# FLEXIBLE AND RESPONSIVE ENERGY RETAIL MARKETS: Putting consumers at the centre of a smart, low carbon energy system

**RenewableUK response**
September 2019

---

RenewableUK's members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

---

**Introduction**
Our energy system is experiencing a period of transformational change as we move away from centralised fossil-fueled plants and embrace distributed low-carbon technologies. In order to meet the net-zero target it is critical that we have retail market arrangements in place that support our transition to a smart and flexible energy system. A suite of renewable resources will be required for this smart system to become a reality and as such we are particularly interested in retail market transformation that not only facilitates the deployment of renewables but also provides a diverse range of potential routes to market for these technologies.

We support BEIS and Ofgem in working towards creating a more flexible and responsive energy retail market that creates a level playing field for all, as expressed in our response to the Smart Export Guarantee consultations. We are particularly interested in simplifying current arrangements to provide a clearer regulatory framework that will encourage more innovation to come forward. We agree with the future vision outlined within this consultation and welcome the references made towards the net-zero targets. We would emphasise however that it is critical that decarbonisation remains a central focus throughout any reforms to the energy retail market and as such should be included within the key challenges to overcome. BEIS should give Ofgem greater direction on the status of decarbonisation within the regulator's mandate.

The way in which consumers interact with the energy market is already changing and will continue to do so as our energy system evolves. We have seen that the market is responding to this and many innovative new products have already started to emerge. It is vitally important that regulation can keep pace with the current rate of change within our energy system and enable industry to come forward with new innovations with confidence. In order to deliver this regulation, Ofgem and BEIS need to keep abreast of market developments and understand fully the role and services that "prosumers" can provide in a smart, flexible system. Future regulation needs to include adequate consumer protection for those engaging the offering from both suppliers, and energy service providers.

We are supportive of the possibility of licensed suppliers being allowed to specialise in a particular area and believe that this could be beneficial to the future retail market; there is currently a gap in the licensing regime for service providers and an opportunity to make the relationship between service providers and suppliers more efficient. Implementing a more radical approach, such as modular regulation, has the advantage of enabling more rapid regulatory reform in future, and should be supported by principles-based regulation. While it would require a considerable amount of time and resource, it we believe it would have a long term pay off.

We would be happy to discuss our response in more detail.

**Questions**

Organisation (if applicable): RenewableUK
Address: Greencoat House, Francis St, Westminster, London SW1P 1DH

Please check a box from a list of options that best describes you as a respondent. This allows views to be presented by group type.

| | **Respondent type** |
|---|---|
| ☒ | Business representative organisation/trade body |
| ☐ | Charity or social enterprise |
| ☐ | Individual |
| ☐ | Large business (over 250 staff) |
| ☐ | Local government |
| ☐ | Medium business (50 to 250 staff) |
| ☐ | Micro business (up to 9 staff) |
| ☐ | Small business (10 to 49 staff) |
| ☐ | Other (please describe) |

**1. Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?**

The consultation identifies most, though not all the challenges and opportunities that face the future of the energy retail market. The vision of a wide choice of energy services, consistent consumer protection, minimal market distortions, competitive prices for all and energy consumers in vulnerable situations receiving services they need is broadly supported. The sector is going to move from a world where a single supplier delivers a customer's energy needs, to a range of providers offering different energy services to a single home or business. The system is not currently set up to enable this in the most efficient way or to minimise distortions and protecting vulnerable consumers.

A market with more players and more services is going to be more complex. However, this does not mean that the regulation has to be complex. Furthermore, the regulator and government should focus on ensuring that there is enough flexibility within the regulatory framework to enable new business models to come forward.

In this more complex world, data management will be vital. Consumers must be protected from breaches of data protection, while the transition between providers can be facilitated by regulation.

Finally, the omission of decarbonisation from this list of key outcomes and challenges is deeply troubling and suggests that Ofgem and BEIS have failed to recognise the significance of the legally binding 2050 net zero commitment. Decarbonisation of the electricity system and the wider economy, will rely on flexibility from all consumers, and the utilisation of flexibility products from the smart charging of electric vehicles and small-scale batteries to onsite generation and power export. **Government and Ofgem should more explicitly consider the benefits of a more flexible retail market to the net zero goals; BEIS should mandate Ofgem to deliver decarbonisation of the energy system as priority for existing and future customers.**

**2. Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?**

There are many examples of products, services and business models which could benefit current and future consumers but are currently prohibited by the regulation. Some of these have sought derogations from the regulations and are part of the Ofgem sandbox. These include trialing local energy market services such as peer-to-peer trading. Others are actively pursuing change modifications such as the split metering code modification identified within the consultation.

A varied choice of energy services, products and business models, unobstructed by the regulatory framework, will be necessary to maximise the potential for homes and businesses to reduce their energy consumption and provide flexibility services to the grid. We strongly agree with the consultation document's correct identification that becoming a licensed electricity supplier is a barrier to new services, products and business models. The objective of regulation should be to enable new service offerings to come forward, without all the obligations of a new supplier license, where appropriate, and set out clearly how cooperation, data exchange, etc., with suppliers should work, through principles-based regulation.

