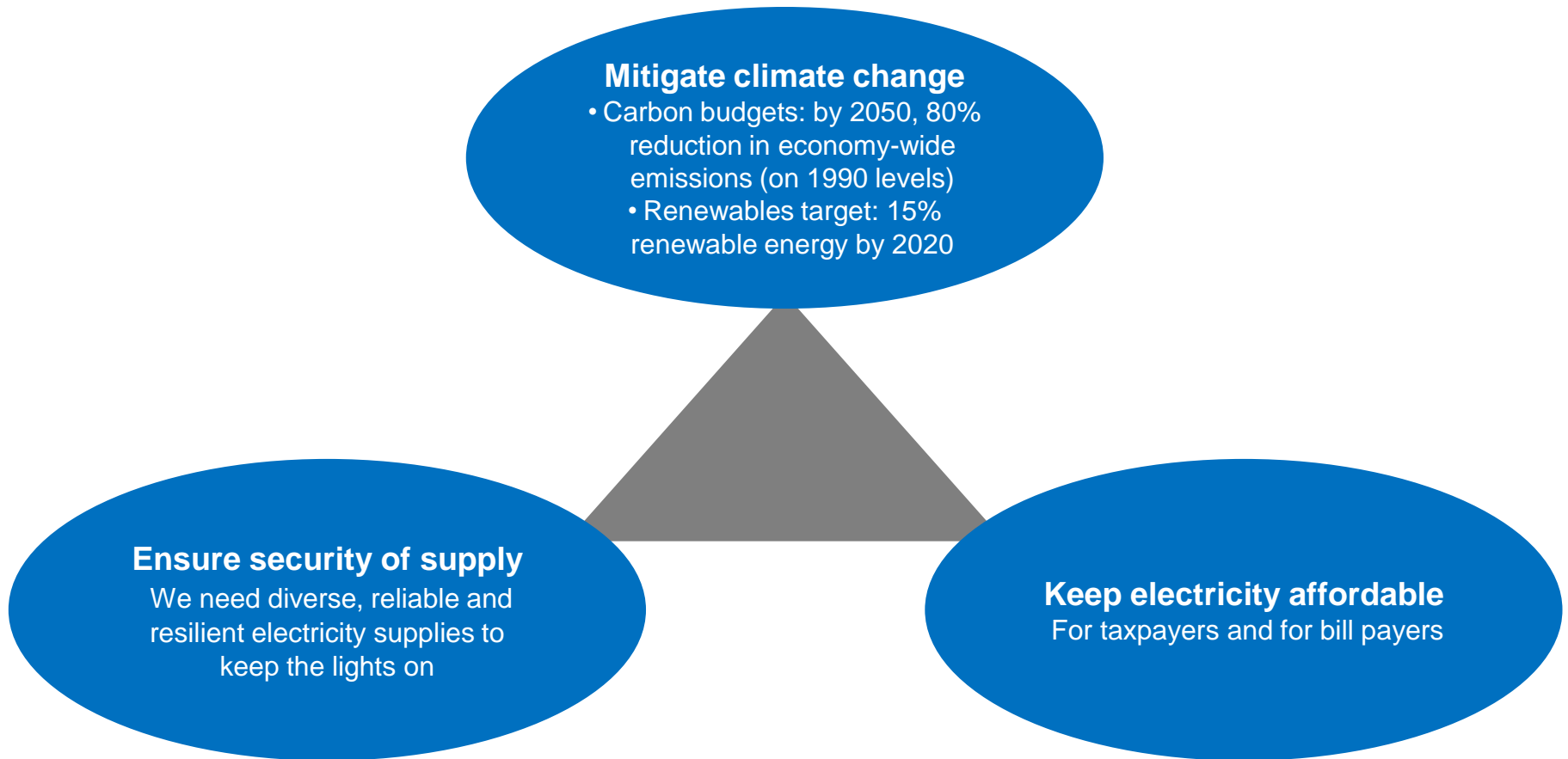




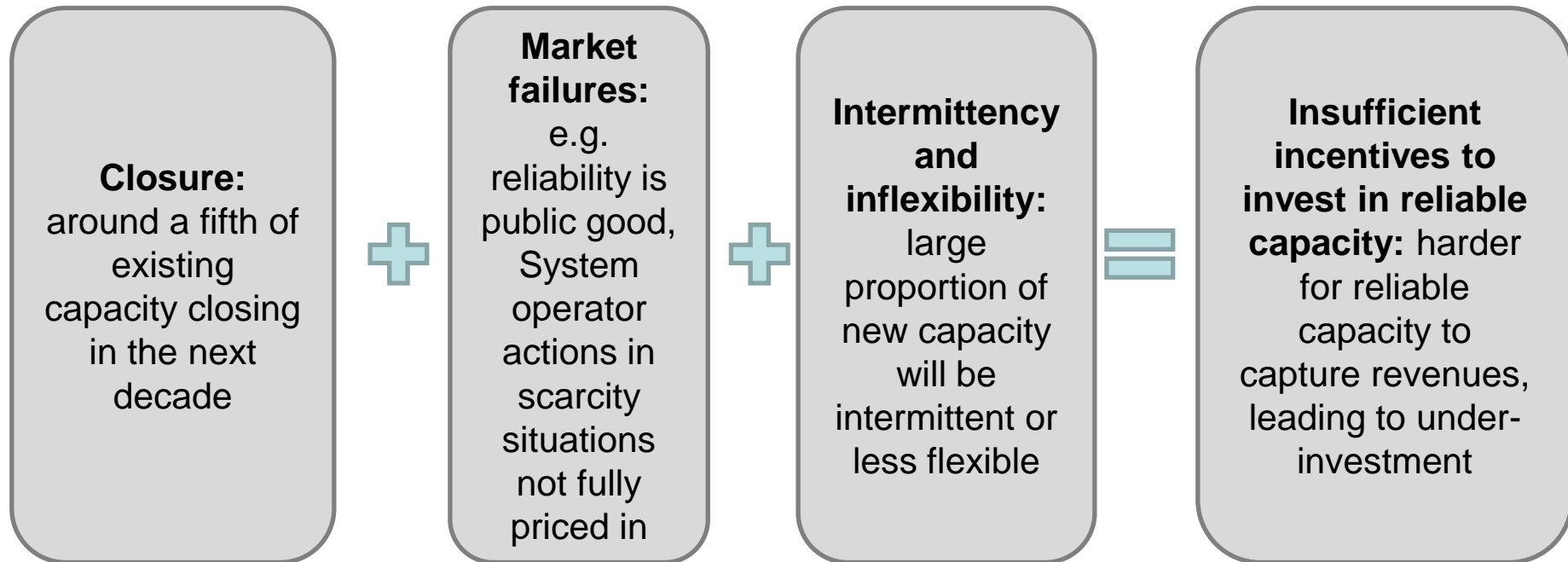
Development of a capacity mechanism in Great Britain

