

Document 1: Draft Wholesale Electricity Markets Core Brief

[not in scope]

Top Lines

- We believe that the current wholesale electricity market is not fit for the delivery of our net zero ambitions, nor our aims to tackle fuel poverty.
- Electricity market reform provides us with an opportunity to take a whole systems view of our future electricity market and consider how it can be reformed to support further renewable deployment, ensure security of supply and reduce costs for consumers.
- Any reforms should adhere to two core principles of achieving net zero and ensuring a fair and just transition. Reforms should also help to reduce system costs, break the link to volatile fossil fuel prices, and remove barriers to decarbonisation and growth of our clean heat, transport and industry sectors.
- Reforms must also ensure that system efficiencies and the low generating costs of renewables are passed through to consumers in the form of lower costs and that they consider those most vulnerable, including those in or at risk of fuel poverty.
- Crucially, this must be balanced with the vital need to ensure that levels of investment in renewables, flexibility and networks are protected and enhanced, so we maximise the economic opportunities afforded by the net zero energy transition.
- We are aware that the introduction of zonal pricing could have significant impacts for all market participants, from renewable generators and hydrogen producers to suppliers and consumers.
- That is why we commissioned independent research to inform our position on Locational Marginal Pricing. The study benefited from wide engagement across industry, including Scottish Renewables who joined our expert panel. This research was published on 12 August 2024.
- We welcome the constructive engagement we have had with Ofgem, NG ESO, UK Government and industry on REMA. We look forward to continuing to work constructively with the new UK Government on electricity market reform.
- We believe the UK Government must urgently provide a public signal on the timetable and direction of travel for key reforms; this is crucial to maintaining investor confidence. We are also seeking clarity on how REMA intersects with the Government's Clean power 2030 ambition and the Strategic Spatial Energy Plan.
- Our position on electricity market reform will be covered in our Energy Strategy and Just Transition Plan and it will play a key role in achieving many of priorities set out within the Strategy.

[not in scope]

UK Government Asks

- Provide urgent clarity on the UKG’s preferred approach to electricity market reform, including more detailed options for a national or zonal market design. Clarity on any further engagement and consultation is also necessary.
- [not in scope]
- [not in scope]

Annex A

Background

[not in scope]

REMA Background and Timeline

- REMA was initiated by the previous UKG’s programme to consider reforms to the current GB market. Its aims were to drive the decarbonisation of the power system by 2035, in a way that supports affordability and security of supply.
- The first REMA consultation in 2022 presented a broad set of reform options to deliver: investment in mass low carbon power; greater low carbon flexibility; system operability and security of supply; and a net zero wholesale market.
- Scottish Government responded to the first REMA consultation in October 2022.
- UKG published a summary of consultation responses in March 2023. Respondents were broadly supportive of incremental changes but opinions were divided on transformative changes such as the role of locational marginal pricing (LMP).
- The second REMA consultation was published on 12 March 2024 after originally being planned for autumn 2023. Former Minister for Climate Action, Ms Martin, provided a response on 03 May 2024.
- The response set out the Scottish Government’s overarching priorities for market reform, as well as responses to specific proposals across of range of areas including CfD reform, the capacity market and low-carbon flexibility.
- It also set out a balanced position on locational marginal pricing (LMP) with three conditions that we believe need to be in place before LMP could be considered for implementation: i) a clear path for continued renewables support in Scotland; ii) clear evidence that LMP would not come at a cost to consumers; and iii) a clear timetable for delivery.
- [redacted]

Locational Marginal Pricing (LMP) Background

- LMP would redesign the wholesale electricity market so that prices are set based on supply and demand in a particular node or region.
- In principle, LMP could increase costs for those investing in renewables in Scotland whilst lowering electricity costs for Scotland’s consumers. Modelling

undertaken for Ofgem suggests that LMP could deliver a potential saving of £50bn for GB consumers over the period 2025-2040. However, there are disputed assumptions in this work.

