

REMA Task and Finish Group Meeting Notes – 5 July 2022

Attendees

These notes are the summary of the kick-off meeting for the Review of the Electricity Markets Arrangements Task and Finish Group.

Group membership: Glennmont Partners by Nuveen (Chair), BSR, Hitachi Energy, Eco3, Almax Partners, JBM Solar, Imperial College London, Future Earth Energy, Infinis, NFU, Drax, Quinbrook Infrastructure Partners, Good Energy, ITM Power, Storelectric, EATON, Eversheds Sutherland, Gridserve.

REA staff: Frank Gordon (Director of Policy), Amy MacConnachie (Director of External Affairs), Mark Sommerfeld (Head of Power and Flexibility) Kiara Zennaro (Head of Heat and Green Gas Lead), Paul Thompson (Head of Renewable Transport Fuels & Landfill Gas), Jack Abbott (Public Relations and Communications Manager), Callum Coleman (Policy Analyst), Stan Fielding (Policy Officer) and Isobel Morris (rejoining REA as a Senior Policy Analyst in July 2022).

Summary Notes

REA Member and staff introductions took place at the start of the meeting.

After introductions, there was an opportunity for members to put themselves forward for the Chair of the Task and Finish Group. Peter Dickson, of Glennmont Partners, put himself forward for the role – outlining that he believes that responding to proposals to a new market arrangement for trading electricity requires a broad understanding and approach, which can represent a wide variety of businesses in the sector. Peter Dickson also suggested that Stephen Hill, of Eversheds Sutherland, might be a good candidate but he was supportive of Peter taking on the role. Members were given the opportunity to email REA by the end of that week to put themselves forward for it.

Frank Gordon - aims of the group: to examine the REMA proposals, respond with advice and recommendations, and other outputs. The overall aim is to influence the outcomes of REMA – such as the delivery of reformed energy markets that prioritize renewable energy generation and flexibility, in order to create a viable energy market for a decarbonized energy system. Ties in with the REA's Research and Development Strategy goals. All positions will be shared with the wider membership for feedback and input. Is this output correct?

The REMA group's input on this was that yes, however it should also be noted that we need to continue attracting inward investment into the industry as part of the continued push

against the financial crisis. Members also noted that energy storage should also be included in the remit.

Frank Gordon - recap of the policy context. As VAT has been cut on most ESM, REA has been campaigning for energy storage devices to be included in the cut. The British Energy Security Strategy has been criticised by REA and industry - is too focused on nuclear (over-ambitious, suggesting roughly 1 reactor per year for the next 10 years) and delivery far ahead, but that there are some positive notes on grids and networks, as well as on geothermal and marine tech. FSO creation confirmed. Strategy uses encouraging wording but is vague.

Amy MacConnachie - REA has discussed with Greg Hands MP the possibility of doing a roundtable with the REMA T&F Group, and that REA has also met with Trudy Harrison MP. Nina Skorupska spoke to the 1922 committee on the Energy Security Strategy. REA also recently attended a Labour Party dinner.

Objective of REMA is: "To identify and implement the reforms needed to GB electricity market arrangements, in order to drive the necessary investment in, and efficient operation of a secure, low carbon electricity system by 2035." Areas of focus likely to be: Capacity adequacy, Low carbon investment, wholesale markets, flexibility and operability.

Mark Sommerfeld - in this meeting the REA hopes to identify some possible positions on the focus areas, but not expecting to reach definitive firm positions. Today, presenting what REA thinks is likely in REMA, for discussion. REA set out options below:

Wholesale Market Reform

- Determining how electricity prices are set
- Where the price is based – marginal price of gas. Now a problem because gas is expensive
- Discussions in media and govt about how to decouple gas price from wholesale electricity price
- Green power pool and fossil wholesale market; 'must run' and 'firm power' market; 'as available' market.
- Models need to act as a service.

Does the group have a preferred market model?

Storelectric - the electricity market shouldn't be sliced into small pieces as this would be inefficient and it would be better to have a single market but to charge bids based on how they meet Net Zero. MWh should be remunerated according to value to system rather than by MWh. Small markets will also favour small suppliers over large suppliers – so several small markets will create a market distortion. With the shift towards regional pricing, this will create several markets.

REA - the market seems to be leaning towards slicing up the market.

