Department for Energy Security & Net Zero

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Department for Energy Security & Net Zero
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Angus Brendan MacNeil MP
Chair of the Energy Security and Net Zero Committee
House of Commons
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Tuesday 12 March 2024

Dear Angus,

REVIEW OF ELECTRICITY MARKET ARRANGEMENTS (REMA): SECOND CONSULTATION

After a period of unprecedented disruption and change, the UK energy sector is now poised to seize the opportunities of the energy transition. We have become the first major economy in the world to halve our emissions, and today we are seeking to build on that progress with the second REMA consultation.

The options in this consultation could save consumers tens of billions of pounds. It will ensure our electricity markets are fit for the future and prepare our electricity system for full decarbonisation by 2035, subject to security of supply.

We can be proud of our record to date. Through one of the biggest support packages of its kind in Europe, we have protected consumers from the worst impacts of high global energy prices, triggered by Russia's invasion of Ukraine. Working closely with industry, we have set parameters for the upcoming Contracts for Difference round (AR6), building on our proud renewables growth record which means the UK is home to the five largest operational offshore wind farms in the world. We introduced the Energy Act 2023 – the biggest piece of energy legislation in the UK's history – to build an energy system fit for the future. Furthermore, we have set out major plans both to speed up grid connections and also to rapidly increase capacity on the electricity grid.

Reforming the electricity market is key to delivering a low-cost system, driving down both the cost of power and the infrastructure needed to deliver it to consumers. The first REMA consultation sought views on the case for change, programme objectives, and a wide range of options. This consultation sets out a much sharper vision for our future electricity market arrangements, significantly narrowing down the remaining options which are structured around four key challenges:

- **Making sure consumers see the benefits of more renewables.** This includes proposals to continue with the current 'marginal pricing' market structure and the roll out of renewables via reformed Contracts for Difference (CfD), and reviews options to decouple gas and electricity prices.
- **Investing to move even faster towards more renewables.** Building on our progress from only 7% renewables in 2010 to nearly half today, this includes a

proposal to retain the CfD as the principal mechanism for low-carbon investment but sets out a range of reform options to future-proof the CfD to meet new challenges posed by a decarbonised electricity market.

- **Transitioning to a flexible, resilient and secure decarbonised electricity system.** This includes proposals to maintain but improve the Capacity Market (CM) to de-risk investment in low carbon technologies and sets out the need for new flexible generation to ensure security of supply.
- **Running a renewables-based system efficiently and cost-effectively.** This includes options for reform focused on sending more efficient locational signals through the electricity market (including zonal locational pricing as one possible solution), to minimise costs of balancing and securing the system.

The reform options in this consultation have the potential to save tens of billions of pounds from consumer's bills. Doing nothing is not an option, as existing arrangements will become progressively harder to operate and could lock in a high-cost path to transition. Our analysis suggests that reforming our electricity markets could reduce overall system costs by £35 billion from 2030 to 2050.

This is therefore an opportunity to future-proof our wholesale electricity market and help unlock massive investment in a cost-effective and secure energy system. An estimated £275-375 billion in new capacity may be required. Achieving this will require the private sector to work alongside government, the regulator, and the system operator to help design future markets to encourage large-scale investment.

We are also taking the steps necessary to futureproof the country's energy security and keep the lights on. With electricity demand set to rise and existing gas plants nearing the end of their lives, the government will support limited newbuild gas capacity in the short-term for when the sun isn't shining and the wind isn't blowing. This is a sensible insurance policy and independent analysis demonstrates that unabated gas generation will continue to play an important part in the 2030s. The government has already passed laws requiring new gas plants to be built ready to convert to low carbon alternatives in the future, and running hours will continue to reduce as more renewables come online.

The next phase of the REMA programme will finalise the remaining policy options. We expect to provide a summary of responses in summer 2024 and conclude the policy development phase of the programme by mid-2025, moving into full-scale implementation from 2025.

Yours ever,

RT HON CLAIRE COUTINHO MP
Secretary of State for Energy Security and Net Zero