

WEET Forum
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Priorities for the UK Energy Market: competition, infrastructure and innovation

Assessing market arrangements and getting the best
deal for users

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New Thinking For Energy



Getting the best deal for users – much broader than p/unit – more to do with having governance arrangements which deliver the services that users want

- Users
 - Those that ‘use’ the energy system – buyers and sellers of services (supply, demand, flexibility etc, prosumers, whatever scale, active/passive)
- User preferences / requirements / wishes:
 - (1) Access the services they want; buy from and sell to whom/whatever they want;
 - (2) Decarbonisation by a set timeline (80% by 2050)
 - (3) Total cost of service to customers has to be affordable and equitable (including costs of resource; networks; non-network infrastructure; operating a secure and flexible system; and decarbonisation)

Getting the best deal for users requires:

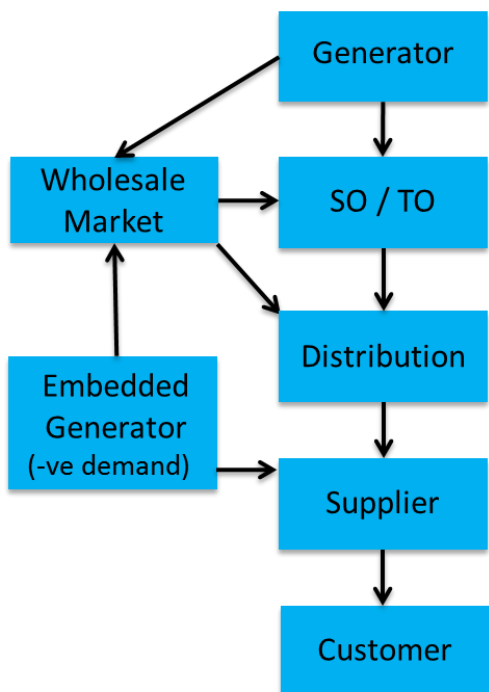
- Getting the 'right' governance in place (where governance is taken to mean institutions, policies, network rules and incentives, market design, retail policy, customer preferences) Our fit-for-purpose governance framework document: <http://projects.exeter.ac.uk/igov/paper-gb-energy-governance-for-innovation-sustainability-and-affordability-2/>
- Engaged and consenting users
- Whole energy system approach

Best deal for users with respect to decarbonisation (no.2) on list: a new 'user' proposition

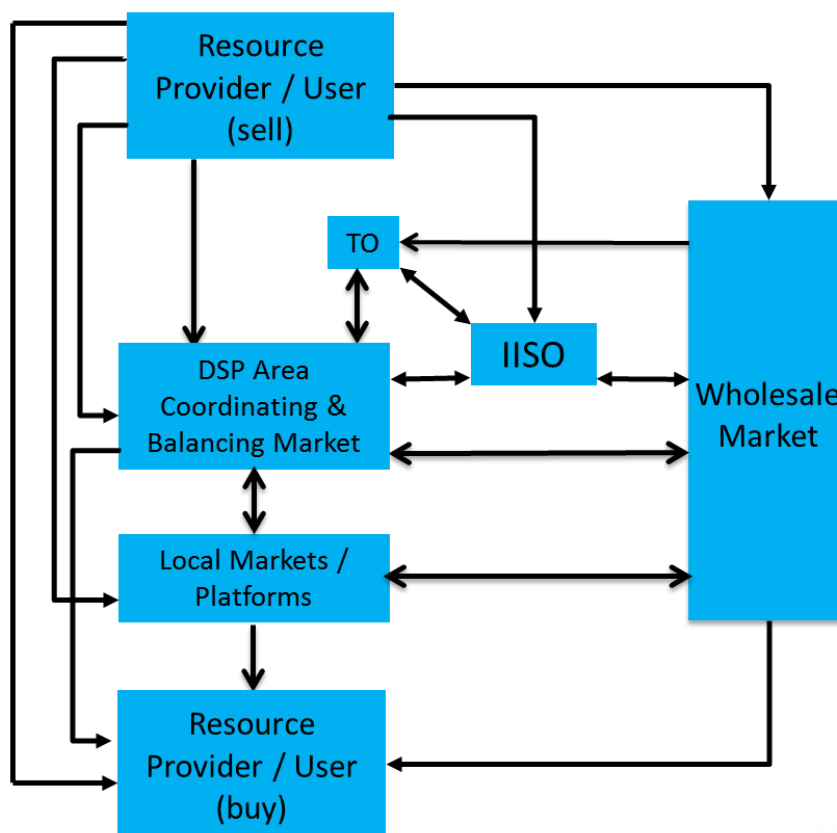
- So far, decarbonisation has focused on electricity and broadly been 'hidden' and without much domestic customer involvement
- BUT as we require more decarbonisation, at a quicker rate, then we need to engage more with people/domestic customers e.g:
 - To sort out heat decarbonisation, we will need energy efficient homes and, maybe, new heating systems (ie not gas) / district heating / heat pumps
 - To reduce emissions from transport, we would like people to walk/cycle or accept electric vehicles or public transport
 - For deeper electricity decarbonisation, we would like people to engage behind-the-meter more for DSR, flexibility services etc
- All these changes for people and their interaction with the energy system, the way it is operated and how it is paid for, requires a 'new' user proposition – something which resonates with users
 - All stakeholders have responsibility for this – not just users
 - Governance framework/ market arrangements have to fit the user proposition – has to stop having policies which take no notice of user proposition

