scheme Research Report

Roadmap to a future compliance scheme for domestic flexibility: views from the sector and recommendations for implementation

A report by the Centre for Sustainable Energy
and ADE Research for Flex Assure and
Scottish and Southern Electricity Networks

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Executive summary

ADE Research at the Association for Decentralised Energy (ADE) and the Centre for Sustainable Energy (CSE) have been commissioned by Flex Assure and Scottish and Southern Electricity Networks (SSEN) to report on the creation of a compliance scheme for the domestic flexibility sector and offer recommendations on the scheme's characteristics, aims, and objectives. The overall aim is to establish best practice for companies delivering energy flexibility services, through common standards and accountability. The HOMEflex (Household or Microbusiness Energy flexibility) Code of Conduct (CoC) acts as a foundation for a future compliance scheme, following the clear benefits of regulation in the domestic flexibility industry. This report provides feedback from participants in the domestic flexibility sector and recommendations on the key characteristics and components that can help the HOMEflex Code of Conduct become a future compliance scheme.

Data collection took place over two phases: a survey with Flexibility Service Providers (FSPs) who had taken part in National Grid's Demand Flexibility Service (DFS) 2023-24, followed by a deliberative workshop with FSPs and other key stakeholders in the domestic flexibility sector. A flexible, mixed-methods approach was chosen to offer different routes for FSPs to participate in the research, helping to maximise engagement. There were some challenges with engaging with some FSPs around the survey, however the profile of respondents is broadly consistent with the profile of the overall population of the current domestic flexibility sector. Collectively, participating organisations delivered more than 64% of the volume of domestic flexibility procured by the Electricity System Operator (ESO) for DFS 2023-24. The online co-design stakeholder workshop was designed to encourage relevant stakeholders to provide qualitative data on a series of discussion points built around characteristics such as: the need for a scheme, design, structure, guiding principles, governance, monitoring and auditing, funding and public awareness.

Findings

Scheme purpose and scope

Overall, participants supported the creation of a compliance scheme for the domestic flexibility sector, highlighting the scheme's potential to bridge regulatory gaps, enhance consumer protection, and support industry integrity, thereby fostering innovation while ensuring consumer interests and system stability. A minority of respondents, mainly from apps/technology companies and aggregators not currently subject to regulation, were sceptical about the need for additional standards. In contrast, energy suppliers were more supportive, advocating for uniform regulatory scrutiny across all FSPs.

Participants identified several key roles for a compliance scheme: the scheme should set quality standards to ensure customer protection, build trust, and protect good practitioners from being

undercut. It should prepare the industry for formal regulation if required by providing a common set of standards. Additionally, the scheme should protect customers by informing them of their rights, auditing providers, and supporting mediation efforts. Beyond protection, it should incentivise high-quality service by recognising trusted companies, reducing fees for positive reviews, and granting market access to HOMEflex-certified firms.

Workshop participants generally agreed that customer-facing organisations involved in domestic flexibility should align with any a compliance scheme. There was less clarity regarding non-customer-facing entities, and whether they should also be included.

Scheme design

Research participants felt the compliance scheme should build on the existing HOMEflex Code of Conduct, making it easier for organisations already aligned with the Code to transition. Workshop attendees emphasised two main principles for scheme design: avoiding overlap with existing regulations to prevent redundancy and addressing gaps to ensure comprehensive coverage and robust consumer protection. Additionally, the scheme must be adaptable, regularly updating to reflect technological advancements and market changes.

Governance, oversight and monitoring

Most survey respondents emphasised the need for independent oversight, with workshop attendees suggesting the formation of an independent steering board, including regulatory body representatives like The Office of Gas and Electricity Markets (Ofgem) to ensure regulatory legitimacy and trust. Independent oversight was also seen as essential for maintaining stakeholder and consumer trust, ensuring transparency, and addressing potential conflicts of interest, demonstrating a commitment to fairness and integrity.

Feedback also stressed the importance of effective auditing and monitoring within the compliance scheme. Participants called for robust, enforceable standards with penalties for non-compliance to maintain the scheme's integrity. There was a preference for straightforward and reliable metrics, such as aggregate customer satisfaction scores from platforms like Trustpilot, to monitor compliance without imposing significant administrative burdens. The scheme should also ensure ongoing adherence to cybersecurity and data management standards through regular, lightweight audits. While acknowledging the importance of cybersecurity, participants suggested that the scheme should leverage existing regulatory frameworks rather than establishing its own rules, focusing on its core objectives and preventing overlap with current regulations.

Complaints and dispute resolution

Participants considered access to effective, independent dispute resolution mechanisms essential. They suggested the scheme include independent oversight and mediation provisions, involving organisations like the Energy Ombudsman or the Renewable Energy Consumer Code (RECC), and reiterated the value of consumer platforms like Trustpilot for independent customer satisfaction measures. Clear procedures for handling complaints and disputes, with defined

documentation requirements, were recognised as necessary for fair and timely resolutions. Establishing an independent dispute resolution committee, potentially including experts and regulatory representatives, was recommended to manage conflicts impartially.