- The renewables industry – including SSE and Scottish Renewables – has expressed strong opposition to LMP calling for a reformed national market to be prioritised.
- Generators and investors believe that it could lead to an investment hiatus by increasing risk and capital costs, and reducing revenues. Generators and investors see twin risks, in the form of price risk and volume risk.
- However, Ofgem and National Grid Electricity System Operator believe that LMP can inform investment and operational decisions to tackle network congestion and minimise costs to consumers.
- Some modelling suggests that, given high levels of generation in Scotland, LMP could lead to Scottish consumers experiencing the lowest wholesale electricity prices in Europe, with associated benefits for the decarbonisation of industry, heat and transport.
- Whether these theoretical costs and benefits play out in practice depends on policy design choices by UKG, when LMP would be implemented, and supporting investment policy such as Contracts for Difference.
- In its Energy Security Strategy, UK Government stated its ambition to deliver wholesale electricity prices that rank among the cheapest in Europe by 2035, and that it would consult by end of 23/24 on how to rebalance the price of gas and electricity. We are still awaiting details of the UK Government's proposals to rebalance gas and electricity prices.
- UK Government states that rebalancing will generate the short-term price signal necessary to shift households and businesses to lower-carbon, more energy efficient technologies like heat pumps. This is vital to meet Government's existing decarbonisation commitments, including our ambitions for heat pumps and heat networks.

Stakeholder engagement and views

- The renewables industry in Scotland, including Scottish Renewables, SSE and others, have been vocal in their rejection of LMP. They are concerned reduced wholesale prices and the loss of firm access rights (i.e. guaranteed access to the market regardless of capacity) would make Scotland an unattractive place to locate renewables. Some have indicated that investment and development would be taken elsewhere. They also suggest that any potential consumer and system benefit is likely to be negated by resulting increases to the cost of capital, caused by uncertainty about future prices and arrangements.
- Some stakeholders are also concerned that market reform this significant is likely to be too disruptive as we seek to increase our renewable capacity and transition to net zero. The uncertainty may cause an investment hiatus and risk Scotland, and the UK, failing to meet net zero targets.
- They therefore favour a more incremental approach to market reform with CfD, TNUoS and balancing mechanism reform introduced within a national market, rather than changes to the overall structure of the market.
- Scottish Renewables wrote to CXC and Scottish Government twice in relation to the report ERM Consultants were writing on the potential impact of LMP on SG ambitions. These two letters summarise the position of the renewables industry:

- [redacted]
- However, Ofgem, National Grid ESO, Octopus and other stakeholders have all been supportive of a move to LMP. They believe that LMP will drive investment and operational decisions that will help tackle network congestion and minimise costs to consumers. NG ESO and Octopus have stated that LMP is necessary to the future functioning of a net zero electricity system.
- Regardless of the direction taken on LMP, stakeholders agree that increased network build alongside strategic system planning (e.g. SSEP) is essential for UK to meet net zero targets.

[not in scope]

Annex B

- [not in scope]

Annex C

- [not in scope]

Document 2: Email exchange with Deputy Director regarding review of draft PQ

From: [redacted]@gov.scot>
Sent: 21 October 2024 10:00
To: Christopher Mackie <Christopher.Mackie@gov.scot>
Cc: [redacted]@gov.scot>; [redacted]@gov.scot>
Subject: RE: For review: PQ S6W-30516

Hi Chris,

Thanks for taking the time to review.

We'll get that amended and sent.

Thanks,
[redacted]

[redacted]
Energy Policy Officer
Energy Strategy and Markets Unit
Directorate of Energy and Climate Change | Scottish Government
[redacted]



From: Christopher Mackie <Christopher.Mackie@gov.scot>
Sent: Monday, October 21, 2024 9:47 AM
To: [redacted]@gov.scot>
Cc: [redacted]@gov.scot>; [redacted]@gov.scot>
Subject: RE: For review: PQ S6W-30516

Hi [redacted]

Can we amend the answer to the following:

The Scottish Government is aware that the introduction of zonal pricing could have a significant impact on all market participants, including industry, communities and consumers. It is therefore important that any such proposal is considered in the round in wider electricity market reform, which considers how we can establish an energy system that ultimately delivers investment, energy security and translates the lower costs of renewables through to consumers.

The Scottish Government welcomes the constructive engagement we have had with Ofgem, NG ESO, the UK Government and industry on the reform of electricity markets, however, it is crucial that the UK Government urgently provides clarity on the timetable and direction of travel on this key piece of work.

