


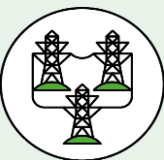



Rethinking Electricity Markets - the five key challenges

	1. Consumer focus challenge	To unlock flexibility through smart low carbon energy products and services that are attractive, optimised and convenient for all consumers.
	2. Zero carbon energy resource investment challenge	To ensure a sufficient pace and volume of investment in zero carbon electricity resources & technologies, delivering a cost-optimal power mix
	3. System integration challenge	To efficiently integrate a high share of distributed and variable energy resources into the electricity system while maintaining reliability at least cost
	4. Network investment and coordination challenge	To coordinate investment efficiently across the energy value chain, particularly in networks and for different energy vectors
	5. Policy governance challenge	To rebalance and substantially improve the whole system coherence of policy-making, regulation, market governance and system operation

The potential role of LMP in a net zero policy framework

- **Consumer focus** – more efficient matching of a more variable and distributed generation mix to consumer needs – retail innovation and smart optimization will be key
 - Also consumer savings - modelling suggests savings 5-10% of total cost (conservative)
- **Zero carbon energy resource investment** – driving investment where it is most valuable to the whole system, to integrate other energy vectors (hydrogen, heat storage, long & short duration storage, interconnectors)
 - Financial markets (and policy support) will adapt to new market arrangements, investors can diversify
- **System integration** – to drive focus on effective integration of cheap renewable resource and targeted use of storage, innovative new technologies
- **Network investment and coordination** – more transparent price signals will change the conversation around network upgrades
 - Whatever size of network, we will need to use it efficiently
 - LMP can flexibly optimise use of a constantly evolving network configuration
- **Policy governance** – more accurate and transparent pricing fundamentals can be a foundational for a higher quality policy conversation, better targeting of support measures to both producers and consumers
 - More options for future net zero consistent market design
 - Can be a key part of a net zero package – but LMP not a panacea on its own