Regarding penalties and incentives, participants stressed the need for a balanced, customer-centric approach. Penalties could be equitable and adaptable, relative to the organisation's size, addressing both systemic issues and individual consumer redress.

Funding

There was a broad consensus that funding should operate on a principle that those who profit from domestic flexibility, and thus stand to gain the most from the benefits of a compliance scheme, should pay. In practice, participants suggested that two groups should hold the most responsibility for funding: major procurers of domestic flexibility – ESO and Distribution Network Operators/System Operators (DNOs/SOs) – and FSPs. There was also a strong emphasis on having a tiered fee structure to account for, for example, organisational size.

Public awareness

The marketing of any future compliance scheme was considered crucial, starting with raising industry-level awareness, as engagement challenges highlighted limited awareness of HOMEflex among FSPs. Participants emphasized the need for an impartial, widespread awareness campaign to educate households and the industry alike. Establishing clear communication contacts and hosting industry engagement events, such as webinars or conferences, were suggested to encourage broader participation. Leveraging existing brands and tools, such as collaborations with well-known consumer-facing bodies like Citizens Advice or Money Saving Expert, was recommended to build public trust.

Summary of recommendations

The recommendations produced from our findings principally cover the design of the HOMEflex compliance scheme, alongside broader issues like scope, purpose, and publicity.

- The role of the compliance scheme should be to:
 - Set a list of criteria (through the Code of Conduct and guidelines) for FSPs.
 - Provide publicly available information on good practice and customer rights.
 - Establish quality standards in domestic flexibility services and signpost them to participants and customers.
 - Monitor and audit organisations against non-compliance and support and advise customers seeking dispute resolution.
 - Work with regulators, customer advocacy groups and trusted bodies to ensure the scheme remains relevant, transparent and in the best interest of domestic customers.
- The scheme should primarily target customer-facing domestic FSPs. Where there are other parties involved in the customer's experience, it should remain the responsibility of the lead contracting entity with the domestic customer to manage and ensure any other subcontracting entity follows the CoC and principles of the scheme.
- Encourage DNOs/SOs and flexibility procurers (including the Market Facilitator) to integrate principles from the HOMEflex compliance scheme into their service agreements with FSPs to increase awareness of the protections and quality standards that should be provided to the end customer. Moreover, this will allow the non-customer-facing FSPs to better understand the requirements that customer-facing companies have to adhere to. This will ensure a more cohesive working relationship between FSPs that deliver flexibility services for DNOs/SOs while someone else engages with the domestic customer.
- Scheme requirements be updated as needed (e.g. twice a year) to reflect the latest regulation updates. Scheme guidelines should seek to avoid unnecessary regulation overlap and address potential regulatory gaps.
- The scheme guidelines should seek to inform customers of their rights as participants in the domestic flexibility market.
- Independent oversight is necessary to ensure the scheme is trusted by industry and consumers. An elected board of members with voting rights, comprised of industry and regulation experts, is recommended, and the scheme administration should consider including Ofgem within their governance.
- The scheme should consider how participating organisations use customer feedback as part of their monitoring and auditing processes and establish a set of metrics focused on customer experience. These metrics would encompass customer rights and commercial best practices. In the event of customer complaints, HOMEflex would request relevant

information from both the organisation and the customer and then review this information against the established metrics.

- The scheme must address cybersecurity, whether to supplement existing regulation or to manage a gap, however the precise nature of this action depends on the eventual regulatory context.
- Data and privacy protection are also highly important, and the scheme should encourage transparency and rigour in the safety of organisations handling data.
- Any complaints and dispute resolution processes should begin with clear guidelines and expectations on the customers' rights and a list of documentation that would need to be submitted or provided as proof of evidence.
- Registered mediators such as the Energy Ombudsman or the Renewable Energy Consumer Code (RECC) can play an important role in handling disputes and complaints. HOMEflex could consider providing a similar service as 'TrustMark,' which will allow customers to research and review best practices in the sector.
- The scheme should seek to establish the right balance between penalties and incentives, encouraging good practice and exemplary behaviour that sees customer protection as a core value.
- Funding responsibility could be split between major procurers of domestic flexibility (ESO and DNOs/SOs) and individual FSPs. The contribution from FSPs may need to be smaller initially and increase as the domestic flexibility market matures. HOMEflex should hold consultations with participants (both procurers and FSPs) over the most effective fee system, which could include a tiered system based on organisation size, or flexibility delivered/procured, or a flat rate.
- To increase public awareness, we recommend that HOMEflex:
 - Engage with consumer advocacy groups and regulators such as Citizens Advice, RECC, and Ofgem to showcase the benefits of domestic flexibility.
 - Design early marketing campaigns in areas of potential grid constraints where domestic flexibility is seen as a priority by DNOs and FSPs to encourage customers to enquire about safe domestic flexibility services.
- HOMEflex should collect and review domestic customer feedback, especially during the early stages of the compliance scheme.