Glennmont - investment decisions are based on projections of the market under current market arrangements. Too fast a transition will cause disruption to asset owners.

EATON - it may just be two markets, but this needs to be examined more closely and small-scale commercial and domestic generators also need to be able to participate in the markets.

REA outlined Govt discussions around nodal pricing.

Future Earth Energy - for developers of low carbon generation nodal pricing may create too much volatility and this could affect investor confidence.

Drax - both models would need to have a good transition period, as the total cost of the first two options (zonal and nodal) might be quite high due to constraint costs as well as fossil fuel generators recovering their costs through peak pricing only. The interaction with CCS/Hydrogen conversions should be considered. The NFU commented that transmission and distribution-connected power have different values since they perform different functions.

Nina Skorupska - these are the same concerns and topics that are coming up in other industry groups such as those involved with the FSO development. Different states have adopted different reference points for pricing and REA's role is to identify how this will impact members of all scales at the REA. ESO has a preference for nodal pricing. REA will be discussing it with a range of stakeholders.

Storelectric - privatisation with short-term contracts, salami slicing of contracts, has been harmful. Large scale infrastructure investment only will replace hydrocarbons. Transmission market must be large, long-duration, national.

Mark Sommerfeld – this raises questions about design at distribution and transmission level and helpful to have that.

Good Energy – relationship between wholesale market reform and network charging reform important to consider when assessing winners and losers of reform. Consequences of nodal market would look very different against the backdrop of current DSUoS arrangements, vs a more geographically granular approach.

Capacity Adequacy

Mark Sommerfeld - in the past:

- REA has called for strong strategic guidance to deal with capacity constraints.
- FSO needs to be delivered quickly to give strategic impetus to DNOs.
- Reforms to Queue Management required.
- Reforms to Capacity Market required to prioritise low carbon.

Storelectric - the grid cost challenge is not about capacity adequacy it is about balancing and inertia services, which is ignored by the consultation. Imports through interconnectors should be excluded from Capacity Adequacy.

Infinis – evidence is poor. TNUoS has been negative in the SW for decades almost no new transmission-connected generation built in the region.

Future Earth Energy - big issue on Capacity Adequacy is around investment at transmission and distribution levels. It links to the nodal issue. Concerned that it might bypass the need for investment.

BSR – CM doesn't have much impact on renewables due to de-rating. Has no impact on transition to low carbon, not in line with goals.

Drax – looking at Capacity Adequacy in isolation may not deliver enduring benefits - because nature of demand is changing with decarbonisation of H&T. Flexibility on the demand side needs to be considered.

Drax & Storelectric – scale of intermittent generation must be matched with scale of flexibility.

Low carbon investment

- Expecting govt to explore reform existing mechanisms.
- REA likely to be calling for requirements for public sector to contract only low carbon power.
- Strategic support for new tech and long-duration storage.
- Markets and allocation rounds – 6 month rolling CfDs, to create certainty and transparency.
- Considering what role hydrogen plays in storage.

Nina Skorupska - REMA is sitting among lots of other strands. This is what we're looking for, these important angles, so that we can pull out the relevant issues and give us the system that ensures the sector continues to grow.

Mark Sommerfeld – the core of the piece is recognising the big threats and gains.

Gridserve - in whichever market model the REA supports, we need to position renewables as the primary energy source and that the market needs to be flexible to accommodate fossil fuel generation.

Flexibility

- Need for greater data sharing between DNOs and TNOs
- Centralised transparent bidding market with established flexibility markets
- Establishing a range of flexibility contracts and lengths

- Cap and Floor mechanism for LDES

Storelectric – projects that have benefits in avoided TO investment should benefit from that avoidance, and have the SO contracts with discounts to enable it.

Operability

- Role of the FSO
- DNOs becoming DSOs
- Code review and network charging pieces

Engagement and next steps

Early-stage engagement ideas were outlined to the group, some of which could be sponsored. These could include policy documents/stakeholder briefings, or an event.

Members were supportive of the idea of policy paper/s and or an event. Members noted that the group is so diverse, and consumer value is also relevant, while others argued that conflicts of interest can be minimised.

REA actions: to review REMA documents when published, draft initial positions and initiate a programme of engagement. At least two meetings of the group likely to take place during the consultation.