

According to Monday's (13 June) *Times*, the government is set to embark on yet another redesign of Great Britain's electricity market.

The Department for Business, Energy and Industrial Strategy (BEIS) is said to be bringing forward proposals in the next few weeks as part of its energy security strategy. Dutifully heralded by the *Times* as the largest reform of "Britain's power market in decades", the proposals come just 21 years after the implementation of the New Electricity Trading Arrangements (NETA) saw the abolition of the England and Wales Electricity Pool and its replacement with a self-dispatch system under the Balancing and Settlement Code (the BSC – subsequently extended to cover Scotland under the BETTA programme in 2005). And it is just eight years since 2014's Electricity Market Reform (EMR) package, which introduced the Capacity Market and, for new low-carbon projects, replaced the Renewables Obligation with Contracts for Difference. The past decade has also seen a gradual process of harmonisation and integration with the wider European electricity market, with BEIS currently contemplating a possible reversal of the decoupling of the GB and EU electricity markets arrangements that took place on the UK's withdrawal from the EU.

A comprehensive review of GB's electricity market arrangements (REMA), with high-level options for reform to be published this summer, had previously been promised in April's [British Energy Security Strategy](#). However, when the Energy Security Bill was announced in the [Queen's Speech](#) little more than a month ago, the government's [press briefing pack](#) gave no indication that the bill was to be the legislative vehicle for reform of the current electricity market rules. The government's desire to be seen to be doing something in response to the energy crisis seems to have accelerated the onset of a new bout of electricity market reform.

According to the *Times*, the government's main target for reform is the linkage between electricity and gas prices. As gas-fired generation is the cheapest form of fully flexible energy generation, it is frequently the marginally priced energy technology and, as such, generally sets the wholesale electricity price. As a result, critics argue, the UK is paying too much for generation from cheaper renewable energy and even nuclear sources. For projects supported by the Renewables Obligation (RO), that is often the case. Typically, support under the RO is worth in the region of £40 to £50/MWh on top of the electricity price, though in the case of some off-shore wind projects the value of RO support is double that. The Chancellor of the Exchequer has been contemplating a windfall tax in response. Other solutions may be available, though the government is wary of being seen to renege on previous policy commitments.

In contrast to projects developed under the RO, or the Feed-in Tariff scheme for smaller sub-5MW generating plants, projects awarded contracts under the Low Carbon Contracts for Difference (CCfD) scheme were not expected to benefit from subsequent rises in wholesale prices. Generating stations covered by CCfD agreements only get price support when the applicable market reference price is lower than the contract strike price. When market prices are higher, it is the generator that pays the difference. However, some generators have postponed the start dates of their CCfD agreements in order to benefit from the current high electricity prices, and are considering the option of pushing back the start date so far that the overall term of their CCfD is reduced. For instance, the strike prices under CCfD agreements awarded in the second Allocation Round have been exceeded by the applicable market reference price for more than 90% of the hourly periods since the beginning of this year (based on pricing figures published by [Cornwall Consulting](#)).

The extent to which "subsidy-free" renewable energy projects benefit from the rise in electricity prices depends on the terms of long-term PPAs, typically agreed with industrial and large commercial consumers, but recent changes in the wholesale prices will inevitably exert an upwards pressure on the prices that such projects can command. Meanwhile, the incentive on energy suppliers to agree long-term PPAs locking in prices on behalf of domestic customers has been blunted by their exposure to the risk of losing those customers, and being stuck with overpriced PPAs, in the event that energy prices fall.

As yet, there is little indication as to the sort of changes that government is contemplating in order to realise its ambition of delinking electricity and gas prices. An article by Professor Michael Grubb, Professor of Energy and Climate Change at UCL, published in [The Conversation](#) in January, may offer a clue. For three years, Professor Grubb was a member of the Committee on Climate Change, followed by a part-time role as Senior Adviser to Ofgem from 2011 to 2016, and then a spell as Chairman of the UK government's Panel of Technical Experts on Electricity Market Reform. His suggested solution is a "green power pool which would aggregate long-term contracts with renewable energy generators and sell the power on to consumers". Customers could benefit from discounted prices outside of times of peak demand, or be paid to discharge electric vehicle or other batteries back into the grid. When renewable energy production is low, the green power pool would be supplemented by purchases from the "brown" electricity market.

Coming so soon after the EMR programme, the proposals could be seen as an admission by government that it did not get its previous EMR reforms right. One has to question whether balkanisation of the market into sub-sets of green and brown is the best way of reducing electricity bills and stabilising prices. It is true, though, that any pooled arrangements will need to include features that reduce the risk of intermittent renewables being overcompensated, as well as ensuring that demand side response is appropriately incentivised.

The *Times* reports government sources as acknowledging that the problems are “fiendishly complicated” and that it is critical to get the reforms right. Few would disagree. That being so, the haste with which government appears to be embarking on yet another foray into electricity market redesign is somewhat alarming. The industry would be well advised to seek agreement upon clear parameters against which any new proposals can be assessed before committing to participation in yet another extensive programme of “reform”.

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