

OFFICIAL – NOT GOVERNMENT POLICY

Readout: REMA End User Challenger Panel, 5th September 2023

On 5th September, DESNZ officials hosted the second REMA “End User Challenger Panel” (EUCP) which focused on marginal pricing and options which may change its role in markets. The two presentations and open discussion included:

- Marginal pricing and its operation under current market arrangements.
- The potential role of marginal pricing in future as the electricity system decarbonises.
- Two “market splitting” alternatives being considered within REMA, which would change the role of marginal pricing – the split market model and a green power pool (GPP).

Presentation on marginal pricing from DESNZ officials

- DESNZ officials gave a brief overview of marginal pricing and the alternatives under consideration. Attendees were then given the opportunity to ask clarifying questions.
- Attendees queried how **the role of demand side response** might vary across the different market structures. Officials noted that under current arrangements, demand side response might include responding to low prices and shifting demand to this. Under a split market or GPP scenario - where volumes in the renewables-only market would fluctuate - demand side response might entail **aligning demand to higher volumes in the “renewables” portion of the market**, rather than the entire wholesale market.
- Attendees also questioned the **incentives for renewable generators** to participate in a GPP. Officials noted that gas will set the price less frequently in the wholesale market in future, and that there will therefore be longer periods of lower prices (price cannibalisation). Renewable generators would therefore receive lower wholesale market revenues, and this would incentivise participation in either the GPP or CfD.
- Attendees asked about the **potential impact of removing renewables from wholesale markets** and the risk of **arbitrage** - making profit across the two markets, buying at a cheap price from one market and selling at a higher price in the other. Officials agreed that arbitrage was a key risk and noted that a supplier obligation could potentially be a complementary option to a GPP, though noted that there would likely be risks involved in this.

Presentation from Citizen’s Advice and open discussion

- Citizen’s Advice then gave a presentation which provided an overview of their [Market Splitting Paper](#) [Feb 2023]. After some clarifying questions from attendees, there was open discussion on each of the options.
- Most attendees saw **more risks than benefits in the split market and green power pool**. Attendees noted potential issues with legacy contracts and highlighted alternatives, such as the continued use of CfDs .
- Some attendees felt that the **potential benefits could be achieved by alternative means** and that the models put forward might not deliver consumer savings in practice. One highlighted the risk of suppliers potentially **“cherry-picking”** consumers for the most attractive tariffs, either in terms of paying a premium for reliable supply, or the most flexible consumers receiving the cheapest tariff.
- Attendees also noted the complexities associated with potentially targeting benefits at certain groups (e.g., industrial users, vulnerable consumers) vs (diluted) benefits being spread across all consumers.
- A few attendees saw merit in a split market and green power pool, citing **potential benefits for industrial users** and savings for consumers. A few also noted the risk in “doing nothing”.

Officials then thanked the group for the excellent attendance and engagement. The group will be updated on next steps and potential further meetings.