

Rt Hon Ed Miliband MP
Secretary of State
Department of Energy Security and Net Zero

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Date: 13/2/2025
Subject: Decision on Review of Electricity Market Arrangements

Dear Secretary of State,

We are writing ahead of your upcoming decisions on the Review of Electricity Market Arrangements (REMA) to make the case that the government's objectives of reducing consumer bills, Clean Power 2030 and growth, would be better advanced by progressive reforms within a national market than by converting the GB electricity market into one based on zonal pricing.

Agenda for Progressive Market Reform

Regen's mission is to transform the UK's energy system for a net zero future. Having engaged extensively in REMA we share the view of many experts and investors that an ambitious programme of reform of our current national market will deliver benefits to the consumer more quickly and with less implementation and investment risk.

The government has taken decisive action to set a Clean Power Plan and develop a Strategic Spatial Energy Plan (SSEP) that guides strategic network investment. This provides clear guidance to the market to site assets in locations that are optimal for the overall energy system.

The focus of REMA should now be to complement strategic planning with measures to achieve a dynamic, highly agile, and near real-time market that benefits consumers, building on the strengths of our current decentralised market. Regen has set out a detailed **Agenda for Progressive Market Reform**¹. We have also attached to this letter ten proposals as to how this agenda could reduce energy bills this decade. These include:

- expanding the role of flexibility in short-term and intraday energy markets, balancing mechanism and ancillary/operability services
- enhancing price competition in short-term markets, balancing and capacity markets
- expanding the use of long-term Power Purchase Agreements to reduce consumer exposure to short-term marginal costs and provide lower cost energy
- innovation to address transmission network constraint costs
- reform of the planning, funding and operation of interconnectors.

¹ Regen, Agenda for Progressive Market Reform, 2024

Risks of converting the GB electricity market into one based on zonal pricing

Our view is that the benefits case for converting the GB electricity market to zonal pricing is uncertain and the implementation and investment risks are high.

1) Cost and distributional impacts on consumers could be unpredictable and unfair

Zonal pricing is being proposed on the basis that it will bring consumer benefits. However, very little work has been done to fully understand the consumer impacts and the distributional issues that will arise both between zones, and between consumers within each zone.

A 'postcode lottery' of volatile zonal price differences, driven by transient and unpredictable network constraints, could damage public engagement and broader support for net zero. We have seen recently in Norway that zonal prices can cause concerns of unfairness, and rejection of new infrastructure. Claims that zonal pricing would support the government's growth agenda are not supported by industrial energy users who have expressed their concerns².

2) The benefit case is based on hypothetical modelling and unrealistic assumptions

The benefits case for zonal pricing in the GB market rests largely on modelling that uses assumptions that have been challenged and do not reflect the government's Clean Power Plan. This modelling has downplayed impacts on the cost of capital of future investments, and the risk of investment hiatus, which would quickly degrade the claimed consumer benefit. The limited evidence for the benefits claimed has been set out by academics such as Prof. Michael Pollitt³.

It is notable that the consultants⁴ who produced the zonal benefits case analysis for REMA have revised down their benefit estimate with a warning that the benefits could easily flip to negative:

"Zonal pricing benefits are highly sensitive to the cost of capital. A small increase in capital costs can nullify the benefits, underscoring the importance of stable investment conditions for the cost of capital eliminates the system benefits". LCP Delta, [Zonal Pricing in Great Britain](#), 2024

A recent report by AFRY highlighted the fragility of the zonal benefit case and that consumer savings, even in the most optimistic outcome, are small compared to the downside risk⁵:

"AFRY study finds that an enhanced national market design could deliver positive benefits with limited downside risk. The alternative option of a zonal market has a wider range of outcomes, with higher possible benefits but also potentially resulting in significant net overall costs." AFRY, [Enhanced National electricity market designs for Great Britain](#), 2025

3) Fundamental market reform risks for growth and the Clean Power Plan

Investors and developers of renewable energy projects have been clear that zonal pricing will increase investment and commercial risks. Estimates are that revenue and cost risks will increase capital costs from 0.5 to 2.5 percentage points. But this is uncertain; a more likely

² [Businesses write to Ed Miliband and Jonathan Reynolds over concerns about zonal pricing model](#)

³ Michael Pollitt, [Assessment of Locational wholesale pricing in GB for Ofgem](#), 2023

⁴ LCP Delta, [Zonal Pricing in Great Britain](#), 2024

⁵ AFRY, [Enhanced National electricity market design for GB](#), 2025

scenario is that investors will be unable to 'price-in' zonal risks leading to a withdrawal of investment, a reduction in project development activity and a slowdown in the delivery of clean power projects. This is already affecting investors preparing to participate in the mission-critical CfD Allocation Round 7 (AR7).

