

End User Forum 16.02.2023 HIGH LEVEL OVERVIEW

On 16th February, we hosted stakeholders at 1 Victoria St for the first REMA “End User Forum”. Discussions during the first session introduced REMA, the extent to which current market arrangements deliver fairness for end users, and how fairness might be defined in practice through the lens of REMA and market reform.

Specifically, the forum included the following breakout sessions:

- 1) **Introducing the end-user forum:** Attendees introduced themselves and considered the role and purpose of the end user forum going forward.
- 2) **Impact of current market arrangements on end users:** Attendees discussed the extent to which current market arrangements do/do not deliver fair outcomes for end users, and what opportunities or challenges REMA might pose.
- 3) **Defining fairness:** Attendees considered how fairness might be defined in a REMA context, with reference to the paper contributed by Citizens Advice and Sustainability First.
- 4) **Forward look:** Attendees discussed potential items for future EUF discussion.

The rest of this document provides a high-level overview of discussions across the different sessions – please note that this is not intended to be exhaustive.

Session one: Introducing the end-user forum

- There was agreement from all participants that the forum provided a good opportunity to hear different perspectives, and that a specific space to discuss issues affecting end-users was valuable.
- Participants felt that there were significant interactions between retail market reform and REMA but noted that these could be difficult to disentangle in this format.
- Some participants were quite anti the term ‘consumer’ as they believed it refers to simple economic units without agency rather than active participants in the market. They were advocating for community / local energy projects so were both of the view that people can and should be able to actively engage in the energy system rather than just being consumers. It wasn’t reflected by all the groups, however.

Session two: Impact of current market arrangements on end users

Challenges for REMA to deliver fair outcomes:

Attendees identified a number of challenges and issues for REMA in delivering fair outcomes,

- The connections between wholesale and retail markets were seen as an issue by many participants – the cumulative impact of reforms on consumers would need to be considered, rather than each programme considering impacts in isolation.
- Diversity and inclusion – it is critical to ensure that all groups, e.g. those who are disabled, elderly, from diverse cultural backgrounds, lower social economic backgrounds, and non-digital consumers can fully engage in the future energy market system in a way that meets their needs.

- Many attendees noted the lack of incentives for end-users to shift demand, and the high barriers to entry for flexible end-users under current market arrangements.
- Attendees preferred “value for money” over “least cost”, as many felt that a best value approach could lead to better outcomes for consumers and consumer protections.
- Participants highlighted the need to consider energy (and its associated social benefits) holistically across government.
- Some consensus that extreme profits shown in our current market arrangements can lead to a lack of trust in particular groups, and very important moving forward to the REMA vision that we restore trust and confidence in our new market arrangements in the energy system.
- There was a point raised by some that current high prices are reducing the incentive to consider electrification as a form of decarbonisation, however other participants said that current high prices were judged as being an unwelcome catalyst to increased energy awareness and a desire to reduce energy use.
- Have seen some pockets of success with the demand side but this has involved significant input on the technology, explaining how it is used etc. Need to think about how we make this transition so that everyone can actively participate.
- In addressing both location and flexibility, REMA also needs to consider the links to transmission and distribution charges.

Current market arrangements – what aspects work for end users?

- The group generally agreed that current wholesale electricity market arrangements were broadly fair (though their efficiency could be improved). There was broad recognition that a future net-zero system will need revised wholesale arrangements to ensure cost-efficient supply and promote whole-system flexibility.
- Present wholesale market arrangements include an element of cost-sharing of industry charges, to the benefit of many end-users.
- Attendees noted the Electricity System Operator’s ability to consistently balance supply and demand, and felt that the system as a whole delivered security of supply effectively.
- Some attendees highlighted the advantages of a single price across the system for industrial end-users and felt that renewable generation/demand might not be able to relocate if locational pricing was introduced.
- Participants felt that the Demand Flexibility Service was effective but was dependent on whether your supplier was signed up varied across suppliers and felt that the requirement for a smart meter limited its impact.

REMA vision – what opportunities does this present for consumers.

- Attendees identified a range of opportunities. Most highlighted the opportunity for a holistic assessment of the energy system and how it could deliver more effectively for end users.
- Attendees also felt that REMA could deliver better incentives for demand-side flexibility and ensure that the low cost of renewables is passed on to end-users.
- Those energy consumers most concerned about their bills are extremely energy aware - and very likely to want to access the price-benefits of flexibility.
- Attendees also noted that REMA could help to create electricity prices that better reflect the cost of transporting energy to demand – and which might benefit some consumers who live close to renewable energy sources.

