Department for Business, Energy & Industrial Strategy

Review of Electricity Market Arrangements - response form

The consultation is available at: https://www.gov.uk/government/consultations/review-of-electricity-market-arrangements

The closing date for responses is 10/10/2022

Please return completed forms to: REMA@beis.gov.uk

Please be aware that we intend to publish all responses to this consultation.

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes. Please see the consultation document for further information.

If you want information, including personal data, that you provide to be treated as confidential, please explain to us below why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we shall take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

I want my response to be treated as confidential ☐

Comments: Click here to enter text.

Questions

Name: DSG Secretariat (on behalf of DSG)
Organisation Dounreay Stakeholder Group
Address: Dounreay.com, Traill House, 7 Olrig Street, Thurso, Caithness, KW14 7BJ

Email: info@dounreaystakeholdergroup.org
Our Ref: DSG(2022)C024

[Respondents should be asked to check a box from a list of options that best describes them at a respondent. This allows views to be presented by group type. A box for others should always be included and you should tailor the list]

	Respondent type
☐	Business representative organisation/trade body
☐	Central government
☐	Charity or social enterprise
☐	Individual
☐	Large business (over 250 staff)
☐	Legal representative
☐	Local government
☐	Medium business (50 to 250 staff)
☐	Micro business (up to 9 staff)
☐	Small business (10 to 49 staff)
☐	Trade union or staff association
☒	The Dounreay Stakeholder Group consists of over 20 business/community organisations that oversee and scrutinise the decommissioning activities of the Dounreay site. As the group is a diverse range of people this response represents the majority view. Those who disagree have been encouraged to submit their own response.

Chapter 1. Context, vision, and objectives for electricity market design

1. Do you agree with the vision for the electricity system we have presented?

☐ Yes ☒ No ☐ Don't know ☐ No opinion

Please expand on your response here: *The goals in terms of decarbonisation, reducing fossil fuel dependence and security of supply is correct but does not focus on meeting growing consumer needs. This approach is likely to ensure maximum return on investment for generation, storage and grid infrastructure but could provide negative outcomes for the consumer. In our area, Caithness and North Sutherland, fuel poverty is already high and therefore facilitating consumers to take greater use of supply by rewarding them through improved price signals could lead to more fuel poverty in areas such as ours. To "ensure fair outcomes" must translate to consumer needs particularly those in areas where fuel poverty is high.*

2. Do you agree with our objectives for electricity market reform (decarbonisation, security of supply, and cost-effectiveness)?

☒ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: *This needs to be balanced between minimising cost-effectiveness of the market and consumer needs. The majority of housing stock in areas such as ours is old and the investment to achieve net zero is already challenging. The Caithness & North Sutherland area produces around 12.5 times its usage in power from renewables yet electricity and power costs for local consumers are the highest in the country. This needs to be considered in a balanced way. The area most impacted by the installation of wind turbines actually benefit the least. Noting community benefit is in place but does not go any where near a balance of costs.*

Chapter 2. The case for change

3. Do you agree with the future challenges for the electricity system we have identified? Are there further challenges we should consider? Please provide evidence for additional challenges.

☐ Yes ☐ No ☐ Don't know X No opinion

Please expand on your response here: Click here to enter text.

4. Do you agree with our assessment of current market arrangements/that current market arrangements are not fit for purpose for delivering our 2035 objectives?

☒ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

Chapter 3: Our Approach

5. Are least cost, deliverability, investor confidence, whole-system flexibility and adaptability the right criteria against which to assess options?

☐ Yes ☒ No ☐ Don't know ☐ No opinion

Please expand on your response here: *This approach does not take into account regional variations. The lowest cost approach will may disadvantage certain areas or groups. Criteria should ensure that it provides some recognition that this may be the case. It is hard to imagine that using this criteria our area would benefit and has the potential to exacerbate the issue. This goes against the whole levelling up agenda.*

6. Do you agree with our organisation of the options for reform?

☐ Yes ☐ No ☐ Don't know X No opinion

Please expand on your response here: Click here to enter text.

7. What should we consider when constructing and assessing packages of options?

Please provide your response here: *Ensure it is fair across the board and that making a decision because it suits cities does not mean it will create benefits for more rural areas.*

Chapter 4: Cross-cutting questions

8. Have we identified the key cross-cutting questions and issues which would arise when considering options for electricity market reform?

