

# **Review of Electricity Market Arrangements (REMA): background, update from government, and next steps**

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# 1. REMA Consultation Context & Objectives

**REMA programme objective;** *To identify and implement the reforms needed to electricity market arrangements, in order to drive the necessary investment in, and efficient operation of a secure, low carbon electricity system by 2035*



**Cost-effectiveness**



**Security of supply**



**Decarbonisation**

REMA considers options for **enduring reforms** to electricity market arrangements

## 2. Timeline so far

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- REMA announced in **British Energy Security Strategy (BESS)** in **April 2022**
- The **first REMA consultation** was published in **July 2022** and closed in **October 2022.**
- The **summary of responses** was published on 7<sup>th</sup> March 2023
- Next steps for REMA announced in “**Powering Up Britain - Energy Security Plan**” on 23<sup>rd</sup> March 2023

### 3. Case for change: future challenges

We assessed the **current market failures & issues**, and **future system challenges** out to 2035.

These challenges were grouped into **five themes**

#### Investment

Investment at unprecedented scale and pace in renewable generation, and in firm and flexible low-carbon technologies, is critical to achieving net zero while maintaining security of supply at an affordable cost to consumers

#### Flexibility

Significant amounts of flexible capacity across supply and demand is necessary to ensure we can maintain system balance, and integrate variable renewables.

#### Location & Networks

There is a need to incentivise supply and demand assets to locate and dispatch where they can minimise whole system costs

#### Operability

System operability will become more challenging as the system decarbonises and more intermittent sources of generation change the characteristics of the network

#### Managing Price Volatility

Future market arrangements need to help mitigate price volatility, providing sufficient certainty to investors and ensuring fair outcomes for consumers

# 4. Programme Scope and workstreams

## REMA Focus



**Wholesale Markets**  
(inc. balancing)



**Low carbon investment**  
(eg wind, solar, biomass, hydro)



**Capacity Adequacy**



**Flexibility**  
(eg DSR, storage, electrolysis, CCUS, H2P, interconnection)



**Operability**  
(eg ancillary services)

## Linked areas

Retail market  
UK ETS

Long-term carbon pricing  
and regulation

**Bespoke policies**  
eg large scale storage, nuclear RAB, interconnector C&F

**Enablers**  
digitalisation, licencing, network planning, price controls, system governance

Wider markets (eg gas, hydrogen)

# 5. Policy options

Wholesale market - location	National pricing		Zonal pricing		Nodal pricing		
Wholesale market - tech	Unified market			Split by characteristic			
Wholesale market – balancing	National			Local then national			
Wholesale market – price formation	Pay-as-clear			Pay-as-bid			
Wholesale market – dispatch	Self-dispatch			Central dispatch			
Mass low carbon power	Existing CfD	CfD with more price exposure	Deemed generation CfD	Supplier obligation	Revenue cap and floor	Dutch subsidy	Equiv. firm power auction
Flexibility	Optimised CM	CM with flex enhancements	Supplier obligation (inc. CPS)				
Capacity adequacy		Capacity payment	Centralised reliability option	Decentralised reliability option	Targeted tender	Strat. reserve	
Operability	BAU	BAU+	Local markets	Changes to CfD/CM design	Co-optimisation	Dedicated support scheme	

## 6. Approach to assessment and criteria



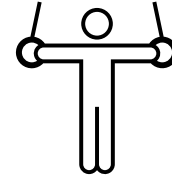
**Value for money**  
(Previously 'Least  
Cost')