REMA vision – what challenges this might pose for end users?

- Attendees also noted that investor uncertainty and the possibility of transition was already driving up cost of capital. This would in turn push up costs for consumers.
- Locational question: to what extent can generation be located closer to demand? Participants felt that it was unclear how far generation could feasibly site closer to demand (or vice versa).
- Distribution of costs - sending through stronger signals for flexibility could good for some, but risks creating winners and losers if some consumers are unable to engage with price signals (e.g. because some won't have access to internet, some won't be able to reduce energy consumption as much as others)
- Widening participation in the new systems as much as possible is important, but also making sure there is a system in place for those who don't want to participate.
- A far larger electricity system will also be higher cost and questions of how costs may ultimately be shared as between bill payers and tax payers will need to be addressed.

Session three: Defining fairness

What 'fairness' should mean in context of REMA.

- Attendees highlighted the need to consider how the programme will be perceived if consumers do not feel 'better off' following changes, even if REMA delivers system level improvements/cost reductions.
- Attendees also discussed the need for certainty, clarity on decisions where these had been made, and where things were uncertain to maintain transparency.
- Attendees noted the need to avoid penalising the first end-users transitioning into decarbonisation, and how any stop-gap arrangements could facilitate this.
- Attendees felt that an "inclusive" energy system was one where everyone could participate actively.
- Attendees felt that electricity market arrangements needed to deliver fairness both for individual consumers and for communities.
- Attendees highlighted that insulating potentially overexposed groups from price signals could also prevent them from accessing any potential benefits.
- Some attendees prioritised the criteria "equitable" and "transparent" when considering a definition of fairness – in particular energy bill pricing being more transparent and customers having the ability to choose the extent to which they participate in the market (through DFS, taking on more high-risk tariffs etc). There was some concern that that schemes like DFS can be confusing for the vulnerable and that in any reforms of the electricity system, these end-users should not be penalised for not participating in these sorts of schemes.
- The group also discussed how the language of fairness needs to also stretch to industrial customers to ensure they aren't forced to relocate overseas and whether we need to use the same language/lenses to think about fair outcomes for consumers and economic competitiveness.
Attendees also noted the need to accommodate different end-user needs within the system in a way that avoided a "two-tier" market where some groups could benefit and receive better service than others.

Session four: Proposed topics for future discussions

We asked participants for views on future sessions, they felt a session on DSR would be useful, as well as Demand Flexibility Services. There was considerable interest in the topic of locational pricing and how this might impact different end-users, including in different parts of the country. We noted EUF members request for more detailed information about the topic of discussion to be shared in advance of the session and will make sure to provide additional information ahead of the next session.

Strawman

In their background brief to the EUF, Citizens Advice and Sustainability First had suggested a set of high-level principles by which to consider what fair outcomes for end-users in REMA might look like. Below is an updated version reflecting additional points made at the forum by EUF members. These principles will help DESNZ in considering how best to address the topic of fair outcomes for end-users in developing REMA options.

Principle	What could this look like in terms of fair outcomes for electricity end users?
Equitable treatment	<ul style="list-style-type: none">• Some end users receive targeted financial support to overcome barriers to participation in e.g., flexibility• Work done to overcome non-financial barriers to participation• Cost recovery is progressive• Consideration of intergenerational equity• Consideration of industrial competitiveness
Inclusive	<ul style="list-style-type: none">• End users, especially those in vulnerable circumstances, are able to engage with the future energy system in a way that meets their own needs• Robust governance, including retail market regulation that permits choice, ensures transparency and ensures appropriate consumer protections
Justifiable	<ul style="list-style-type: none">• End users are only exposed to price signals to which they are able to respond• Affordability: REMA policy costs are not borne by those least able to pay them
Transparent	<ul style="list-style-type: none">• End users have been made aware and had opportunity to be involved in how policy decisions have been reached and why

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| | <ul style="list-style-type: none">• REMA policy options have been evaluated based on their ability to facilitate fair outcomes for end users - including through a distributional impact assessment• Clarity of roles between BEIS, Ofgem and ESO in delivering fair outcomes for end users• End users informed of composition of energy bills and factors that drive change |
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