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The Rt. Hon. Jacob Rees-Mogg MP
Secretary of State for Business, Energy and
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Department for Business, Energy and Industrial
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10 October 2022

Response to BEIS Review of Electricity Market Arrangements

Dear Jacob,

The Scottish Government is clear that harnessing our abundant low carbon and low cost renewable resources and using our electricity system as a route to decarbonise heat and transport is not only our most likely pathway to net-zero, it presents a credible route away from today's high cost energy landscape towards a more just and fair system that better serves society.

Achieving these shared ambitions will rely on well-functioning markets and there can be no clearer signal that the electricity market is broken, than the situation faced by consumers today who are facing crippling high energy prices.

This letter comes just weeks after household energy bills have increased a further 27% for the average dual fuel customer. With the price cap frozen at £2,500, we estimate that there will be around 860,000 (35%) fuel poor households in Scotland, of which 600,000 (24%) will be in extreme fuel poverty, from October 2022. At the same time, the Electricity System Operator is preparing to respond to one of the most challenging winters that our country has faced for maintaining security of supply.

While we are all part of a single GB electricity system, the powers in respect to that system are reserved to the UK Government. However, taking forward a review of this system in isolation would be harmful for our shared economic and social ambitions. That is why we are writing to set out our significant concerns with the lack of engagement with devolved administrations as part of the REMA consultation process.

The electricity system exists to serve consumers, communities and industries that sit across legislative boundaries, and are reliant on devolved policy to inform their investment decisions. For example, the Scottish Government plans to legislate for

building owners to meet energy efficiency standards and to install zero emissions heating (ZEH) systems at specified ‘trigger points’ (such as when a building is sold or when a heating system requires replacement).

At the same time, investment in energy infrastructure is reliant on planning and consenting decisions that are taken by Ministers in devolved governments. Ofgem’s recent consultation on ‘Accelerating onshore transmission investment’ underlines this point and has called for improvements to the consenting framework to support timely delivery of network infrastructure and avoid unnecessary costs to consumers.

Overall, we are in agreement that the market must change. However, if we are to fix it, we must listen and learn from our shared experience. Unfortunately, the lack of engagement with devolved administration Officials and the failure to include devolved administrations at BEIS-led stakeholder events does not suggest a fully considered and informed review.

We are particularly concerned with the way that REMA has considered impacts on consumers. For example, in considering the opportunities around locational pricing models (such as zonal and nodal pricing) there is a presumption that consumers may stand to benefit from lower costs of electricity in areas with high volumes of generation and lower volumes of demand. However, this would rely on suppliers passing on these cost reductions. At the same time, there is a risk that consumers that are unable to respond to price signals could be placed at greater risk as a result of these changes.

Greater transparency on these risks is needed, and it is vital that those who will be faced with them are engaged in this debate.

The timing of any package of reform could have a significant impact on investor confidence. Any change must be delivered in a way that supports long lead time investments that rely on global supply chains, such as offshore and onshore wind. These investors require market stability and a high degree of confidence in government policy often over 5 – 10 year timescales.

For example, over the coming years, many existing onshore wind sites will no longer be accredited under the ROC mechanism. Many of these developers are already considering opportunities to repower. However, onshore wind is a global market and keeping these investors in GB will require significant confidence in both the GB market structure and support mechanisms

Initial analysis of the remaining capacity still receiving ROCs shows that the available capacity will fall by almost 40% to 2030 and more than 70% to 2035.

RO Capacity (GW)	Current	2025	2030	2035	2040
Capacity Lost from Current		1.5	3.5	6.8	9.2
Expected Remaining RO Capacity	9.2	7.7	5.6	2.4	-

Finally, a reformed electricity market should provide greater transparency of the relative costs and benefits for all forms of generation and flexibility. However, this must

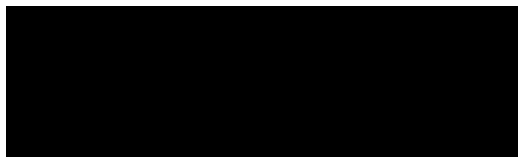
not be allowed to further delay vital energy infrastructure such as pumped storage hydro which is held back by the current market structure despite its clear tangible benefits for security of supply.

The Scottish Government is also firmly of the view that investment mechanisms for large scale nuclear should be within the scope of REMA.

The Scottish Government has well established links with consumer advocacy groups, local authorities and industry fora. These groups can, if properly engaged, provide valuable feedback and balance to the range of views that will be represented in the REMA process and we would be happy to work with you to bring our collective experience to bear as policy development gets underway.

I would welcome the opportunity to discuss the points raised in this letter with you at your earliest convenience and to establish a suitable framework of governance to ensure devolved administration are able to engage with and inform this important review.

Yours sincerely,

A solid black rectangular box used to redact the signature of Michael Matheson.

MICHAEL MATHESON