Best deal for users (access to the services users want and cost of service, no.1 and 3) : we need a new energy system structure

Traditional/Supplier Hub

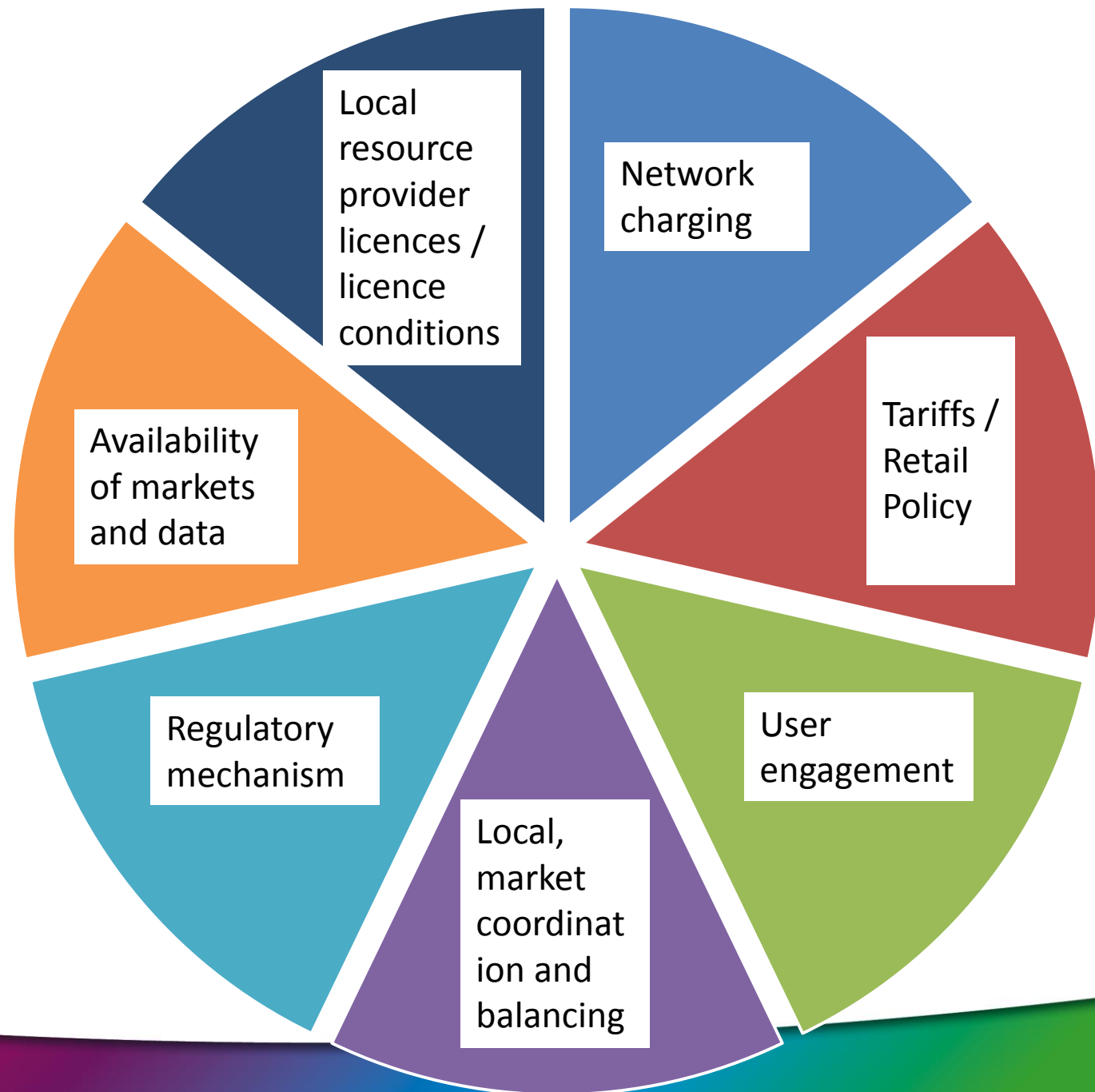


