

ECON-02 Potential impact of Locational Marginal Pricing

BUSINESS NEED

The UK Government are currently undertaking a comprehensive Review of Electricity Market Arrangements (REMA). A key discussion point of REMA is whether GB should move to a market based on locational marginal pricing (LMP). LMP carries some theoretical benefits for system operation but also potentially serious risks and challenges for investors and owners of generation including renewables. The impacts of this could counter the proposed benefits of LMP and warrants further consideration and an improved evidence base.

PARTNERS INVOLVED

- SSE: Angus MacRae, Alistair McGirr
- SP: Joe Dunn, Ryan Ward

THE SOLUTION

Strathclyde has delivered a comprehensive independent review of existing LMP markets and challenges associated with implementation in the GB context. The potential impact on GB stakeholders is assessed via analysis of the literature and a series of 10 semi-structured interviews with a range of GB and international experts. The reporting highlights fifteen key conclusions and six recommendations that will feed directly into the GB policy debate.

“This comprehensive analysis from Strathclyde provides an important evidence base to help with policy considerations on the future of the GB electricity system.”

*Angus MacRae
REMA lead, SSE*

BUSINESS BENEFITS

Policy impact

The outcomes from REMA may have profound implications for investors in GB generation assets and impact the cost and scale of upcoming investment. This work makes a strong addition to the evidence base on LMP to inform policy makers and enhance knowledge in the sector.

“Strathclyde’s academic assessment has provided much needed depth to the ongoing complex debate about LMP.

The report sheds new light on the practical and policy challenges of introducing LMP in GB, and sets out recommendations to be considered for future market reform.”

*Ryan Ward
Senior Grid & Regulation Analyst,
ScottishPower Renewables*

NEXT STEP:

Further consideration of packages of market reform options to best enable delivery on GBs ambitious decarbonisation goals.