☐ Yes ☐ No ☐ Don't know X No opinion

Please expand on your response here: Click here to enter text.

9. Do you agree with our assessment of the trade-offs between the different approaches to resolving these cross-cutting questions and issues?

☐ Yes ☐ No ☐ Don't know X No opinion

Please expand on your response here: *please note the potential to disbenefit some areas if looking at this holistically.*

10. What is the most effective way of delivering locational signals, to drive efficient investment and dispatch decisions of generators, demand users, and storage? Please provide evidence to support your response.

Please provide your response here:

Please provide any additional supporting evidence in .pdf or Microsoft Word format.

11. How responsive would market participants be to sharper locational signals? Please provide any evidence, including from other jurisdictions, in your response.

Please provide your response here:

Please provide any additional supporting evidence in .pdf or Microsoft Word format.

12. How do you think electricity demand reduction should be rewarded in existing or future electricity markets?

Please provide your response here: Click here to enter text.

Chapter 5: A net zero wholesale market

13. Are we considering all the credible options for reform in the wholesale market chapter?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

14. Do you agree that we should continue to consider a split wholesale market?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

15. How might the design issues raised above be overcome for: a) the split markets model, and b) the green power pool? Please consider the role flexible assets should play in a split market or green power pool - which markets should they participate in? - and how system costs could be passed on to green power pool participants.

Please provide your response here: Click here to enter text.

16. Do you agree that we should continue to consider both nodal and zonal market designs?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

17. How might the challenges and design issues we have identified with nodal and zonal market designs be overcome?

Please provide your response here: Click here to enter text.

18. Could nodal pricing be implemented at a distribution level?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

19. Do you agree that we should continue to consider the local markets approach? Please consider the relative advantages and drawbacks, and local institutional requirements, of distribution led approaches.

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

20. Are there other approaches to developing local markets which we have not considered?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

21. Do you agree that we should continue to consider reforms that move away from marginal pricing?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

22. Do you agree that we should continue to consider amendments to the parameters of current wholesale market arrangements, including to dispatch, settlement and gate closure?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

23. Are there any other changes to current wholesale market design and the Balancing Mechanism we should consider?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

Chapter 6: Mass low carbon power

24. Are we considering all the credible options for reform in the mass low carbon power chapter?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

25. How could electricity markets better value the low carbon and wider system benefits of small-scale, distributed renewables?

Please provide your response here: Click here to enter text.

26. Do you agree that we should continue to consider supplier obligations?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

27. How would the supplier landscape need to change, if at all, to make a supplier obligation model effective at bringing forward low carbon investment?

Please provide your response here: Click here to enter text.

28. How could the financing and delivery risks of a supplier obligation model be overcome?

Please provide your response here: Click here to enter text.

29. Do you agree that we should continue to consider central contracts with payments based on output?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

30. Are the benefits of increased market exposure under central contracts with payment based on output likely to outweigh the potential increase in financing cost?

Please provide your response here: Click here to enter text.

31. Do you have any evidence on the relative balance between capital cost and likely balancing costs under different scenarios and support mechanisms?

Please provide your response here: Click here to enter text.

Please provide any additional evidence in .pdf or Microsoft Word format.

32. **Do you agree we should continue to consider central contracts with payment decoupled from output?**

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

33. How could a revenue cap be designed to ensure value for money whilst continuing to incentivise valuable behaviour?

Please provide your response here: Click here to enter text.

34. How could deemed generation be calculated accurately, and opportunities for gaming be limited?

Please provide your response here: Click here to enter text.

Chapter 7: Flexibility

35. Are we considering all the credible options for reform in the flexibility chapter?

☐ Yes ☐ No ☒ Don't know ☐ No opinion

Please expand on your response here: *In a scenario where renewables can produce ever greater proportion of demand, traditional 'base load' generators need to be more flexible. This means that technologies like small modular reactors as part of a multi-reactor site will be much more useful for security of supply than the traditional larger reactors. And to maintain cross-GB balance, such SMR sites should be widely distributed.*

36. Can strong operational signals through reformed markets bring forward enough flexibility, or is additional support needed to de-risk investment to meet our 2035 commitment? Please consider if this differs between technology types.