Flexible Choice/ System Operator Hub



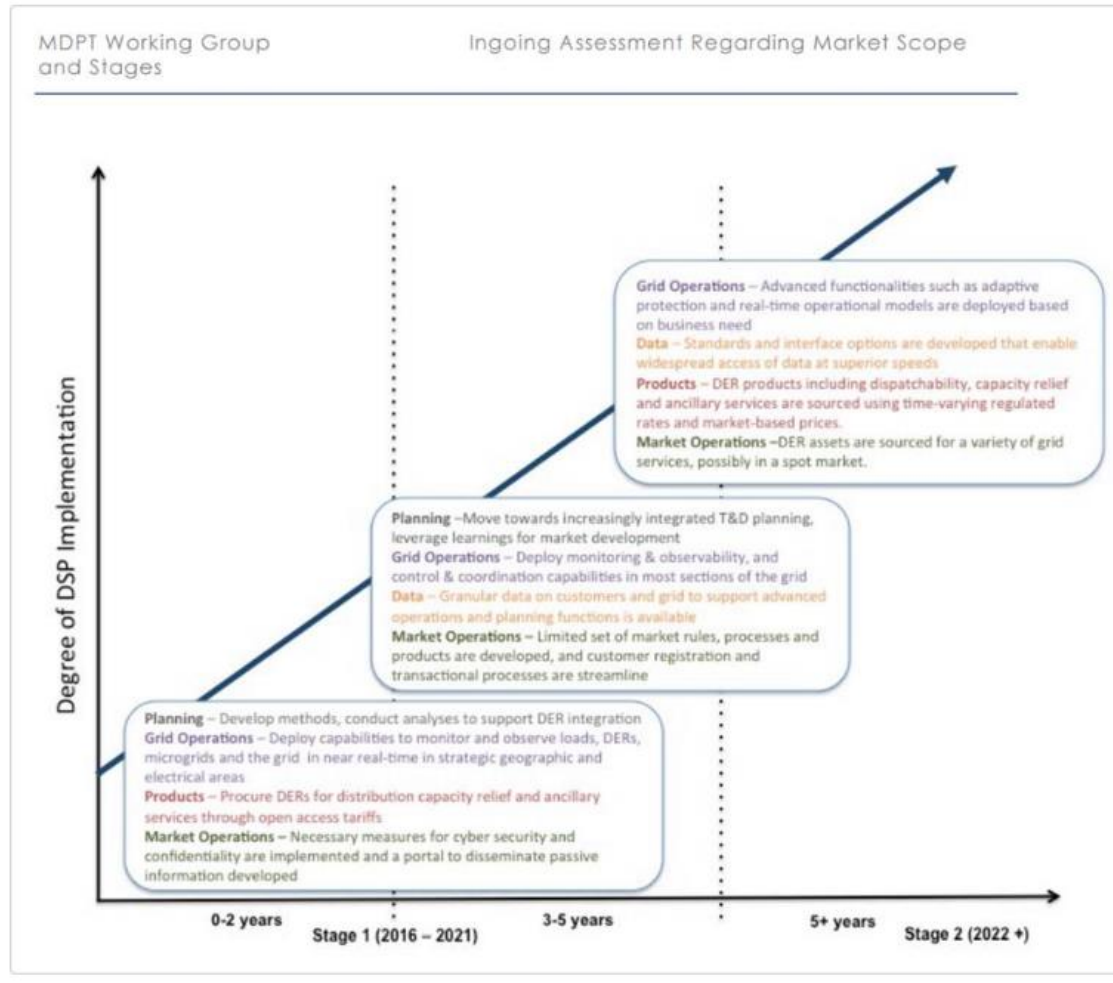
In order to have the best deal with respect to cost of customer provision (no.3 on list) for users:

