

TO: Robert Hewitt
Deputy Director – Electricity Market Reform
Department for Energy Security and Net Zero

3 May 2024

RESPONSE: REVIEW OF ELECTRICITY MARKET ARRANGEMENTS SECOND CONSULTATION

Dear Robert,

This letter is sent in submission to the Review of electricity market arrangements (REMA): second consultation. Consumer Scotland strongly recommends that before making any decision on the final package of reforms, that the UK Government undertakes greater evaluation of the interests and protection of current and future electricity consumers, and our response focuses primarily on the potential to achieve this objective.

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020,¹ our Purpose is to improve outcomes for current and future consumers. We are independent of the Scottish Government and accountable to the Scottish Parliament. Our core funding is provided by the Scottish Government, but we also receive funding for research and advocacy activity in the electricity, gas, post, and water sectors via industry levies which are derived from consumers' bills.

Our responsibilities relate to consumer advocacy. In our 2023-2027 Strategic Plan,² we have identified three cross-cutting consumer challenges, which guide our work during this period. They are:

- Affordability
- Climate change mitigation and adaptation
- Consumers in vulnerable circumstances

Consumer Scotland welcomes the opportunity to respond to the UK Government's second consultation on the Review of Electricity Market Arrangements (REMA).³ The consultation is structured around four key challenges, while also considering the interactions between these challenges, given the need for an integrated, whole-system approach to electricity market design. These challenges are:

- Passing through the value of a renewables-based system to consumers
- Investing to create a renewables-based system at pace
- Transitioning away from an unabated gas-based system to a flexible, resilient, decarbonised electricity system
- Operating and optimising a renewables-based system, cost-effectively

Consumer Scotland strongly supports the objectives of REMA, which seeks to strengthen electricity security of supply and support the delivery of Net Zero while helping keep energy bills down for consumers in the long-term. We welcome the debate that the REMA process has instigated and the progress that has been made by the UK Government since the first REMA consultation on a wider range of options was published in July 2022.⁴ We take assurance from the supporting research papers⁵ and options assessment⁶ that have been published alongside the consultation document, and welcome the broader move to set out a direction of travel for how electricity market arrangements in Great Britain will need to evolve in future.

Consumer Scotland was vested in April 2022 and was unable to respond to the first REMA consultation. However, we have welcomed the opportunity to engage with the development of the REMA proposals through participation in the UK Government's REMA End User Forum and End User Challenge Panel, and through engagement with industry and Scottish Government stakeholders.

Acknowledging the technical complexity of many of the issues covered, our response to this consultation is intended to provide context and recommendations on the frameworks and principles necessary for the evaluation of the interests and protection of current and future electricity consumers. We do not focus at this stage on the technical detail of the proposals outlined in each challenge. We intend however to continue to engage with the UK Government's proposals for electricity market reform as they continue to develop and impacts are evaluated, in line with our available resources and capacity.

Clearer integration of the consumer interest

In a market as fundamental to the success of the economy and the wellbeing of citizens as the electricity market in Great Britain, the importance of safeguards to maximise benefits and mitigate risks for consumer interests must be integral to any package of reforms. The suite of potential electricity market reforms currently under consideration by the UK Government is complex and technical. As such we consider that the UK Government should

broaden and deepen consumer engagement in the process. We recommend this is achieved by:

- Reviewing policy options against a set of consumer principles, to provide a framework to enable the development of more consumer-focused policy and practice, and ultimately the delivery of better consumer outcomes.⁷
- Setting out a clear articulation of intended consumer outcomes,⁸ including a distributional analysis of the socio-economic impact of any reforms which goes beyond average annual bill changes at typical consumption and draws out more granular detail on projected intra-day, inter-day, and inter-seasonal variability, when tested against a range of different consumer archetypes.^{9,10}
- Facilitating a more technically literate engagement with the process of market reform, including its interdependencies and throughout its implementation, to enable consumers and consumer representatives to engage with its implications. This should include engaging consumers in the strategic choices for the future of the energy system and the principles that should underpin their operation and regulation.