Please provide your response here: Click here to enter text.

37. Do you agree that we should continue to consider a revenue cap and floor for flexible assets? How might your answer change under different wholesale market options considered in chapter 5 or other options considered in this chapter?

☐ Yes ☒ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

38. How could a revenue cap and floor be designed to ensure value for money? For example, how could a cap be designed to ensure assets are incentivised to operate flexibly and remain available if they reach their cap?

Please provide your response here: Click here to enter text.

39. Can a revenue (cap and) floor be designed to ensure effective competition between flexible technologies, including small scale flexible assets?

Please provide your response here: Click here to enter text.

40. Do you agree that we should continue to consider each of these options (an optimised capacity market, running flexibility-specific auctions, and introducing multipliers to the clearing price for particular flexible attributes) for reforming the Capacity Market?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

41. What characteristics of flexibility could be valued within a reformed Capacity Market with flexibility enhancements? How could these enhancements be designed to maximise the value of flexibility while avoiding unintended consequences?

Please provide your response here: Click here to enter text.

42. Do you agree that we should continue to consider a supplier obligation for flexibility?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

43. Should suppliers have a responsibility to bring forward flexibility in the long term and how might the supplier landscape need to change, if at all?

Please provide your response here: Click here to enter text.

44. For the Clean Peak Standard in particular, how could multipliers be set to value the whole-system benefits of flexible technologies? And how would peak periods be set?

Please provide your response here: Click here to enter text.

Chapter 8: Capacity Adequacy

45. Are we considering all the credible options for reform in the capacity adequacy chapter?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

46. Do you agree that we should continue to consider optimising the Capacity Market?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

47. Which route for change - Separate Auctions, Multiple Clearing Prices, or another route we have not identified - do you feel would best meet our objectives and why?

☐ Separate Auctions ☐ Multiple Clearing Prices ☐ Another Route

☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

48. Do you consider that an optimised Capacity Market alone will be enough for ensuring capacity adequacy in the future, or will additional measures be needed?

Please provide your response here: Click here to enter text.

49. Are there any other major reforms we should consider to ensure that the Capacity Market meets our objectives?

Please provide your response here: Click here to enter text.

50. Do you agree that we should continue to consider a strategic reserve?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

51. What other options do you think would work best alongside a strategic reserve to meet flexibility and decarbonisation objectives?

Please provide your response here: Click here to enter text.

52. Do you see any advantages of a strategic reserve under government ownership?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

53. Do you agree that we should continue to consider centralised reliability options?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

54. Are there any advantages centralised reliability options could offer over the existing GB Capacity Market? For example, cost effectiveness or security of supply benefits? Please evidence your answers as much as possible.

Please provide your response here: Click here to enter text.

55. Which other options or market interventions do you consider would be needed alongside centralised reliability options, if any?

Please provide your response here: Click here to enter text.

56. Do you agree that we should not continue to consider decentralised reliability options / obligations? Please explain your reasoning, whether you agree or disagree.

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

57. Are there any benefits from decentralised reliability option models that we could isolate and integrate into one of our three preferred options (Optimised Capacity Market, Strategic Reserve, Centralised Reliability Option)? If so, how do you envisage we could do this?

Please provide your response here: Click here to enter text.

58. Do you agree that we should not continue to consider a capacity payment option? Please explain your reasoning, whether you agree or disagree.

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

59. Do you agree that we should not continue to consider a targeted capacity payment / targeted tender option? Please explain your reasoning, whether you agree or disagree.

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

60. Do you agree with our assessment of the cost effectiveness of a targeted capacity payment / targeted tender option, and the risk of overcompensation? If not, why not?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

61. Are we considering all the credible options for reform in the operability chapter?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

62. Do you think that existing policies, including those set out in the ESO's Markets Roadmap, are sufficient to ensure operability of the electricity system that meets our net zero commitments, as well as being cost effective and reliable?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

63. Do you support any of the measures outlined for enhancing existing policies? Please state your reasons.

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

64. To what extent do you think that existing and planned coordination activity between ESO and DNOs ensures optimal operability?