Other examples could look to what companies have expanded their usual operations to include the role of a supplier, in order to make a business model feasible. We would strongly support a review into whether the framework can be reformed, as it is likely the universal service application is currently preventing smaller, specialised and localised services from being tailored to sets of customers, for instance in a geographic area.

**3. Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?**

***Provide further clarity on "green" tariffs and what constitutes support for renewables***

Harm could come from consumers not being able to make informed decisions about their energy choices with the emergence of new products, services and business models. For instance, it is questionable as to whether consumers currently choosing to support green and renewable tariffs understand what the tariffs they choose are supporting. This has had attention following Ofgem's decision on the SVT Price Cap, which suggested REGO-only based green tariffs or '*activities and costs associated with subsidies, obligations or other mandatory mechanisms, for example, costs for purchasing Renewable Energy Guarantees of Origin (REGOs; the costs of which we note are immaterial)'* as an SVT that supports renewables. Some members believe that

**renewable support should be defined via power purchase arrangements, not just REGO purchases; there is scope for further clarification by Ofgem as to what consumers should be made aware of in order to make informed decisions about their support of renewables.** We would also encourage a wider review of the REGO framework, pending Brexit arrangements.

***Taking a proactive approach to supporting prosumers***

Future products and services from suppliers will also distinctly differ to what is offered on the market now. Bundled packages could become prominent, meaning it will become more difficult for customers to distinguish good deals from misleading advertising and pricing structures. Information to assist understanding should be made available to consumers, and Ofgem must keep abreast of developments in offers whilst considering whether additional regulations are needed to facilitate informed decision-making by consumers and businesses. This point was briefly touched upon in the consultation:

> *We will also need to consider the impacts on other consumers posed by increasingly engaged 'prosumers' active in demand response programmes. For example, where consumers participate in aggregation activities that optimise local demand in exchange for financial remuneration, they must be made clearly aware of what this service entails and risks to market and system integrity related to the recovery of network and system costs would need to be mitigated.*

However, we disagree with the framing of engaged prosumers within this consultation. The consultation refers to "risks to market and system integrity related to the recovery of network and system costs" without due consideration or supporting evidence for the system benefits these prosumers provide through decarbonisation and flexibility. Whilst fairness in network and system cost recovery is imperative, **we urge BEIS and Ofgem to gain a better understanding of benefits of a more engaged "prosumer" to the system currently and in future** (particularly with business models such as aggregation / virtual power plants coming into force to provide DSR). This undertaking would be in keeping with research undertaken by the regulator such as the 2018 project on the 'Value of baseload capacity in low-carbon GB electricity system'[1].

There is a potential risk that domestic customer entering the demand response market could find themselves being adversely affected by having their supply reduced when they do not wish it to be. There must be adequate protection to consumers to ensure that they are fully aware of the implications of the agreements that they may be entering into, and protection against undesired demand reduction.

The social role of Ofgem with the social harm of fuel poverty is also questioned. *The* report 'Reshaping Regulation: Powering from the future' is worth noting, particularly the paragraph 'Reshape Fuel Poverty':

> *"[Fuel poverty] is a misplaced responsibility given to the energy sector and should be removed from energy policy. Fuel poverty is not an energy problem, but either one of real poverty or of bad housing, and as a result should sit clearly within a different set of policy areas and departments. Placing the fuel poverty agenda within the energy sector has distorted the system and created ceilings and thresholds that have restricted some companies' development. To address those in fuel poverty, policy should be reallocated to both the Department of Work and Pensions and the Department of Communities and Local Government."*

[1]Ofgem, 'Value of baseload capacity in low-carbon GB electricity system', December 2018 https://www.ofgem.gov.uk/publications-and-updates/value-baseload-capacity-low-carbon-gb-electricity-system-2018

**4. Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?**

There are likely to be cost and system benefits in allowing some supplies to specialise and provide products and services to targeted groups of customers, for instance, through using geographic licenses. This would enable localised opportunities to emerge as well as maximising the flexibility capabilities of specific segments of the population – enabling competition and offerings in this market to further develop.

There should be continued consideration of the difference between a supplier and a service provider. Third Party Intermediaries (TPIs) have delivered value to the market, offering energy services, such as procurement of tariffs, energy efficiency, demand response, or smart charging or heating. As service offerings become more complex, and integrated into the management of the energy systems, this may need refinement. TPIs should be licenced so that the same level of customer protection is applied between parties providing services to consumers. These parties should also follow, and be signatories to a mandatory Code of Conduct, enforced by the regulator where a non-compliance is penalised (in the same way as suppliers are also fined). Suppliers would continue to provide power and should have responsibility for a universal service offering.

There would likely need to be new regulations to protect certain consumers from being 'discriminated' against unfairly by suppliers or service providers (e.g. by home type, or location). Under the current regulatory framework, this could be done by requiring suppliers to outline and prove their requirement to not have the universal principle applied through specifying the product or service and the benefits that targeting groups of customers would bring over a universal supply model. Those that do not fulfil this requirement would continue to apply the current universal principle.