Thanks,

Chris

Chris Mackie
Deputy Director for Onshore Electricity Policy & Energy Consenting
T: 0131 244 2557 | M: 07443 692 212



From: [redacted]@gov.scot>
Sent: Friday, October 18, 2024 11:04 AM
To: Christopher Mackie <Christopher.Mackie@gov.scot>
Cc: [redacted]@gov.scot>; [redacted]@gov.scot>
Subject: For review: PQ S6W-30516

Hi Chris,

Please see the attached PQ for review.

As the deadline is 23 October, can you please let us know if you would like any changes to be made by 14.00 on 22 October.

Let me know if you have any questions.

Thanks,
[redacted]

[redacted]
Energy Policy Officer
Energy Strategy and Markets Unit
Directorate of Energy and Climate Change | Scottish Government
[redacted]



Document 3: Attachment - PQ S6W-30516 Drafting Document

PQ S6W-30516

Question: To ask the Scottish Government, regarding any impact on its energy policy and strategy, what its position is on the reported calls on the UK Government by Scottish Renewables and other trade bodies to rule out zonal pricing under the Review of Electricity Market Arrangements (REMA), and to instead commit to a Reformed National Market (RNM) programme.

Answer:

The Scottish Government is aware that the introduction of zonal pricing could have a significant impact on all market participants, including industry, communities and consumers. It is therefore important that any such proposal is considered in the round in wider electricity market reform, which considers how we can establish an energy system that ultimately delivers investment, energy security and translates the lower costs of renewables through to consumers.

The Scottish Government welcomes the constructive engagement we have had with Ofgem, NG ESO, the UK Government and industry on the reform of electricity markets, however, it is crucial that the UK Government urgently provides clarity on the timetable and direction of travel on this key piece of work.

Background Note

- Paul Sweeney – Scottish Labour Party
- MSP for Glasgow (Region) 2021 – Present
- Substitute Member of Citizen Participation and Public Petitions Committee and Deputy Convener of Health, Social Care and Sport Committee
- Member of 18 cross-party groups
- Acts as Deputy Party Spokesperson on Mental Health and Deputy Party Spokesperson on Veterans

Industry Letter to Ed Miliband

- In a letter sent to Ed Miliband on 7 October, trade groups (such as UK Steel, Make UK, RenewableUK and Scottish Renewables) have expressed concerns about zonal pricing.
- Concerns have been raised that zonal pricing plans would undermine investment, thereby raising the costs of achieving the UK's clean energy targets.

REMA Background and Timeline

- Through REMA, UKG is considering what reforms are needed to ensure the wholesale electricity market can deliver a decarbonised electricity system by 2035, in a way that supports affordability and security of supply.
- The first REMA consultation in 2022 presented a broad set of reform options to deliver: investment in mass low carbon power; greater low carbon flexibility; system operability and security of supply; and a net zero wholesale market.
- Scottish Government responded to the first REMA consultation in October 2022.
- UKG published a summary of consultation responses in March 2023. Respondents were broadly supportive of incremental changes but opinions were divided on transformative changes such as the role of locational marginal pricing (LMP).
- The second REMA consultation was published on 12 March 2024 after originally being planned for autumn 2023. Scottish Government response was issued on 03 May 2024.
- The UK Government expect to publish a response to the consultation this summer. Following that, more detailed consultation and policy development will begin, with policy implementation expected from 2025.
- However, it is unlikely that UKG will take any significant decisions on locational pricing until after the general election. This creates uncertainty for all market participants and particularly those investing in renewables across Scotland and GB.

