Review of Electricity Market Arrangements (REMA)

Why an End-User Forum ?

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Sustainability *first*

REMA vision & goals

Sustainability First broadly supportive of REMA goals – but what about end-users ?

BEIS say :

- ‘Consumers will not be unfairly exposed to price signals that they cannot respond to, will retain choice over how they engage with the energy system, and remain protected as the system evolves. Most importantly, they will have a reliable and affordable electricity supply so that they can go about their daily lives’.

- ‘Send price signals for the investment in and operation of electricity assets. **One of our key objectives is to bring down energy system costs for consumers and taxpayers. Our refresh of our retail markets strategy, working alongside REMA, will look at how these low costs are passed onto consumers, and on how new supplier business models can support cost-effective decarbonisation. As well as this it will be focusing on consumer protection, competition, and retail market sustainability and resilience**’.

Possibly easier said than done. End-user issues sit in REMA as well as in Retail

REMA reforms are huge

End-user impacts –
will be ‘baked-in’ via highly technical decisions in market design

- Decisions made in REMA in next 2-3 years – will shape basic end-user outcomes for the next 20-30 years.
- The REMA options - mostly supply-side – mean **risk as well as opportunity for end-users.** Need to better understand.
- Sustainability First suggests :
  - **A 6th criterion to assess the REMA options : that likely outcomes for end-users are broadly ‘fair’ or ‘equitable’** – and –
  - **A REMA End-User Forum** (more later) - to support BEIS & Ofgem in positive end-user outcomes, avoid unwanted ones, and actively help bridge to retail strategy

Major cost implications

REMA costs aren't yet known – including for end-users

- A far larger electricity system by 2035 (~300 GW). Private investment ~£280-400 bn. REMA options - assessed against 'least cost'
- Uncoupling gas price-setting from renewables. Should help to drive down average wholesale prices. Even so ...
- 'Missing money' : rejig of current subsidies (some unwound; some new)
- Unclear how far REMA 'cost-neutral' – nor in what timescale. Plus, costs of large-nuclear.
- **From end-user standpoint, no discussion as yet of :**
  - **REMA costs & benefits** (when to expect Impact Assessment ?)
  - **How far new / additional costs & subsidies best met by end-users - or by tax-payers**

Consultation stresses consumers as ‘winners’. Little on ‘losers’, so far

- REMA vision for winners turns upon price signals for end-user ‘flexibility’ & ‘smart’. But, not just an upside story..

- For the many different REMA options, we need to understand **how industry costs & charges will flow through to end-users in practice.** This is a **first-order question for REMA.** E.g :

  - **Flexibility** – w half-hourly settlement - what trade-offs ? **Flexible users** – will they keep full share of the whole-system benefit they create ? **Non-flexible customers –** must they meet full share of their peak- & capacity related system costs ? Or, as now for h/holds, might some underlying cost-sharing persist ? ($\rightarrow$ dulled price signals for flex ?)

  - **Market-splitting / Green Power Pool** – how big a premium might some end-customers pay if, via their supplier, they need a largely ‘firm’ power supply (eg some I&C customers)

  - **Locational wholesale prices. Esp for Demand ?** Nodal pricing - post-code lottery ?

More thought / work needed !

Reform approaches – what's best for end-users ?

- Supply-side - able to make well-resourced, sustained inputs on key REMA questions

- **But which approaches bring greatest benefit for end-users ?**
  - Pace of reform ? What's urgent ? What's important ?
  - Incremental or major reform ?
  - Centralised / decentralised ? (DSO role ? how far community needs & individual needs align ?)
  - Markets / administered solutions ? (complexity, auctions, locational pricing)

- **With ever-more cost-reflection in REMA –** what do **fairness / equitable treatment look like in practice** ?

- **How to tackle distributional issues** : which end-user groups need particular focus or measures (to benefit from renewable prices, to not disbenefit by location, to avoid new vulnerabilities ?)

- **Which REMA options create strongest 'pull' from retail markets – and a direct 'bridge' with end-users ?** E.g supplier obligation for carbon reduction ? Electricity demand reduction incentives ? What kind of price signals - system stress / time-period / location ?

On such big questions - how best to factor-in end-user interests into BEIS & Ofgem thinking ?