We need Fit-for-purpose governance, making sure all the inter-linked variables which sum to the cost of service provision are complementary to the flexible choice model (slide 5)



We need process and timescales for change – not too quick; not too slow, eg NY REV, and to fit CCC budget – so that changes have a good chance of working

https://www.energymarketers.com/Documents/MDPT_Report_150817_Final.pdf



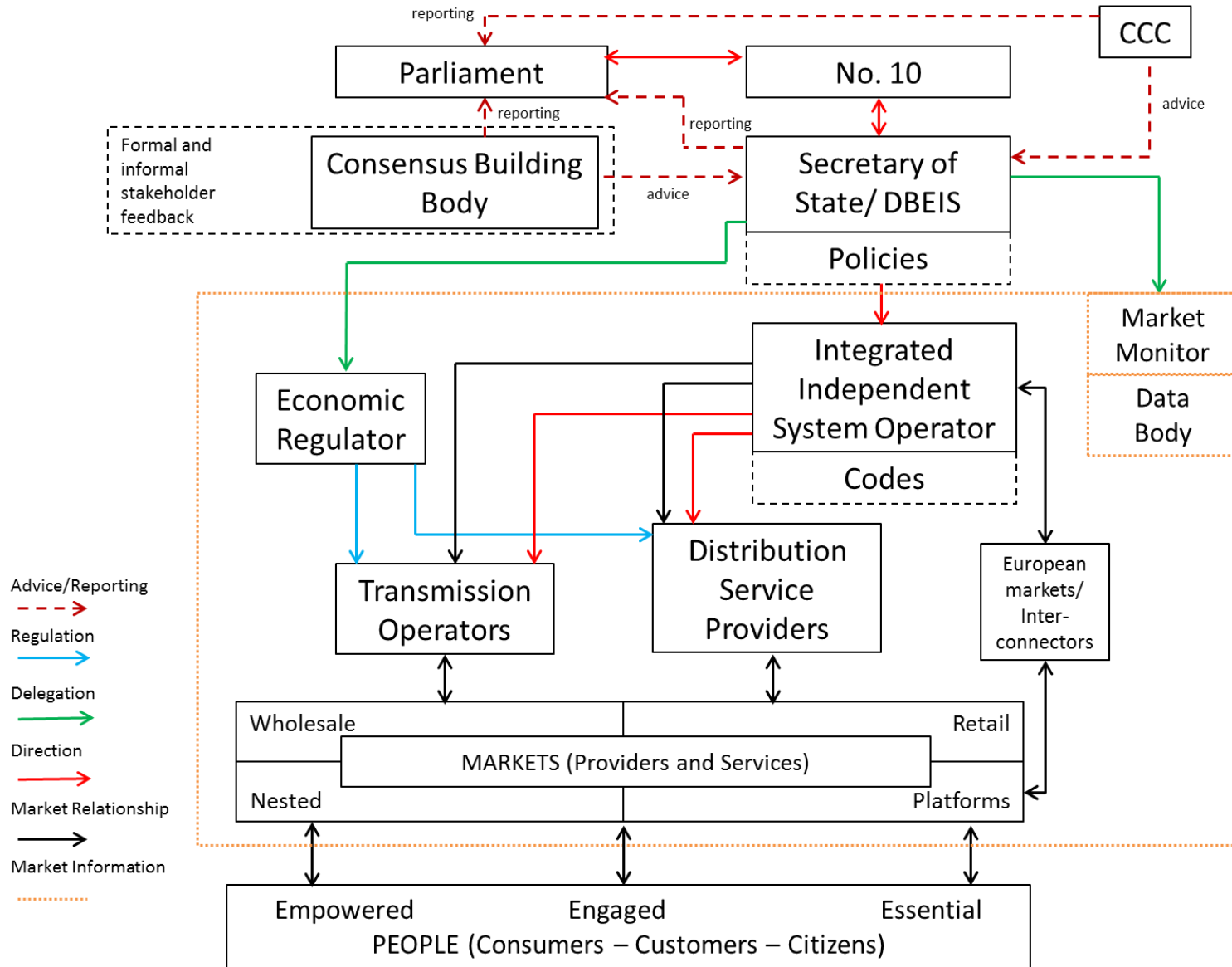
Getting the best deal for users

- More than p/unit, more about having an energy system which delivers the services users want affordably and in an equitable way
- Needs a clear vision + process for change, with timelines to fit with CCC budget advice