REMA Top Lines

- We believe that the current wholesale electricity market is not fit for the delivery of our net zero ambitions, nor our aims to tackle fuel poverty.
- REMA provides us with an opportunity to take a whole systems view of our future electricity market and consider how it can be reformed to support further renewable deployment, ensure security of supply and reduce costs for consumers. We are clear that any reforms must adhere to our two core principles of achieving net zero and ensuring a fair and just transition.
- Reforms must find ways to reduce system costs, break the link to volatile fossil fuel prices, and remove barriers to decarbonisation and growth of our clean heat, transport and industry sectors.
- Reforms must also ensure that system efficiencies and the low generating costs of renewables are passed through to consumers in the form of lower bills and that they consider those most vulnerable, including those in or at risk of fuel poverty.
- Crucially, this must be balanced with the vital need to ensure that levels of investment in renewables, flexibility and networks are protected and enhanced, so we maximise the economic opportunities afforded by the net zero energy transition.
- We are aware that the introduction of zonal pricing could have significant impacts for all market participants, from renewable generators and hydrogen producers to suppliers and consumers.
- That is why we have commissioned independent research to inform our position on Locational Marginal Pricing. The study has benefited from wide engagement across industry, including Scottish Renewables who joined our expert panel. We expect this research to be published in the coming months.
- We welcome the constructive engagement we have had with Ofgem, NG ESO, UK Government and industry on REMA, and look forward to the next phases of REMA including publication of the UK Government consultation response this summer and policy development thereafter.
- Our position on electricity market reform, including Locational Marginal Pricing, will be covered in our Energy Strategy and Just Transition Plan.

Locational Marginal Pricing (LMP)

- LMP would redesign the wholesale electricity market so that prices are set based on supply and demand in a particular node or region.
- In principle, LMP could increase costs for those investing in renewables in Scotland whilst lowering electricity costs for Scotland's consumers. Modelling undertaken for Ofgem suggests that LMP could deliver a potential saving of £50bn for GB consumers over the period 2025-2040. However, industry dispute some of the assumptions made in this analysis
- The renewables industry – including SSE and Scottish Renewables – has expressed strong opposition to LMP calling for a reformed national market to be prioritised.
- Generators and investors believe that it could lead to an investment hiatus by increasing risk and capital costs, and reducing revenues.

- However, Ofgem and National Grid Electricity System Operator believe that LMP can inform investment and operational decisions to tackle network congestion and minimise costs to consumers.
- Some modelling suggests that, given high levels of generation in Scotland, LMP could lead to Scottish consumers experiencing the lowest wholesale electricity prices in Europe, with associated benefits for the decarbonisation of industry, heat and transport.
- Whether these theoretical costs and benefits play out in practice depends on policy design choices by UKG, when LMP would be implemented, and supporting investment policy such as Contracts for Difference.
- In its Energy Security Strategy, UK Government stated its ambition to deliver wholesale electricity prices that rank among the cheapest in Europe by 2035, and that it would consult by end of 23/24 on how to rebalance the price of gas and electricity. We are still awaiting details of the UK Government's proposals to rebalance gas and electricity prices.
- UK Government states that rebalancing will generate the short-term price signal necessary to shift households and businesses to lower-carbon, more energy efficient technologies like heat pumps. This is vital to meet Government's existing decarbonisation commitments, including our ambitions for heat pumps and heat networks.

Document 4: Email exchange discussing the drafting of PQ

From: [redacted]@gov.scot>
Sent: 18 October 2024 10:42
To: [redacted]@gov.scot>
Cc: [redacted]@gov.scot>
Subject: RE: [redacted] shared "PQ S6W-30516" with you

Thanks [redacted] – great PQ – one or two tiny tweaks in tracks, otherwise happy to go to Chris /flagging it to Karis for Monday

[redacted]

From: [redacted]@gov.scot>
Sent: 18 October 2024 09:09
To: [redacted]@gov.scot>
Subject: [redacted] shared "PQ S6W-30516" with you




[redacted] **invited you to edit a file**

Here's the document that [redacted] shared with you.



PQ S6W-30516

 This invite will only work for you and people with existing access.

Open

Share



This email is generated through SCOTS Connect's use of Microsoft 365 and may contain content that is controlled by SCOTS Connect.

Document 5: Email exchange regarding assignment and drafting of PQ

From: [redacted]@gov.scot>
Sent: 11 October 2024 09:54
To: [redacted]@gov.scot>
Cc: [redacted]@gov.scot>
Subject: FW: PQ Reference: S6W-30516

Hi [redacted]

If you could please take a first run at the below PQ that would be really helpful. If you could draft it in line with the example attached (i.e. in terms of structure etc.). Some of the top lines from the core brief will form the answer and I've attached the updated version I've been working on.

The answer should cover the following points:

- Set out our balanced view on REMA and LMP i.e. the need for it to help reduce consumer costs but also protect renewables investment. I would try to just use some of the top lines for this.
- Acknowledge the concerns set out by industry in their letter to DESNZ. You can say that we have engaged continuously with industry stakeholders (including SR who are a signatory of the letter) and are listening closely to their concerns).

