

16 September 2019

Submission to the BEIS / Ofgem Consultation on Flexible and Responsive Energy Retail Markets

Submission from the Exeter Energy Policy Group, University of Exeter

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Section 1: Introduction

We, the Energy Policy Group (EPG) of the University of Exeter, welcome this opportunity to make comments on the [Flexible and Responsible Energy Retail Markets \(FRERM\)](#) consultation document Consultation. EPG members have been working on this issue for several years. One of the EPG projects in particular, Innovation and Governance for a Future Energy System ([IGov](#)), has been focusing on this issue since 2012.

The EPG agrees that flexible and responsive energy retail markets are a central component of a rapid, just and decarbonised energy system transformation. And we are pleased that Ofgem and BEIS are thinking about how to best deliver them.

However, we find that this Consultation has overly concentrated on price. It seems to be saying if only it can get retail price down, then GB will manage to deliver a flexible and responsive retail market. In our view, this misses out on the many aspects which impact on customer price, and their importance to bills, and why people do (or do not do) the things they do.

On the other hand, we are very pleased to see on page 25 of the Consultation a discussion about developing a new overarching regulatory framework: a 'modular' approach to regulatory reform. We think that the issues facing the energy system are so different from those at play when the current energy system framework was put in place in 1986 and 1990 that there is a need to overhaul the current GB energy governance framework. We would support a new modular approach to regulatory reform.

[IGov](#) has set out its framework (ie its modular approach) for delivering an agile, equitable, customer focused, cost effective energy system – capable of also meeting our net zero targets on time.

This submission is set out in the following way. Section 2 provides a brief review of our differences as set out in the Consultation. Section 3 provides a brief overview of the IGov arguments for modular regulatory reform, if GB is to have flexible and responsive retail markets – and this includes the need for [market design](#) change. Section 4 concludes.

Section 2: Our Agreements and Differences with the Consultation

The EPG broadly agrees with the arguments in the FRERM that the way retail markets are regulated and the ways markets are designed need to be rethought.

However, in addition, the relationships between network regulation, the regulatory mechanism, market design and local governance and their impact on retail markets should have received greater discussion in the Consultation. They also need to be rethought – and the lack of discussion is a gap in the Consultation.

Overall, the Consultation pays too little attention to the wider issues underneath the retail price and the factors which effect customer bills – whether it be the GB regulatory mechanism, network charging rules and market design or a lack in coordination across Government of policies.

We are pleased to see that the FRERM is to link with the Energy Data Taskforce, Code Review etc on page 13. Nevertheless, overall the FRERM does not provide a whole system overview of the systemic needs to place customers, and their propositions, at the centre of the energy system.

We broadly agree with the Overarching Approach as set in Chapter 2 (page 14). Similarly, we broadly agree with the issues set out in Chapter 3 (page 18) about the need for regulatory reform.

However, whilst we can understand that there are incremental issues which need to be dealt with – we find an incremental approach unhelpful.

We think the requirements and drivers on change in the energy system – rapid decarbonisation, rapid technological change, the need for more meaningful consent by people, the need to meet preferred customer propositions, the need to link energy sectors better, the need to link the energy sectors with wider Government departments and their goals etc – are such that a new institutional framework is required to coordinate those needs most cost effectively, and in a just way.

Much of the change in energy systems is occurring at the distribution level: electric vehicles, smart systems, heat decarbonisation, decentralised technologies, digitalisation, energy efficiency etc. Yet the distribution level and its governance – whether heat or electricity - has more or less been ignored since privatisation. This means that distribution value is not understood and cannot currently be captured, and this means that energy economics as we know it is skewed to the conventional energy system. Our answer to this is a [reformed market design](#), which includes local markets at the distribution level. This would allow any buyer or seller to buy or sell any resource to who / whatever they wished. This is an essential ingredient of a flexible and responsible retail market.

We need a new regulatory mechanism, new market design – particularly at the local level, and we need all current actors (whether DNOs, SOs, Ofgem etc) to transform to a differing role – either through regulation or incentives via markets.

Net Zero requires a significant acceleration of greenhouse gas reduction, across all energy sectors and this will require new, democratic, transparent means of coordination.

The current energy system and its regulation is simply not capable of this and therefore we question much of the incremental reform discussion as set out in Section from page 20-25. We agree that many of the issues raised in this section are problematic but we do not think the answer is to improve them in individual ways. We need to think about energy system change in a systemic, coordinated way. We need to work out the relative costs of doing this from a whole system, long term perspective.

We do agree that customers and their meaningful consent needs to be at the centre of this change. However, we do not necessarily think that the energy system is able to deliver (and pay for) an energy system transformation on its own. We do think that the energy system has to provide a good deal for customers, and it should look after all vulnerable customers. That it does not is a direct result of current energy governance. But again, we are not sure that the energy system, and therefore retail prices, should be wholly responsible for this.

Distributional impacts of energy system transformation will occur. We cannot let these stop the move to a net zero energy system. We have to ensure a just transition in parallel. We think there needs to be a new coordinating energy transformation body - the Energy Transformation Commission – and this body would bring the various Government departments together to deliver a whole system response (including looking out for vulnerable households).

Delivering this requires a modular reform as set out in Section 3 page 25. We, in IGov, have created a modular framework and this is discussed in the next section.

Section 3: A whole system framework for a just energy system transformation

IGov has a governance framework to deliver a just and coordinated energy system transformation. This is in effect a proposed example of a modular approach to a flexible and responsive energy retail market.

IGov has produced a key findings blog that provides links to 4 key conclusory pieces of IGov work (an overview document of [IGov](#); an explanation of the Energy Transformation Commission ([ETC](#)) – the key coordinating new institution argued for by IGov; a 5 blog series on [market design](#) changes to implement new markets and enable value of new services and products to be revealed – thereby enabling more choice and cost effective services and resources being available; and [local governance](#) requirements so that local authorities and other local institutions can be part of this coordinated, whole system transformation – which leads to retail markets being able to provide customer propositions that customers want.

These 4 pieces of work are further reduced to an [institutional framework](#).

These IGov documents attempt to bring nearly 600 pieces of work together. However, for anyone who has time and is interested, then please do go to the IGov website and spend time reading through the various reports and papers justifying our final conclusions.

Section 4: Conclusions

The EPG welcomes giving its views to this Consultation.

We agree that flexible and responsive energy retail markets are a central component of a rapid, just and decarbonised energy system transformation.

There is much in this Consultation which we support but we also find it rather narrow, and without a sufficiently whole system view of the needs and costs of an energy system transformation.

We are very pleased to see however that it brings up the possible need for a modular approach to a new regulatory framework which would deliver a flexible and responsive energy retail market. We agree with this and we suggest that the BEIS and Ofgem looks at the IGov framework – the only whole system, cross energy sector framework we think is currently available.