- User proposition linked to this Vision
- Governance change
 - Regulatory mechanism (R1102) has to have a far greater percentage of revenue related to desired outputs i.e. Performance Based Regulation, so more adaptive
 - Customer provision better enabled through moving to a flexible choice model and having complementary costing methodology which is more evolutionary and dynamic, including the costs of moving from A to B
 - Institutional change, enabling decision-making and better coordination and direction

Appendix

IGov Fit-for-Purpose GB Energy Governance Framework

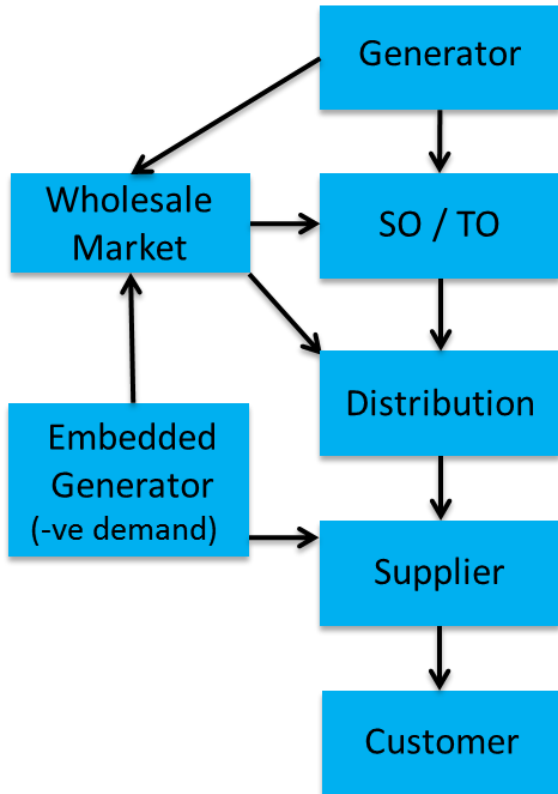
<http://projects.exeter.ac.uk/igov/wp-content/uploads/2017/10/SYS-Copenhagen-27-October-2017.pdf>