**5. Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?**

Incremental changes are insufficient to fully maximise the potential services, products and business models that could emerge within the retail market, serving as a barrier to full decarbonisation and flexibility. This has been evidenced by Ofgem's Regulatory Sandbox findings which identified that 'when a proposition isn't possible today it is usually because of a complex mix of requirements including industry norms, systems, charging arrangements, codes and licenses'[2]. Those involved in the sandbox pilots have highlighted other countries with more favourable regulatory frameworks as to where it is likely they will deploy their models, due to the enduring, supportive framework being a preferable option to a time-limited derogation. Whilst incremental, phased reform is potentially the best option in some circumstances, the UK market has been experiencing this for some time. Substantial reform to the existing framework is now needed to elicit these opportunities. An adaptable, future-proofed structure should be identified with a pathway determined for its implementation.

To date, incremental reform has been slow and uncoordinated, proving an inappropriate means to keep pace with the rapid change occurring in the energy system and technologies and businesses participating therein. For instance, defining storage within

[2] Ofgem, 'Insights from running the regulatory sandbox', October 2018 https://www.ofgem.gov.uk/system/files/docs/2018/10/insights_from_running_the_regulatory_sandbox.pdf

the regulatory framework has only been consulted upon this summer, more than a decade after the commercialisation of large-scale battery storage technology[3]. Further to this, the definition being included is one under the generation license, meaning in the long-term this definition will likely change as the technology, its functionality and capabilities and thus how it should be treated under regulations differ distinctly from that of generation. This has led to industry submitting code modifications to drive forward regulatory change in a piecemeal manner, rather than government leading with holistic reform. We welcome the energy codes consultation to look at how this process should be better managed and coordinated in future.

The approach suggested that there be 'licenses for each emerging category of service provider' would have proven beneficial however, given the rapid change to the energy system is expected to continue this may be an inefficient and slow. A responsive regulatory framework should be adopted in the longer term. Whilst derogations have proven useful to pilots, there has not been a substantial review as to how these derogations can be incorporated and the regulations adapted to ensure enduring business solutions to these pilots. Supply license exemptions were also highlighted as requiring Secretary of State decision-making, which could prove extremely time-consuming and complex for businesses.

The concept of an authorisation regime and modular approach would mitigate many of the market barriers currently facing different business models, services and products. It is an option that may enable flexibility to introduce new regulatory frameworks as new business models and technology emerges, without having to redraw existing regulation. **RenewableUK would support a modular approach being fully explored.**

9. **What effect does the range of Energy and Climate Change Policy Levies have on the retail market?**
   *and*
10. **What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?**

The range of policy levies does have an impact on the retail market. UKERC research identified that levies to recover costs of energy policy add 13% to average household electricity and gas bills. However, wholesale costs of electricity remain by far the largest contribution to consumer bills[4].

Even so, as noted above, in answer to Question 3, addressing fuel poverty is a social, not an energy issue and as such there is a strong case for **funding programmes to reduce fuel poverty to be delivered by general taxation, rather than regressively though energy bills. We would welcome further investigation of this.**

2018 analysis by Aurora Energy Research found that relative to 2010, the growth of renewables has dampened baseload prices by £4.1/MWh below a business-as-usual baseline, even factoring in the countervailing impact of the carbon price[5]. Most of this growth having been supported by the policy contributions from consumer bills. Going forward, this price-dampening effect will accelerate with the emergence of subsidy-free renewables, which would not have been possible without the establishment of domestic supply chains and expertise enabled by policy support mechanisms.

---

[3] IEA, 'Prospects for Large-Scale Energy Storage in Decarbonised Power Grids', 2009 http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.177.7586&rep=rep1&type=pdf

[4] Ofgem, 'Infographic: Bills, prices and profits', August 2019 https://www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits

[5] Aurora Energy Research, 'Delivering Net Zero', November 2018 https://www.auroraer.com/wp-content/uploads/2018/10/Aurora-Report-public-Delivering-net-zero-November-2018-.pdf

It is noted that there are historic policy costs still to come through, with the proportion of these costs in a consumer bill likely increasing between now and 2050, as an increasing prevalence of renewables on the system will lead to wholesale price cannibalisation.

UKERC research 'Funding a Low Carbon Energy System: a fairer approach?'[6], suggests that socialising policy costs into general taxation could 'reduce energy bills for 70% of households'. This is due to policy levies on electricity bills having a disproportionate effect on customers whose electricity bills make up a larger share of their income, with a progressive tax either reducing this contribution or potentially removing it entirely.

**11. Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?**

Whilst the Ofgem and BEIS workstreams focusing on the smart meter roll-out and network cost recovery are the appropriate places for those issues to be considered, it is important for the review of the energy retail market to keep these issues within scope and under consideration.

**Do you have any other comments that might aid the consultation process as a whole?**
No further comments.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

At BEIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?
☒Yes ☐No

[6] UKERC, 'Funding a Low Carbon Energy System: a fairer approach?', March 2018
http://www.ukerc.ac.uk/news/progressive-policy-could-reduce-energy-bills.html