Alignment with retail market reform

The design, implementation, and ultimate value that any package of electricity market reforms delivers is expected to have substantial implications for consumers' future energy costs and the shape of the retail market they interact with. Given this onward dependency and the ultimate impact on consumers, it is vital that electricity market reform is not considered in isolation from the UK Government's concomitant programme of retail market reform, to ensure that costs are fairly passed through to consumers and that any restructuring delivers just outcomes.

Consumer Scotland welcomes the UK Government's acknowledgement that these workstreams are interdependent. However, we are yet to see the detail of how these interdependencies will be managed in a way that ensures good consumer outcomes are not just achievable, but achieved. This is a growing concern given that the REMA programme has now been ongoing for around two years, and the current consultation suggests that it will be the last such overarching engagement with the sector before final decisions are made. An outcomes framework, developed in partnership with market participants and end users, could help the UK Government communicate its intentions for electricity market reform more clearly, and improve the overall transparency of and engagement with both the REMA and retail market reform programmes. It could also be used as the basis on which the UK

Government and its stakeholders monitor and evaluate the effectiveness of any reforms pursued.

To enable a sufficient evaluation of REMA's consumer outcomes, we recommend that:

- The UK Government clearly articulates the intended interaction with future retail market design and develops an outcomes framework, in partnership with market participants and end users.
- Consideration is given to how consumers can be engaged directly in understanding the interaction between electricity market reform and retail market design, and have the opportunity to input appropriately to these processes and the choices or trade-offs involved.

Regardless of the outcome of the REMA process, electricity is an essential to life service and as such will require appropriate and well-designed supporting policy to ensure it becomes affordable to all. This is likely to include effective price protections and appropriate default tariff design. We would also encourage the UK Government to consider how more innovative safeguards such as the targeted provision of energy smart appliances could help to ensure fair consumer outcomes.

Avoiding unintended consequences

It will be imperative for the UK Government to engage with the potential for any unintended consequences that could arise from electricity market reform, and remain agile enough to act in mitigation where such adverse consequences arise. Given the long lead-in times to deliver any package of reform and realise cost savings on consumer bills, it is important that the UK Government and the electricity sector continues to do all it can to mitigate the increasing cost of constraints in the intervening period in parallel to the implementation of the REMA proposals.

Whilst we are not commenting on the substantive detail of each challenge, we note for example that the introduction of a 'deemed' Contract for Difference (CfD) has not been fully articulated but holds potential for generators to be double-rewarded, in periods where they are curtailed from exporting some or all of their available output to the grid due to constraints, but are otherwise able to generate revenues from that power behind-the-meter – effectively, by selling 'excess' power to storage, electrolysis, or other local demand. To date, as far as we are aware, there has been no analysis done to quantify that potential transfer of value between consumers and producers.

The suitability of the deemed CfD approach is likely to depend on the impact it has on strike prices. It is therefore important that the UK Government undertakes analysis of the impact on bidding behaviour in CfD auctions and the resulting clearing prices. This should also consider the level of competitive pressure that might be expected in future auctions given the balance between capacity in the development pipeline and the capacity needed over the coming decade to deliver on decarbonisation targets.

With many renewable energy generation technologies now at or approaching technical maturity, it will also become increasingly important for the UK Government to ensure that incentives to ‘repower’ existing sites are appropriately set, to support the ongoing efficient use of valuable electricity network capacity and minimise the cost of consumer subsidy. Incorrectly set incentives, including through wholesale market price signals, could lead to sites being abandoned or repowered prematurely at a net cost to consumers, and/or result in excess profits for generators – for example, if wholesale market reform results in investors perceiving volume and pricing risk at the ‘merchant tail’ to be too great.

Realising the value of reform throughout Great Britain

Electricity markets have the potential to support a just transition to Net Zero by facilitating a series of societal benefits including jobs, strong local economies, and a contribution to community wealth building. However, realising these benefits – and unlocking the potential value for society and consumers as end users – will require effective co-ordination within government, agencies, and institutions, if the opportunities of market reform are to be maximised and unacceptable risks effectively mitigated. For example, market reform may provide opportunities to deliver on the UK Government’s ‘Levelling Up’ agenda.¹¹

Preconceptions of what it means to protect consumers in vulnerable circumstances may also need to be challenged, as many actions that could be taken to prevent harm to consumers may also prevent safe, meaningful, and consenting engagement which supports the delivery of positive consumer outcomes. Such interventions could act against the consumer interest if they limit participation unnecessarily as they would increase costs and delay climate action. Experience has taught that it is unlikely that equitable consumer outcomes can be delivered by the market alone – supporting policy to enable the widest possible participation will also be key.