Linking REMA, BEIS Retail & other end-user programmes

- The REMA options assessment - must **tie to 'real-world' end-user outcomes**
- This includes joining-up :
    - **REMA and Retail Strategy** (incl smart, smart inclusion, consumer protections)
    - And also BEIS work on
        - **Affordability & Fairness** (incl rebalancing energy costs – 'in 2022')
        - **Wider energy efficiency**

Joined-up. Coordinated. Transparent.

How can end-user voices best input / be 'heard' in the REMA process – and so support BEIS & Ofgem?

- **Informed & considered end-user inputs - are basic to positive end-user outcomes** (and fewer unwanted ones) – BUT - **a highly complex 'long-haul'**
- **End-user groups** – many individual organisations don't have the resource / capability for long-haul engagement
- **The ideal ? A possible end-user forum ? BEIS & Ofgem at the table (**ESO as appropriate) - **together with** representatives of **consumers (I&C, household); environment bodies (eg CCC, NIC); community bodies; local government; devolved government; consumer & environment NGOs; some academics**.
- **Enable 'deep dives' – plus informed two-way dialogue - on potential impacts from an end-user standpoint** – (eg gas-price uncoupling, locational pricing, whole-system flexibility, overall cost implications, demand reduction etc).
- **Help BEIS & Ofgem 'bridge' across REMA, Energy Retail, Affordability & Fairness & Energy Cost Rebalancing – and Energy Efficiency & Smart**
- **Main aims ?** - to **inform inputs** to BEIS & Ofgem over an extended period. **Not necessarily about consensus or coordinated inputs. But, may help identify main areas of agreement / difference**.
- Resourcing ?

End-users : not a REMA after-thought !

- A higher-cost net-zero electricity system likely

- BEIS assume that end-user flexibility (due to sharper price-signals) will benefit every end-user - thro lower prices overall.

- But positive outcomes not a given. More work needed to better understand winners / losers

- Each REMA option will have :
  - Major distributional questions
  - Impacts for all end-users - I&C and households

- REMA raises major questions for the most vulnerable / those least able to benefit – and therefore what mitigations or support might be needed

Practical & deliverable outcomes for end-users – whoever they are & wherever located – will make or break the REMA reforms in ensuring an affordable, secure and net-zero power system by 2035

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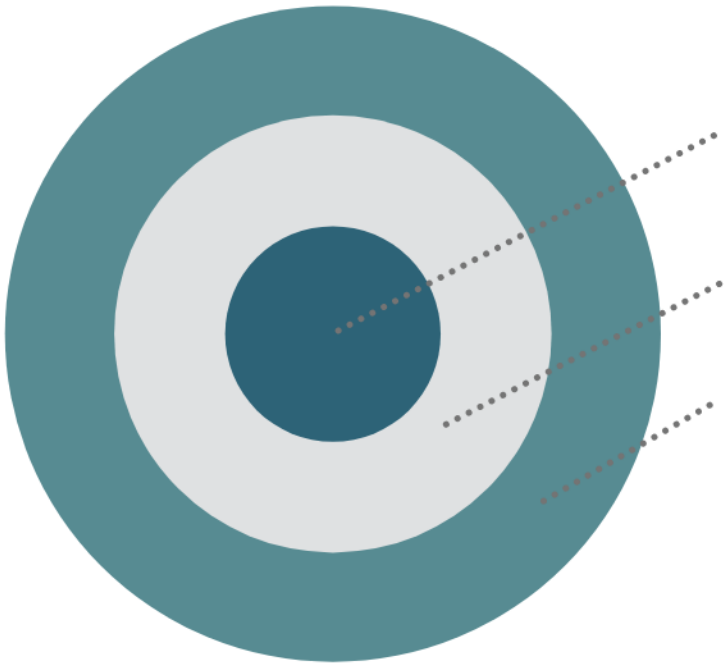
About

Sustainability First

We are a think-tank and charity that works in essential services to promote practical solutions to improve environmental, social and economic well-being. We seek to bring about social and cultural change for a more sustainable future.

Our aims



Shape agendas – bring stakeholders together to drive strategic thinking on key topics

Embed sustainability – push thinking in new directions through informed engagement

Connect, inspire, engage – use creative, collaborative and inclusive approaches to engage broader groups in society on difficult choices and to identify innovative solutions