



Department for
Business, Energy
& Industrial Strategy

Rt Hon Graham Stuart MP
Minister of State for Energy and Climate

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Dear Angela,

Thank you for your letter of 12 January, on behalf of your constituent, [REDACTED] of [REDACTED], regarding the link between renewable energy and gas prices. I am responding as this matter falls under my Ministerial portfolio.

There is a complex relationship between the wholesale price of gas and the wholesale price of electricity, including that from renewable sources. This is because the electricity market in Great Britain operates on the principle of marginal pricing. The price of electricity is therefore set by the last technology needed to meet overall electricity demand across Great Britain, on the basis that this is the price required to keep the lights on for our entire electricity system.

In the Great Britain system, gas plants are often the 'marginal plant' meaning the price of gas generation often sets the wholesale electricity price. Renewables are generally cheaper to run and provide a growing portion of electricity generated, but for when demand is high and/or the wind isn't blowing, or the sun isn't shining other technologies such as gas-fired generation provide the electricity we need. The current high prices for natural gas globally mean that this generation is more expensive and that any generator contributing electricity at that time will also receive a higher price for the power they produce, even if their costs haven't gone up. This has meant that wholesale electricity prices have been pushed up significantly by recent gas price increases.

In normal circumstances, marginal pricing drives down costs as market participants are provided a transparent price against which they can compete, i.e., building lower cost generation in order to access the 'marginal' price, driving the more expensive plant out of the system. Furthermore, while the UK is in no way dependent on Russian gas supply, the integrated nature of the European gas market and the fact that gas is an internationally traded commodity, means that factors that influence European or international prices are likely to be reflected in UK prices.


BEIS launched The Review of Electricity Market Arrangements (REMA) which is considering how the role of gas as a price setter for electricity could be reduced. This will include examining reforms for helping bring forward investment in low carbon generation, leading to less frequent use of gas so that it sets the price of electricity for shorter periods, as well as wholesale market reform options, to ensure that market arrangements deliver at lowest cost to the consumer.

REMA is assessing options for delivering an enduring market framework that works for our businesses, industry, and households. There are a wide range of options being considered ranging from splitting the wholesale market so that volatile gas prices do not set the price of cheaper renewables, to smaller changes that make sure market arrangements deliver at lowest cost for consumers. These models are at a very early stage of development and a wide range of crucial design questions remain to be answered.

Whilst bringing down the cost of energy is a key short-term priority for the Government, the REMA programme is focused on delivering enduring reform. We will therefore need to understand the full impact of our reforms, particularly any unintended consequences, before implementing them. This means options are being assessed rigorously with stakeholders and we will continue to consider any other options that are brought to our attention with strong supporting evidence.

Thank you again for taking the time to write.

Yours ever,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

Rt Hon Graham Stuart MP
Minister of State for Climate and Energy