

## REMA 2<sup>nd</sup> End User Forum 19.04.2023 Summary Note

On 19<sup>th</sup> April, we hosted stakeholders at Public Hall, 1 Horse Guards Avenue, London, for the second REMA “End User Forum”. The presentations, exercises and discussions focused on REMA’s options for sending more efficient locational signals, specifically the option to introduce locational pricing in GB (either through nodal or zonal pricing).

The aim of the forum was to understand attendees’ views on different options for passing through locational signals to end users, if at all. Discussions particularly focused on the potential responsiveness of different types of end users, the different way signals could be passed through, and fairness considerations. This document provides a summary of the discussions – please note that this is not intended to be exhaustive.

### **Overview of Session 1: Responsiveness and barriers**

***Focused on the ability of different end users to respond to locational signals, what might enable or stop end users responding, and how strong a signal may need to be to incentivise a response.***

- There was strong agreement amongst all participants that current locational signals, sent through TNUoS and DUoS charges, are too weak to have an impact on the behaviour of end users.
- It was generally felt that end users would be more able to respond to locational operational signals than investment signals.
- There was agreement that domestic consumers would not respond to locational signals by changing their location. Non-domestic end users were seen as potentially more responsive, but this was still very limited and would be dependent on their circumstances with various factors to be considered (e.g. size of business, flexibility of processes).
- Some participants felt that locational signals could help to incentivise more end users to invest in smart technologies or generation in places which support the electricity grid. However, participants acknowledged that many end users with less resources may not be able to do so.
- There was discussion that some end users would be able to respond to operational locational signals (i.e. through demand side response) but that who could respond and how much would depend on lots of factors. Key factors which was raised were access to smart technologies and engagement with the retail market.
- It was discussed that locational price differences may need to be substantial to incentivise end users to respond but that large price differences could be seen as unfair. To counter this, some stakeholders raised the potentially low incentives needed for some consumers to participate in DSR. They also raised that though locational pricing may have relatively consistent average prices across areas, it could allow consumers to respond to signals which reflect the needs of their region.
- Groups who would be less able to respond were identified, including vulnerable, lower income, lower literacy, and generally less engaged domestic consumers. Some participants felt that any price differentials in energy bills would likely be relatively small in comparison to other housing costs.
- It was also noted that private renters are a large and increasing proportion of society and have little power to respond. They face significant barriers to making decisions about energy usage, including inability to make investments in certain smart technologies which could help them to engage with demand or to control their usage when living in multiple occupancy homes.

- There was general agreement that whilst there will always be a segment of the market that are not responsive to price signals, ensuring simplicity for those who want to engage is key, and clearly outlining the scale of benefits is crucial.
- Some members questioned how the concentration of EVs and heat pumps or new embedded generation in an area could affect locational prices. However, some felt that locational pricing might lead to communities becoming more engaged and positive toward renewable energy generation siting near them if it has potential to lower bills, reducing local pushback.

## **Overview of Session 2: Variations of exposure**

***Focused on the benefits and risks of different variations for passing through locational signals, forum participants' preferences, and how consumer responses could vary by option.***

- The vast majority of participants felt that if change was implemented, it should be phased-in so that end users were not immediately exposed.
- There was also agreement that some shielding by type of end user would be needed, but this should be targeted for those who need it. It was felt by some that the shielding could be phased away gradually to allow users the opportunity and choice to respond to operational signals.
- While some participants saw merit to the opt-in model, some questioned how the model may impact prices for those who choose not to opt-in.
- There was a mixture of opinions regarding whether averaging prices across larger areas would be a preferable option. Some participants felt that end users would be unable to respond to the investment signal, so it was worth pursuing options which only introduced the operational signal. However, others felt that this option was relatively simple to implement and was present in other jurisdictions. Some felt it could be phased in with suitable protections for specific end users.
- There were concerns about the impact on the supplier market if suppliers had to manage complicated models for locational pricing.
- There was interest in the option for adjusting for regional variances<sup>1</sup> as this would preserve the operational but not investment signal, although challenges with implementation were raised. Questions were posed about how the adjustment would be communicated effectively on end user bills and how suppliers would manage this.
- When discussing an approach where minimal intervention would be taken, some participants suggested support outside of electricity markets could help protect vulnerable end users.
- Participants agreed that there needs to be better engagement with consumers to further increase interest in the energy system transition.
- Across all options, some participants were concerned about the complications surrounding implementation. They were concerned that these complications could lead to consumer disengagement, thus reducing the potential benefits of any locational signals.

## **Overview of Session 3: Fairness:**

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<sup>1</sup> In this option, end users are sent locational operational signals, but a process is undertaken to ensure the average price of a bill is the same across regions (i.e. by weighting another component of the bill based on a consumer's location). This option was proposed within *Powering Net Zero, Policy Exchange, 2020*.

***Focused on what 'fair' could look like and its different aspects, as well as how to help enable fair outcomes for end users within the locational pricing reforms. The session also assessed which options best deliver fairness, both in practicality and perception.***

- There was a lack of consensus over whether exposing consumers to locational signals would be fair or not. Participants grappled with the definition of fairness, and questioned whether it could ever be clearly defined and agreed.
- On some tables there was a long discussion about the principles of fairness, particularly whether equality of opportunity (i.e., financial support to access smart technologies, freedom of choice to respond to locational operational signals) is more or less important than equality of outcome (i.e. shielding vulnerable consumers from locational prices).
- Some participants felt the current status quo could be argued as unfair, as balancing costs are socialised across all end users regardless of location.
- However, several participants made the point that a change could be fair if it meant everyone's bills went down, even if some went down less than others.
- Most participants agreed that locational signals would be challenging for government to communicate and could be controversial. It was regarded as an especially tricky communications exercise if some people did not benefit significantly or were disadvantaged. This was not seen in itself as a reason not to implement a change, but some felt the issue could make implementation more challenging.
- Participants felt strongly that there would be a need to protect some end users more than others, and it was raised that it would be unfair if some billpayers were subsidising other more well-off billpayers.
- Some participants viewed justifiability and transparency as more important principles. Some stated the most important assessment of reforms should be whether they are necessary to address the challenge. If justified, then protections would need to be considered to ensure inclusivity and equitable treatment. Some participants cautioned that greater transparency would need to come with greater awareness, as consumers could be left confused if they were not familiar with changes to their bills.
- When assessing against principles of fairness, some participants preferred options to average locational prices nationally –essentially continuing with the current status quo - or adjusting for regional variations. However, some stakeholders saw merit in other options, and many stated that they would need more information or analysis to form a strong opinion on one particular option over another.