In response, the government could offer a comprehensive package of revenue protection, changing the negative price rules, offering a deemed CfD based on forecasted generation and extending the CfD term to match the project life. The trade-off, however, is that offering such protection would pass the zonal price and constraint risk back to the consumer, reducing the claimed benefits and adding further policy risk for the future.

4) Major market reforms have high implementation risks and will divert resources from NESO, DESNZ, Ofgem and industry during a rapid energy transition

DESNZ has indicated that 2032 is the earliest zonal pricing could be adopted. A seven-year period to implement a relatively simple zonal market design indicates that the implementation challenges will be significant. In addition to managing interzonal trading and capacity allocations, systems would be needed to manage zonal balancing and settlement, Financial Transmission Rights (FTRs), intraday trading, and a new balancing mechanism.

The implementation challenge extends to the thousands of market participants, including smaller generators, suppliers and consumers whose market exposure is today limited through Power Purchase Agreements. These contracts would need to be renegotiated, and may be defunct, leaving generators and consumers with a new market risk, as well as debt and cash-flow issues.

The choice for the government is between actionable market reforms that can be delivered now to support Clean Power 2030 and drive down consumer bills, or an ill-defined market reform that puts at risk the government's agenda in pursuit of uncertain benefits with a likely public and investor backlash. We would be happy to discuss these issues in more detail with your department and are committed to continuing to provide input to this important agenda.

Yours sincerely,

Merlin Hyman OBE
Chief Executive



cc Under-Secretary of State Michael Shanks
MP, Minister for Energy

cc Chris Stark, Mission Control

cc Under-Secretary of State Miatta
Fahnbulleh MP, Minister for Energy
Consumers

Johnny Gowdy
Director and markets lead



cc. Jonathan Brearley Ofgem CEO

cc Dan Osgood REMA Director, DESNZ

Attachment: Initiatives to tackle the cost of energy bills for consumers

Regen's 'Top Ten' initiatives to reduce consumer bills in the near term	
1)	Ensuring price competition in short-term markets: a review of competition within the retail, wholesale, and balancing markets, looking at occurrences of adverse market power and 'price gouging' during periods of gas dependency and system imbalance.
2)	Expansion of the Balancing Mechanism: ensuring wider participation and utilisation of lower-cost generation, storage and demand flexibility providers to reduce balancing and constraint management costs.
3)	Expanding the role played by DSR and storage (flexibility): re-energising the good work started by the Smart and Flexible energy programme to increase the participation of flexibility in short-term and intraday energy markets, balancing mechanism, constraint management, and ancillary/operability services.
4)	A review of the cost and design of the Capacity Market: to consider whether this is the best and only way to ensure capacity adequacy. Advancing the development of a "non-market strategic reserve" as identified in the Clean Power Plan.
5)	Expanding and enhancing the use of long-term Power Purchase Agreements: corporate and sleeved PPAs and targeted 'collaborative power pools' can reduce consumer exposure to short-term marginal costs and provide lower costs energy to local consumers, businesses and public sector, fuel power and high energy users.
6)	Accelerating the roll-out of smart meters and half hourly settlement: ensuring that smart meter data can be used to manage energy use, drive energy efficiency within the home, access value-based tariffs and, crucially, is available to networks to manage network constraints, operation and plan preventative maintenance and upgrades.
7)	A task force to reduce the occurrence and cost of managing transmission network constraints: looking at a) technical solutions: inter trip services, dynamic line management, active network management etc; b) coordination and planning for network outages; c) reducing the impact of network outages; d) competition and gaming within the Balancing Mechanism; and e) local constraint markets and flexibility contracts.
8)	Ensuring that CfDs are cost-effective and value is passed through to the consumer: ensuring that CfD payback during high price periods is both transparent and fairly allocated to the consumer. Steps to ensure that CfD prices remain competitive and good value for the consumer include a review of alternative auction arrangements (e.g. negotiated open book), regionalised auctions, non-price factors and changes to the CfD terms that could further reduce strike prices.
9)	A reform of consumer bill cost allocation: including the issue of fixed charges and the allocation of environmental levies and whether these should be shifted from electricity to be based on carbon or more progressive general taxation. This could also include a review of the Renewable Obligation Certificate Scheme, which adds c. £100 to consumer bills and whether it would be better for the government to either buy-out outstanding ROCs or create an auction to convert these to CfDs.

10) **A comprehensive and rapid reform of the planning, funding and operation of interconnectors:** these are set to become a key element of the GB clean power system. This is a post-Brexit opportunity that needs urgency and leadership to improve energy trading efficiency and security. Areas to consider include integration and collaboration with neighbouring markets, incorporation of interconnectors into the SSEP and CSNP to ensure optimal location and reduce constraints, cross-border trading efficiency and the management of interconnector flows.