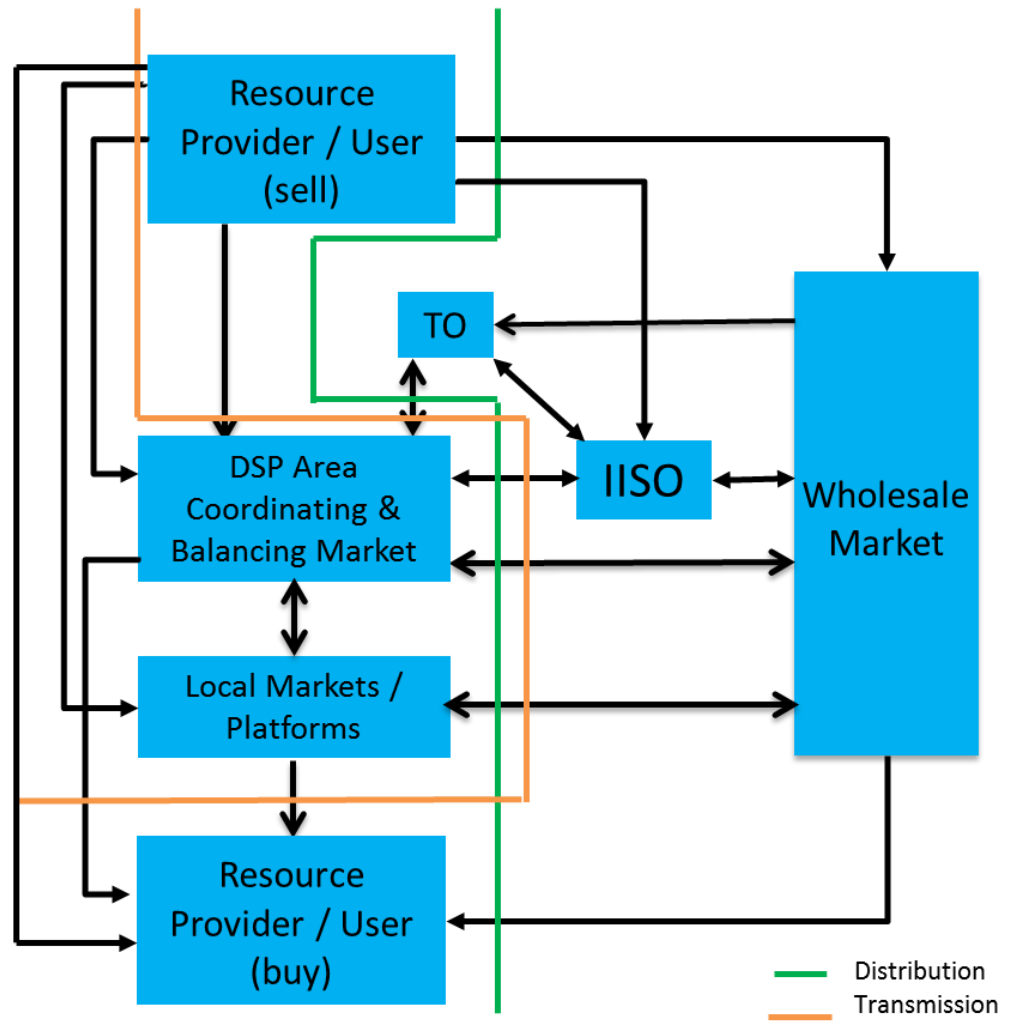
The cost of running a network depends on its use – and that use is effected by multiple variables. To get the best deal for users – there has to be a body to coordinate the most efficient area operation , taking account of all these variable, and paid to deliver desired outputs.