- Highlight that what we are calling for / what we need is clarity from UKG on the next steps and direction of travel for market reforms and in particular zonal pricing. There is a top line in the core brief which should you can tailor for this purpose.
- Include a line which highlights our continuing engagement with UKG.

In terms of a background note, on top of the usual MSP back ground, I think a small section covering the letter sent by industry (e.g. what it says, who sent it etc.) would be good. And then just some background from the core brief on REMA and LMP.

Thank you!
[redacted]

From: s0678a@gov.scot <s0678a@gov.scot>
Sent: Thursday, October 10, 2024 9:48 AM
To: [redacted]@gov.scot>
Subject: PQ Reference: S6W-30516

A PQ, reference S6W-30516 has been allocated to you as lead action officer. This PQ may be reached by clicking on the link below.

Your PQ Tracker Home Page is at:-
[redacted]

- MSP: Paul Sweeney
- Due at MPO: 23/10/2024
- Question Text: To ask the Scottish Government, regarding any impact on its energy policy and strategy, what its position is on the reported calls on the UK Government by Scottish Renewables and other trade bodies to rule out zonal pricing under the Review of Electricity Market Arrangements (REMA), and to instead commit to a Reformed National Market (RNM) programme.

Allocation notes: Please find attached the PQ due 23/10/2024 On receipt of this message, can you please ensure The Private Office and Minister drop down fields are complete. The answer must be cleared by your C band or DD before being sent to PO Please be aware when answering a PQ, you should send the answer to PO using the "Private Office for approval" option. If the PQ is not for you it is important you let us know asap so we can re-allocate. I have copied in your Line manager for awareness and would appreciate their support in ensuring this happens. **Please note that the FMQ/PQ Team do NOT receive any notification if a PQ is rejected on the tracker. If you have a PQ requiring reallocation, you MUST email [redacted] to advise and request this.**

The user guidance for the PQ Tracker system may be found here:-
[redacted]

Document 6: Separate PQ Attachment to email - PQ SW6-27501 (30 May 2024)

PQ S6W-27501

Question: To ask the Scottish Government, regarding the potential impact on its energy policy in Scotland, what its position is on the proposed introduction of locational marginal pricing for the GB wholesale electricity market, and whether it

plans to respond to the UK Government's consultation on the review of electricity market arrangements.

Answer:

The UK Government's Review of Electricity Market Arrangements (REMA) provides an opportunity to take a whole systems view of our future electricity market and consider how it can be reformed to support further renewable deployment, ensure security of supply and reduce costs for consumers. We are clear that any reforms should support a fair and just transition to net zero. We provided a response to the second REMA consultation on 3 May.

We are aware of the potential impacts, both positive and negative, that locational marginal pricing could have for market participants, and we are cognisant of concerns expressed by the renewables industry in Scotland. We are also aware of potential benefits for consumers, including those in or at risk of fuel poverty, as well as for the decarbonisation of industry, heat and transport through electrification. We continue to call on the UK Government to act quickly to provide further clarity on market reform options.

Background Note

- Alexander Burnett - Scottish Conservative and Unionist Party
- MSP for Aberdeenshire West (Constituency) 2016-Present.
- Current Chief Whip for the Scottish Conservative and Unionist Party.
- Currently does not sit on any Parliamentary Committees but has previously been a member of the Economy and Fair Work and the Environment, Climate Change and Land Reform Committees.
- Has twice previously acted as Deputy Party Spokesperson on Energy, between May 2016 and February 2020 and then more recently between August 2020 and May 2021.
- Member of 8 cross-party groups, including the cross-party group on oil & gas.
- Mr Burnett is an unpaid Director of Hill of Banchory EScO. This is a limited company providing heat energy to residential and commercial consumers and is a 100% owned subsidiary (related undertaking) of North Banchory Company Limited, which Mr Burnett is Director and Chairman of.

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were divided on transformative changes such as the role of locational marginal pricing (LMP).

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- We welcome the constructive engagement we have had with Ofgem, NG ESO, UK Government and industry on REMA, and look forward to the next phases of REMA including publication of the UK Government consultation response this summer and policy development thereafter.
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