Edmund Hosker

1st October 2013



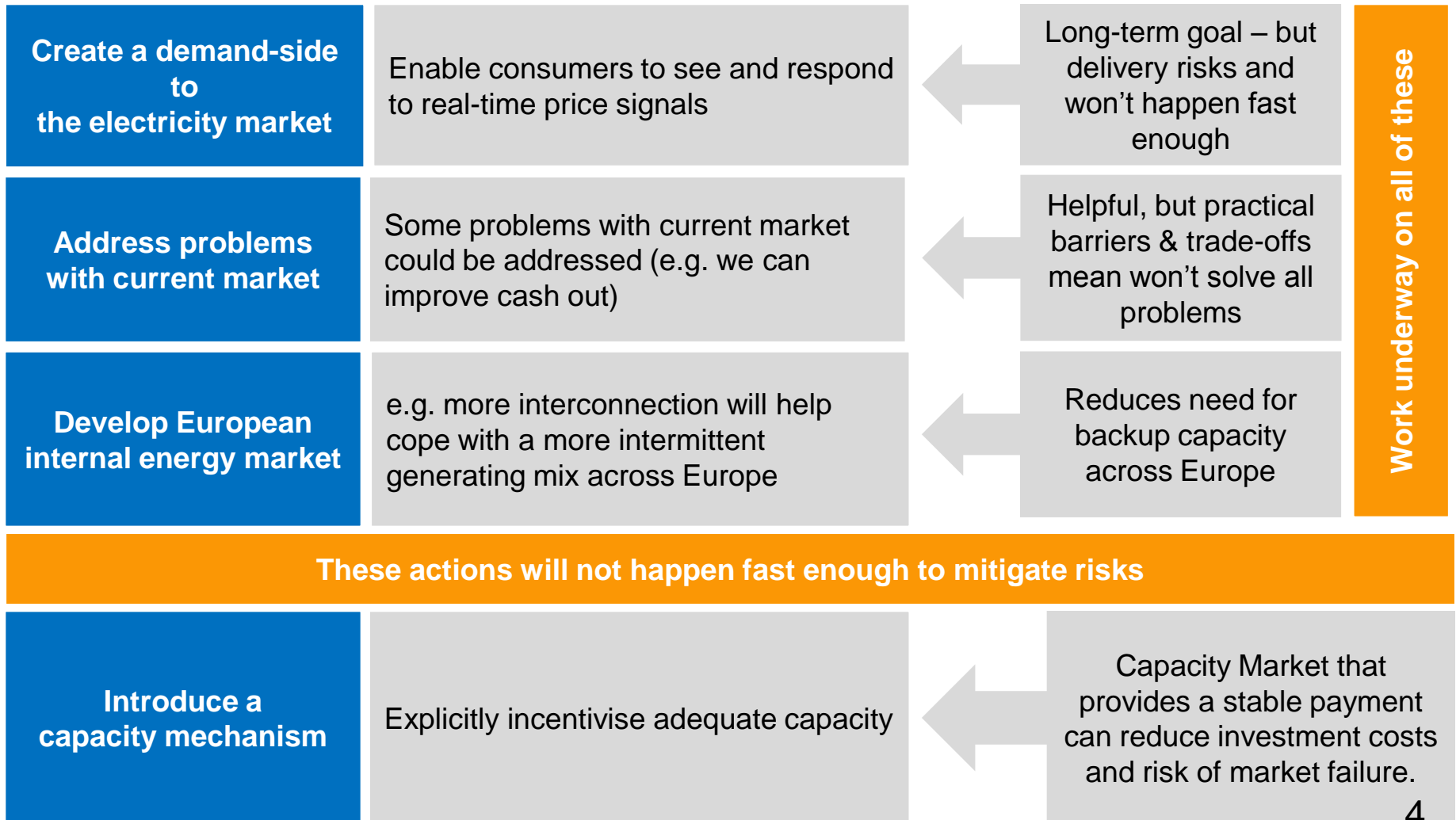
Capacity Market: why it's needed



Options for addressing security of supply risks

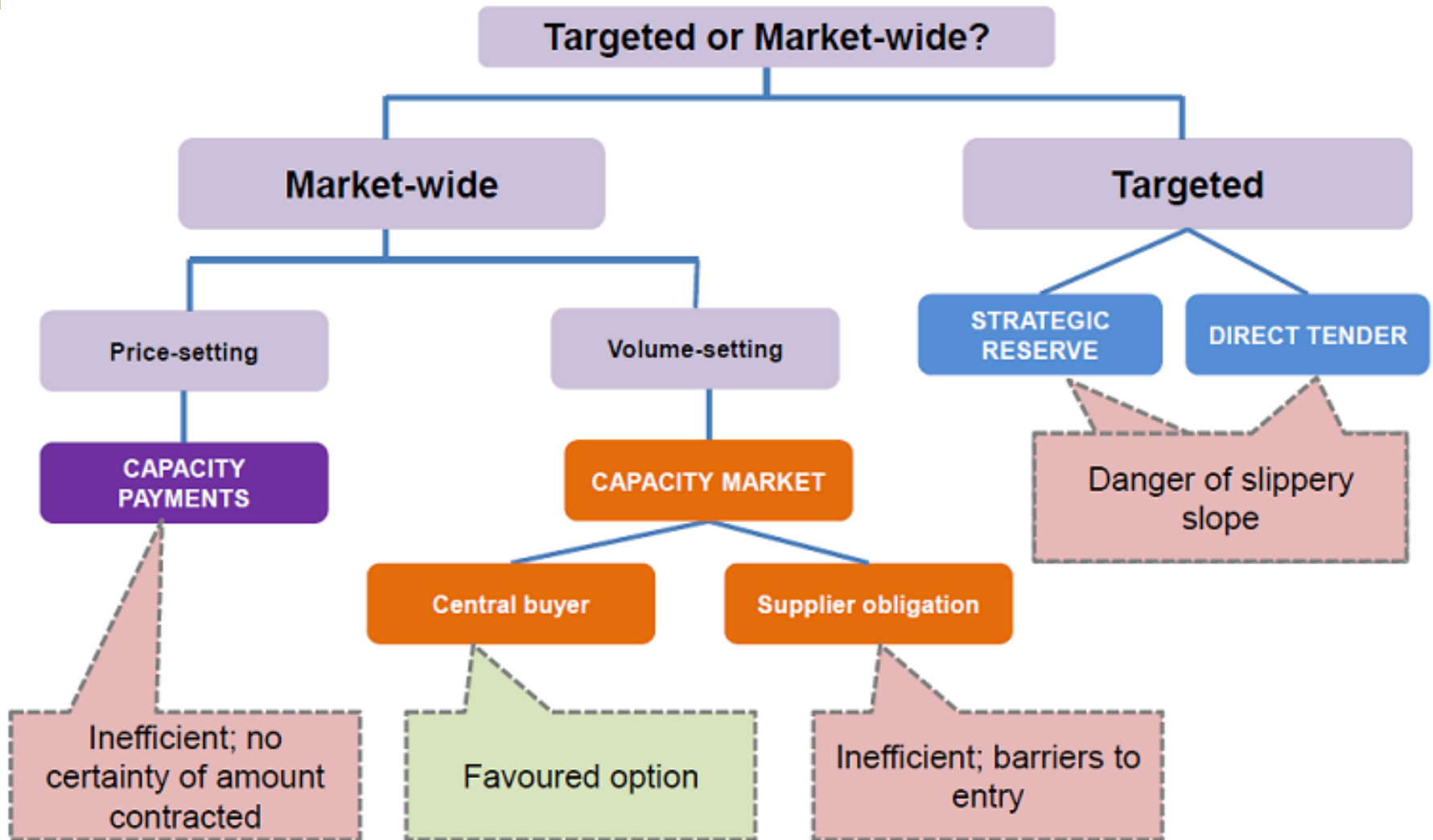


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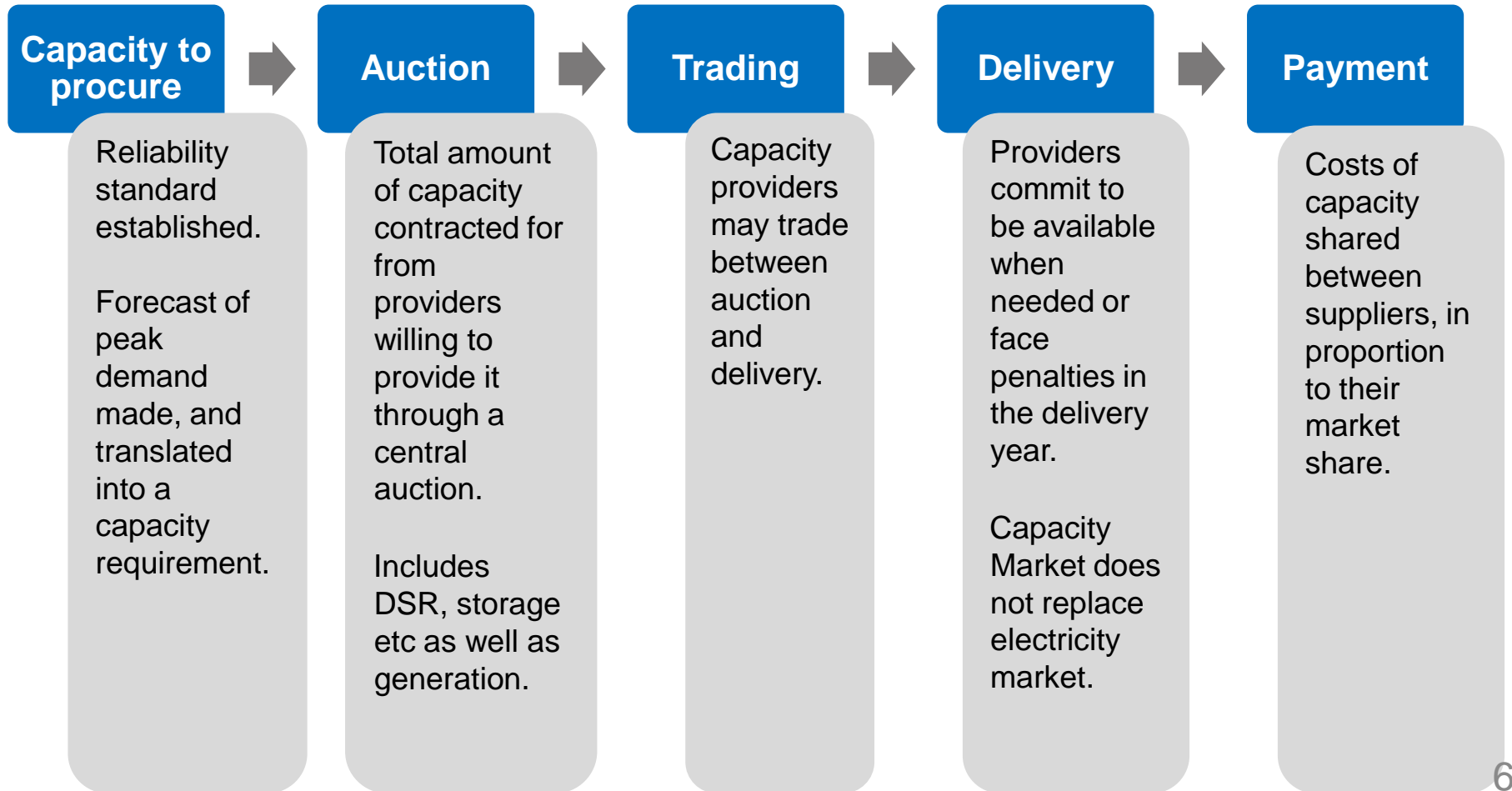
Work underway on all of these

Capacity mechanism options considered





Capacity Market – high-level design



Capacity Market - timeline



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In the longer term (at least 10 years hence) the following market developments should reduce the need for a Capacity Market:

| Development: | Enabled by: |
|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Demand side | <ul style="list-style-type: none"> • Smart meters • Building DSR capability through the Capacity Market |
| More interconnection and more efficient single market trading | <ul style="list-style-type: none"> • Ofgem reforming balancing arrangements • Ofgem, Grid and DECC working to improve planning (identification of most beneficial potential projects) |
| Reform of balancing arrangements to appropriately reward value of capacity | <ul style="list-style-type: none"> • Ofgem due to publish proposals for cash out reform in coming weeks, undertaking review of Future Trading Arrangements over next year. |

The Capacity Market has been designed:

- To help enable these market developments – particularly by supporting the development of the demand side;
- Promoting competition in the market by giving independents a route to market
- Allowing transition / exit of mechanism in future (reliability standard prevents over procurement, majority 1 year contracts prevent lock in).

The need for a Capacity Market will be reviewed every five years.