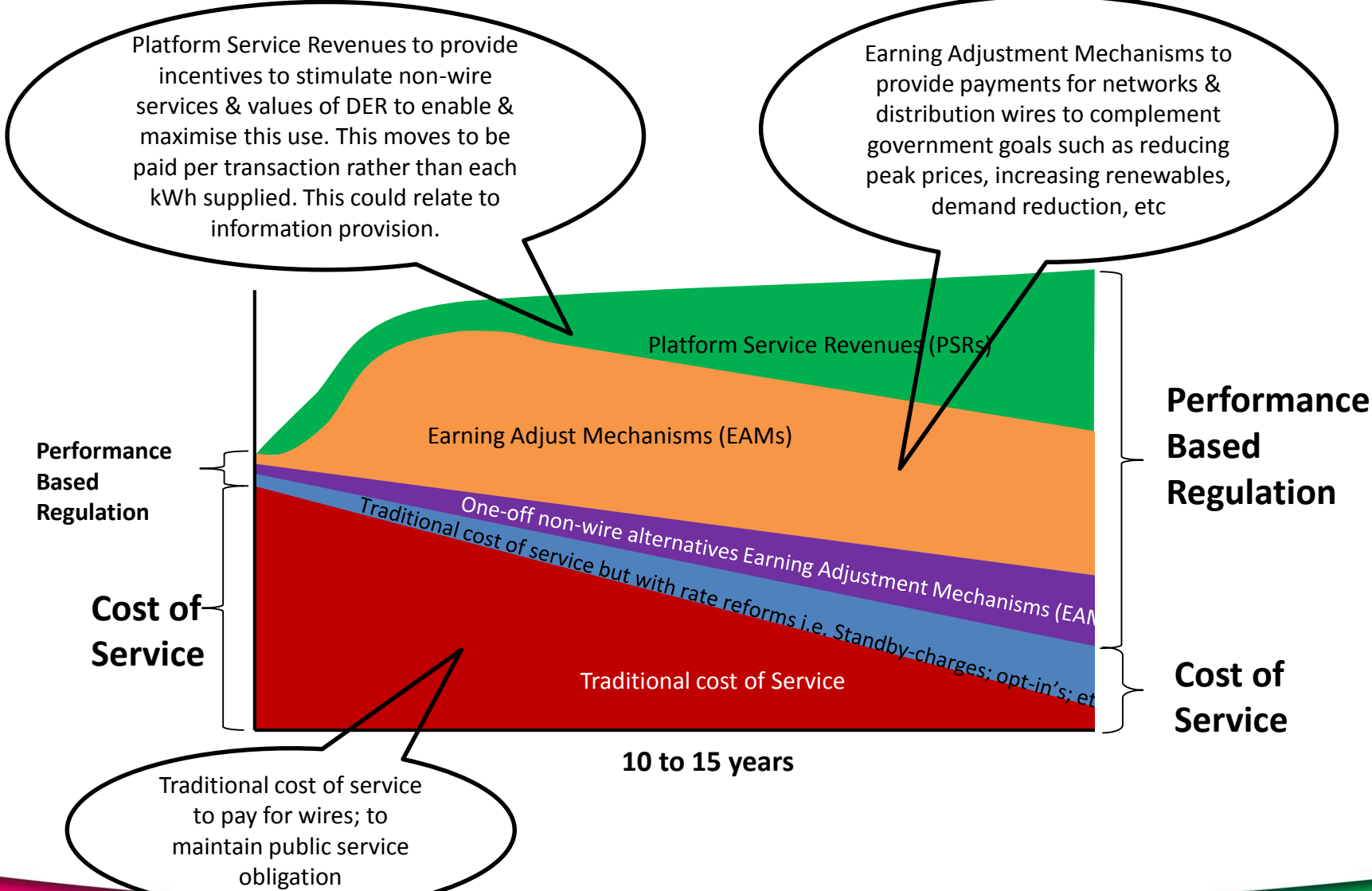
Traditional/Supplier Hub



Flexible Choice/ System Operator Hub



Potential basis for RII02 – more PBR



Thankyou

For more information, please go
to the IGov website

<http://projects.exeter.ac.uk/igov/>