Co-ordination between the UK government, agencies, and institutions, and those devolved to the Scottish Government, Welsh Assembly, and local government, will also be important to the success of the REMA programme. For example, Scotland has a significant contribution to make to UK government’s target of a fully decarbonised electricity system in Great Britain

by 2035 (subject to security of supply),¹² and delivering against the UK's Sixth Carbon Budget.¹³

In turn, and as set out by Scottish Futures Trust, the successful implementation of market reform will be critical to delivering Scotland's ambitions to decarbonise its energy system, deliver Net Zero by 2045, and ensure a strong and thriving renewables industry:

*"Delivering success means Scottish and UK governments working closely together to ensure decisions taken within both jurisdictions support each other. This will include processes such as planning and consenting of new generation and network capacity, seabed leasing, transmission network planning and policies related to the electrification of new parts of the energy system. Coordination needs to go beyond governments to include devolved and reserved agencies, for example Ofgem and the Future System Operator. The principle of coordination also applies within government at both UK and Scottish level. For example, ensuring affordability means aligning measures taken across a wide range of energy and social policy domains."*¹⁴

We are concerned that REMA does not appear to consider wider societal benefits in its assessment criteria. The five assessment criteria include considerations of value for money and whole system flexibility, both of which have the potential to include impacts on social wellbeing, local and national economic development and jobs. However, the description of these criteria suggest that they will focus purely on the costs and benefits within the electricity system itself.

The ambition and vision for a just transition to a net zero energy system in Scotland is set out in the Scottish Government's draft Energy Strategy and Just Transition Plan.¹⁵

All levels and branches of government in Great Britain must consider what supporting policy and actions may be required to realise the value of electricity market reform, including but not limited to the implications for:

- skills and the supply chain, including second order impacts on housing and communities
- gas network reprofiling, to enable the cost efficient decarbonisation of heat while supporting hydrogen export and indigenous use where appropriate
- industrial strategy and inward investment
- community and locally owned energy, including through the introduction of smart local energy systems

- delivery of wider local and regional energy ambitions, such as those articulated by Local Authorities through Local Heat and Energy Efficiency Strategies (LHEES) in Scotland
- fuel poverty programmes, particularly in respect of the role of embedded flexibility as a means of alleviating intra-day price volatility
- climate change adaptation and community resilience

We look forward to engaging with you as thinking develops and would be happy to discuss any aspect of our response further upon request.

Yours sincerely,



Kate Morrison
Head of Energy
Consumer Scotland

¹ [Consumer Scotland Act 2020](#)

² Consumer Scotland (2023) [Strategic Plan 2023-2027](#)

³ UK Government (2024) [Review of electricity market arrangements \(REMA\): second consultation](#)

⁴ UK Government (2022) [Review of electricity market arrangements](#)

⁵ UK Government (2024) [Review of Electricity Market Arrangements \(REMA\): technical research supporting consultation](#)

⁶ UK Government (2024) [Review of Electricity Market Arrangements: Options Assessment](#)

⁷ The consumer principles used by Consumer Scotland are summarised in an annex to this response

⁸ Scottish Futures Trust (2023) [Review of Electricity Market Arrangements: A Vision for Scotland](#)

⁹ For example: ClimateXChange (2020) [Domestic energy consumer archetypes: segmentation profiles](#)

¹⁰ For example: Ofgem (2024) [Ofgem energy consumer archetypes update 2024](#)

¹¹ UK Government (2022) [Levelling Up the United Kingdom](#)

¹² UK Government (2021) [Net Zero Strategy](#)

¹³ Climate Change Committee (2020) [Sixth Carbon Budget](#)

¹⁴ Scottish Futures Trust (2023) [Review of Electricity Market Arrangements: A Vision for Scotland](#)

¹⁵ Scottish Government (2023) [Draft Energy Strategy and Just Transition Plan](#)