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& Industrial Strategy

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18 July 2022

Dear Darren,

REVIEW OF ELECTRICITY MARKET ARRANGEMENTS CONSULTATION

I am writing to inform you of the Review of Electricity Market Arrangements (REMA) consultation which has been published today. The consultation is an important element of the British Energy Security Strategy and will identify the reforms needed to drive significant investment in lower cost, clean technologies such as renewables, whilst ensuring efficient operation of the electricity system, so that we transition to a secure, cost-effective and decarbonised electricity system that is less exposed to international gas markets.

Whilst the Government has announced a support package to shield consumers from the worst impacts of a volatile energy market this coming winter, long-term structural reform is needed if we are to reduce our dependence on imported fuels, and unlock the full benefits of our affordable, abundant energy resources in Great Britain, including for consumers. Bringing down the cost of energy is a key short-term priority for the Government, but we need to understand the full impact of these reforms – including any unintended consequences which might increase bills – before implementing them. This will also be an opportunity to drive innovation across the energy sector, create hundreds of thousands of well-paid, highly skilled jobs.

Context

Effective markets will be key to delivering the most efficient energy mix through the transition to a decarbonised economy, and it is critical that those markets are properly set up to best deliver secure, affordable, and clean energy. This will become even more important as we move to greater electrification of heat, transport and industry over the coming decade.

The Government has found that existing electricity market arrangements are unlikely to deliver our ambition for a decarbonised and secure electricity system by 2035, at least possible cost to consumers. This consultation explores options to deliver an enduring market framework that works for our businesses, industry, and households.

REMA Consultation Overview

This consultation discusses the challenges facing our future electricity system and explains why we think change is necessary to meet them. It sets out the objectives and

scope of the programme and our approach to reform. It then provides our initial assessment of potential reforms which are organised around core outcomes that our future power system will need to deliver:

- a net zero wholesale market;
- accelerated investment in mass low-carbon power;
- investment in flexibility technologies such as electricity storage;
- adequate capacity to meet electricity demands at all times; and
- a system that can operate stably under all conditions.

Options range from incremental changes to existing arrangements, to more fundamental reforms. The consultation does not include proposals for new policy at this point. We plan to develop these options and continue to engage with industry during 2022-2023 before delivering on our proposed reforms from the mid-2020s. We will need to consult again on specific reforms arising from the review, to test the details of our proposals with industry and to ensure that investor confidence is maintained.

I will place a copy of the Review of Electricity Market Arrangements consultation and this letter in the Libraries of the House.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kwasi Kwarteng', written in a cursive style.

RT HON KWASI KWARTENG MP
Secretary of State for Business, Energy & Industrial Strategy