

Consultation Response

Review of Electricity Market Arrangements

Department for Business, Energy, and Industrial Strategy.

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BEIS cites¹¹ the importance of allowing consumers to engage with the innovative products REMA could facilitate. While this is a welcome goal many vulnerable older people are likely to face barriers to accessing these new products (e.g. dynamic time of use tariffs, smart technology). If accessibility is not front of mind, BEIS risk entrenching existing inequalities such as the loyalty penalty¹² and poverty premium¹³. REMA will fail in its objectives if the needs of older vulnerable consumers are not embedded throughout. Our below responses reflect this concern and propose solutions which will support REMA in successfully achieving its goals.

Consultation questions

1. Do you agree with the vision for the electricity system we have presented?

Age UK agrees that the Government must reform aspects of the electricity market to harness the benefits of decarbonisation, reduce the risk of price volatility and deliver the

We strongly encourage an approach to REMA which focuses on ensuring tailored support and improved accessibility for vulnerable consumers to ensure the technology and appliances REMA facilitates (e.g. dynamic time of use tariffs and smart technology) are fully accessible. This will maximise the chances of REMA successfully passing on the reduced costs associated with renewable electricity to consumers, while allowing households to respond to price signals and decarbonise their homes.

Security of supply

With the power outages storm Arwen and Eunice precipitated last year, the fear of losing their electricity supply is still fresh in the minds of many older people. Reports of potential blackouts this winter are a continuing reminder of the importance of security of supply. The war in Ukraine has only reinforced the critical need to diversify our electricity generation sources.

that while generally supportive, many people aged 55 & over in the UK are still opposed to replacing fossil fuel boilers with new electric heating systems (20%), while others are undecided (10%) and many have no view on the subject (16%)³². This represents a lot of older people who still need persuading of the merits of an electric heating system.

Nonetheless, more than half (55%) were in favour of phasing out fossil fuel boilers over time and replacing them with new electric systems; 39% in favour so long as installation costs are similar to new fossil fuel systems and 16% in favour regardless . This demonstrates the importance that the cost of electric heating systems will play in persuading older people to favour them as replacements for fossil fuel boilers.

Age UK supports the rollout of efficient, durable, and cost-effective electrical heating, but BEIS must ensure that part of REMA's focus is helping alleviate the anxieties some people still have. Most are not against installing new technology – instead they are concerned that they won't be adequately supported to adapt to it. Our experience and research show that tailored support at installation, ongoing advice and improved accessibility to electrical heating systems are critical components of addressing this.

BEIS also recognises that REMA may need to consider whether and how the market incentivises people to reduce their electricity consumption. As explained previously (see response to question 2, cost-effectiveness) when considering incentivising people to

be switched on to meet demand. As a result, the increasingly volatile and expensive cost of natural gas often determines the final price paid per unit (kWh) of electricity.

One of REMA's proposals is to investigate adjusting marginal pricing to allow for cheaper renewable sources to regularly determine the unit price. In 2021/22 renewables made up the highest proportion of our electricity supply (38.7%), followed by natural gas (38.5%), nuclear (16.1%), coal (3.8%) and other sources (2.9%)³⁷, so it makes sense that we gradually move away from a pricing system based on fossil fuels.

We strongly agree with REMA's goal of ensuring the future electricity market is reliable and affordable. To ensure this, it is crucial that consumers reap the benefits of cheaper renewable electricity sources and no longer have their unit rates determined by volatile fossil fuel prices. As a result, we support BEIS investigating reforms to marginal pricing to facilitate cheaper and cleaner electricity for UK consumers while ensuring energy needs are sufficiently met during peak demand.

¹ BEIS, 2022. Review of Electricity Market Arrangements. Department for Business, Energy, and Industrial Strategy. [Online]. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1098100/r

²⁸ BEIS, 2015. Smart Metering Early Learning Project. Department for Business, Energy and Industrial Strategy. [Online]. Available at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/407543/3_Smart_Metering_Early_Learning_Project_-_Consumer_survey_and_qual_research_-