Deliverability



Investor  
confidence



Whole-system  
flexibility



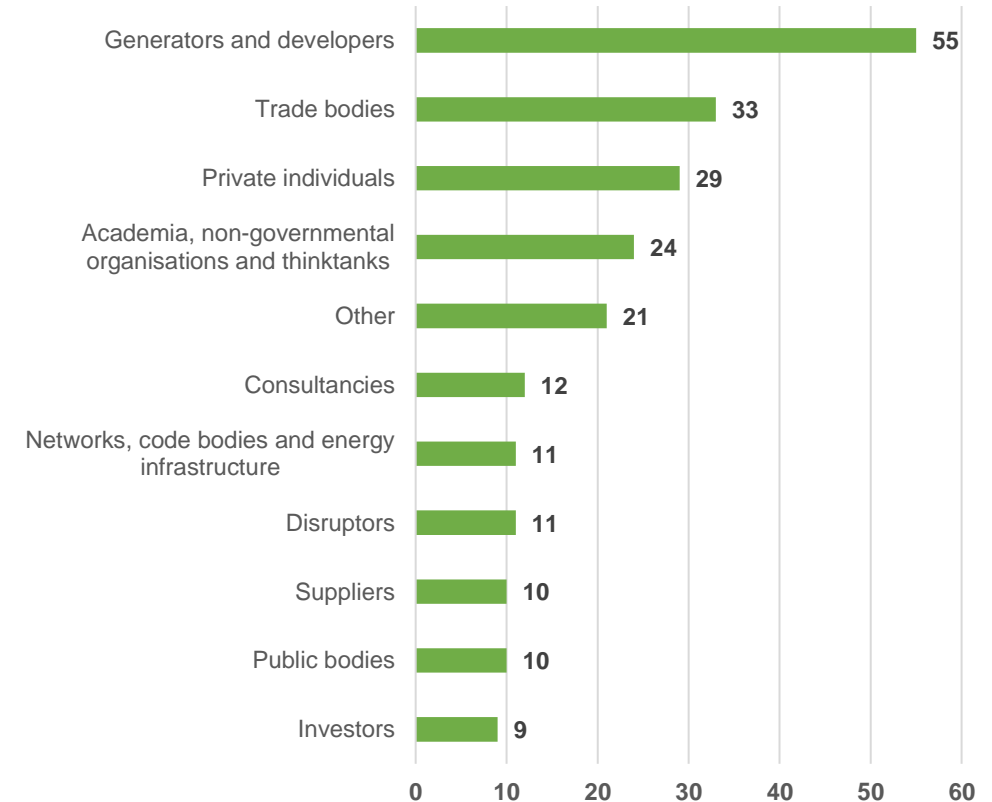
Adaptability

Crosscutting tensions:

- The role of the market
- The role of various market participants
- Technology neutrality
- Incremental vs radical change
- Sharper price signals vs consumer impacts

## 7. Feedback from the 1<sup>st</sup> consultation

- The consultation received 225 responses
- The consultation responses show that there is **broad agreement amongst stakeholders on the need for change.**
- **No clear consensus on the extent and nature of reform necessary.**
- Respondents also emphasised the need for a **holistic, system-based approach to reform**, as well as the need to **maintain investor confidence** throughout any transition to new market arrangements.





# 8. Feedback from the 1<sup>st</sup> consultation

- Some options discounted, some retained for use in conjunction with others
- Mixed views on locational pricing
- Support for reformed CfD, CM reform, revenue cap and floor

**Key**

- Supplementary
- Option ruled out
- Option still under consideration

Wholesale market - location	National pricing	Zonal pricing	Nodal pricing	Local imbalance pricing			
Wholesale market - tech	Unified market		Split by characteristic				
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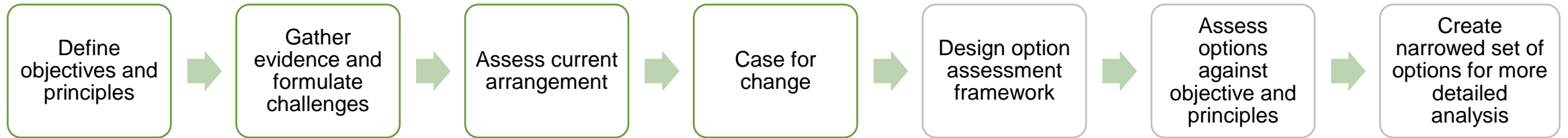
## 9. Feedback from stakeholder forums



**Stakeholder engagement:** End User Forum, Market Participant Forum, 1:1 meetings, attending conferences etc.

MPF – Main themes	EUJ – Main themes
Combination of CfDs and PPAs have decoupled prices to some extent and would decouple them further in future.	Cumulative impact of reforms on consumers would need to be considered, rather than each programme considering impacts in isolation.
Possibly a ceiling on the demand-side (i.e. gold-standard counterparties) which could ultimately limit the size of the PPA market as a result.	Recognition that a future net-zero system will need revised wholesale arrangements to ensure cost-efficient supply and promote whole-system flexibility.
A green power pool could be workable it would not improve on the status quo and could introduce additional complexity unnecessarily, particularly from an investor perspective.	REMA could deliver better incentives for demand-side flexibility and ensure that the low cost of renewables is passed on to end-users.
Split markets were too complex and disruptive a measure to deliver and that any benefits would not outweigh the risks.	REMA could help to create electricity prices that better reflect the cost of transporting energy to demand & benefit some consumers who live close to renewable energy sources

## 10. What next?



*“We aim to publish a second consultation on the Review of Electricity Market Arrangements in autumn 2023, and will take decisions on shorter-term reforms more quickly where it is viable to do so throughout the programme.*

*Our aim for the second consultation is to set out a direction of travel, next steps and support a smooth transition to any new arrangements over time. We aim to significantly narrow the options - identifying lead options where achievable, shifting the debate to focus on a handful of foundational policy areas and their interactions“*

# 11. Second Consultation- A challenge led approach

We are currently working through the options to address the below challenges.

In the second consultation, expected to be published in Autumn this year, we will ask stakeholders to provide input on the design of those options.

## Challenge 1:

- Passing through the value of a renewables-based system to consumers

## Challenge 2:

- Investing to create a renewables-based system, at pace

## Challenge 3:

- Transitioning away from an unabated gas-based system to a flexible, resilient decarbonised electricity system

## Challenge 4:

- Operating and optimising a renewable-based system, cost-effectively



# Questions

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