

REMA End User Challenge Panel: Flex/Retail 08.08.2023

On 8th August, we hosted our first meeting of the End User Challenge Panel (EUCP). This built upon the work of REMA's previous End User Forum (February – May 2023), which after gathering extensive feedback, was remodelled to better fit stakeholders' needs.

Convening online and using Chatham House rules, the EUCP comprises a small, focused group of stakeholders who interact with end users across a broad range of different organisations, including charities and non-profits. The aim of its first meeting was threefold:

- a) To outline in more detail the links between the REMA and Retail reform programmes.
- b) To gather attendees' views on low carbon flexibility, supporting price signals, and retail market reform generally, and considering these to inform policy development in advance of the Second REMA Public Consultation, launching Autumn 2023.
- c) To raise awareness of the Retail team's current Call for Evidence (CfE), help stakeholders to understand the content and how to respond, and to gain an early understanding of what stakeholders' CfE responses are likely to focus on.

This document provides a summary of the session – it is not intended to be exhaustive.

Presentations

The EUCP comprised two presentations from DESNZ policy teams, followed by Q&A around five discussion questions facilitated by Citizens Advice. The first presentation was led by REMA's Flexibility policy team. It highlighted links between REMA and retail market reform, the programmes' aims, key interactions, and main issues. It also provided an update on the low carbon flexibility workstream under REMA, with a focus on distributed low carbon flexibility.

The second presentation was led by DESNZ's Retail policy team. It discussed their Call for Evidence on innovation in the retail energy market, which was published on 24th July, as it has strong links to REMA and wider energy system reforms. The presentation highlighted that the ongoing transformation of the energy system will substantially alter the landscape of the retail market. The retail market will play a driving role in the energy transition, but for this to happen, a step change in innovation is necessary.

The second presentation also encouraged discussion around how the current market framework needs to evolve to be ready to support decarbonisation, deliver good outcomes for consumers, and remain agile and responsive to market changes, while continuing to hold market participants to robust, proportionate regulatory standards.

Discussion Questions

Following the three presentations from the Flex and Retail teams, the EUCP moved into open discussion. This was facilitated by Citizens Advice and was structured around five discussion questions. The questions and responses are summarised below.

1. How can the retail market play an active role in unlocking flexibility in the energy system?
 - Some participants raised the issue of a lack of incentive for people to switch to heat pumps, and that cheaper, more flexible tariffs are necessary for uptake. There will be greater incentives to deploy heat pumps if you can reduce retail prices.
 - Some participants felt we need to approach market and system operation reform not through the lens of how we get consumers to change behaviour to support the

system, but instead how we change system operation to deliver a better proposition for consumers. A reflection was made that the way we think about REMA is designing a fixed market system, and that prevents digital market innovation.

- There were some concerns that the removal of triads was symbolic of a reduction in incentives for getting industrial consumers to participate in the market.
- Peer to Peer markets were also raised as an area that should be thought about alongside consumer opportunities in the distribution network. It was suggested that Peer to Peer markets would open opportunities for local balancing.

2. How can retailers encourage and support consumers to engage in flexible consumption behaviour?

- Several attendees stated and agreed that impartial advice (i.e., not from government or commercial retailers) is necessary for consumers, so they can understand what behaviours benefit themselves and the system from a trusted and impartial source. This should sit alongside advice that retailers provide.
- However, it was also noted that retailers are the experts in how to package things up in a way that consumers find attractive. Not all customers are the same, so this will need to be reflected in the range of packages. It was flagged that REMA should send price signals that reflect the system's need for flexibility, enabling suppliers to create and present these packages.
- There was general agreement that building trust between suppliers and consumers will pave the way for retail innovation. A question was posed about whether the government should start the storytelling exercise for consumers and how they can benefit from the transition and market.
- A question was posed on whether the government should make it mandatory for suppliers to offer new, flexible tariffs. It was observed that even in the absence of barriers, significant innovation might not emerge - due to established entities being comfortable with their current operational models. Denmark was used as an example of this, where the government felt the need to push suppliers proactively to offer new propositions even after removing barriers.
- Some participants disagreed with this suggestion, and it was noted that rather than making flexible tariffs mandatory, there should be a focus on getting market conditions ready for the transition.

3. What are the trade-offs that will come with pursuing greater innovation in the retail market?

- It was noted that future retail propositions could be exceedingly difficult to compare, and consumers need to be able to effectively compare tariffs. Therefore, engagement with consumers and clear communications around this is paramount.
- Some attendees stated and agreed that a more rounded set of consumer signals could be needed and that there are other incentives outside of economic saving. For example, clear communication around individual carbon saving could encourage consumers to behave more flexibly. It was noted that there is an opportunity here for a large engagement piece, especially following the shift in trust between consumers and the retail market in the last four / five years.
- Some participants flagged that a major problem is that the fundamental groundwork of price signals is not there to make use of yet. In addition, changes in public perception of the market, trust, and change in market engagement has made the transition for suppliers difficult.

4. What are the risks to consumers that we need to consider as we move towards a more flexible, smart retail market?

- It was suggested that whilst the retail market was designed to drive innovation in the forward hedge, this has not worked and has had unintended consequences. To have

a retail market that is truly consumer focused, we must remove the underlying business imperative that is to compete on the forward hedge.

- Some participants felt that by making flexibility an attractive proposition, it runs the risk of making inflexible options unattractive. This would leave parts of society disengaged with the process and inflexible users would take on a larger share of the system costs. Some participants agreed that we need to think about how these costs would be distributed.
- It was suggested that there is an expectation in REMA that everyone is a winner, but when we reach the point where vulnerable people can participate in smart, flexible systems, they will still need support. It was proposed that retail should think about radical options to support the disengaged.

5. How can we protect those who may be 'left behind' in the transformation of the energy market?

- Some participants felt strongly that there was the need for a social tariff, or a back stop, to protect inflexible consumers. It was mentioned that the price cap currently acts as a back stop, but that the price cap has contributed to current poor market conditions.
- Several participants agreed that understanding the distributional impacts on consumer bills is vital. Some participants felt that the retail market cannot solve all consumer protection issues. The goal is affordability of energy, but passing costs around is a social policy issue.
- It was noted that the discussion had been predominantly focused on domestic users of energy. New models and programmes need to accommodate non-domestic markets too including intensive energy users.

Conclusions and forward look

1. Overall, the first meeting of the EUCP provided valuable stakeholder insights on flexibility and retail, including the role of the retail market, risks, and trade-offs, and how to engage and support consumers. It was noted that attendance and engagement was very high.
2. The EUCP will next meet on 5th September 2023 to discuss Marginal Pricing.
3. REMA's Second Public Consultation will launch in Autumn 2023.