Please provide your response here: Click here to enter text.

65. What is the scope, if any, for distribution level institutions to play a greater role in maintaining operability and facilitating markets than what is already planned, and how could this be taken forward?

Please provide your response here: Click here to enter text.

66. Do you think that the CfD in its current form discourages provision of ancillary services from assets participating in the scheme? If so, how could this be best addressed?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

67. Do you think it would be useful to modify the Capacity Market so that it requires or incentivises the provision of ancillary services? If so, how could this be achieved?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

68. Do you think that co-optimisation would be effective in the UK under a central dispatch model?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

Chapter 10: Options across multiple market elements

69. Do you agree that we should not continue to consider a payment on carbon avoided for mass low carbon power?

☐ Yes ☐ No ☐ Don’t know ☐ No opinion

Please expand on your response here: Click here to enter text.

70. Do you agree that we should continue to consider a payment on carbon avoided subsidy for flexibility?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

71. Could the Dutch Subsidy scheme be amended to send appropriate signals to both renewables and supply and demand side flexible assets?

Please provide your response here: Click here to enter text.

72. Are there other advantages to the Dutch Subsidy scheme we have not identified?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

73. Do you agree that we should continue to consider an Equivalent Firm Power auction?

☐ Yes ☐ No ☐ Don't know ☐ No opinion

Please expand on your response here: Click here to enter text.

74. How could the challenges identified with the Equivalent Firm Power auction be overcome? Please provide supporting evidence.

Please provide your response here: Click here to enter text.

Please provide any supporting evidence in .pdf or Microsoft Word format.

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

The consultation was immensely technical and appeared to be aimed at industry. It is regrettable that the consultation appears to be confined to wholesale energy sector although it is indicated that other sectors will be looked at and presumably reformed. A more holistic approach would be preferred, since decisions taken for the supply market will interact with any demand on the reform side.

As previously stated, the biggest issue for our area is the inequality in consumer pricing. It is grossly negative when the area that produces huge amounts of renewable energy pays

the most for it. This is due to a historical view that 'remote' low population areas are more expensive to supply compared to traditional, high population areas where electricity was normally produced. We believe that the UK is the only European country that does this.

There has never been a better time to equalise energy costs across the UK. Energy prices are increasing rapidly and will be capped by the government, so any equalisation will be swamped/ cushioned. There is also a fairness element since our area is generating more than the local demand and therefore distribution costs are minimal. If anything, the pricing should be the other way round. In relation to this, the moratorium on new windfarms in England should be lifted immediately.

Contracts for Difference for new mature technologies like onshore wind are and should be scaled back; indeed, offshore wind is increasingly close to full commercial viability. We see no problem with guaranteed prices for renewable generation, but we don't believe they should be compensated for loss of production due to no/too much wind or lack of demand. These reforms should come into force after the agreed CfD contract period.

Incentives should be given in upland areas for solar where the landform slope is close to latitude (and thus maximum capture without sloping). This would also reduce the loss of good arable land and help the economy of peripheral areas.

At present, the road to net zero as far as consumers goes is a middle class activity. Only the relatively better off can afford to install better insulation, renewable and low carbon heating or switch to hybrid or all electric cars. Incentives for this should be improved, both for homeowners/ individuals and for social housing providers. Energy suppliers should have an incentive to support reduced consumption. Continually reducing consumer subsidies based on market penetration is a bad policy. Predictability in markets is important where people renew their technology on a decade timescale.

We also do not believe the current smart meter concept will significantly help to balance or reduce consumption, unless it is based on an easily understood, predictable pricing (like the old off-peak) and/ or much greater market penetration of smart devices like fridges, washing machines etc – once again, something only the better off can afford.

Thank you for your views on this consultation. However, as part of the BEIS wider customer survey plans, we would appreciate your views on x, y and z below.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

(Respondents should be thanked for their views and we should say whether we will acknowledge individual responses. Acknowledging responses can help foster good relations with new partners, however, most of the department's stakeholders are regular

contributors to consultations and would probably consider acknowledgements to be an unnecessary expense. Current practice is to acknowledge on request only, actioned by a tick on the questionnaire using letter, postcards or emails)

At BEIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

☒Yes ☐No