

Development of a capacity mechanism in Great Britain

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Objectives

Department of Energy & Climate Change

Mitigate climate change

Carbon budgets: by 2050, 80% reduction in economy-wide emissions (on 1990 levels)
Renewables target: 15% renewable energy by 2020

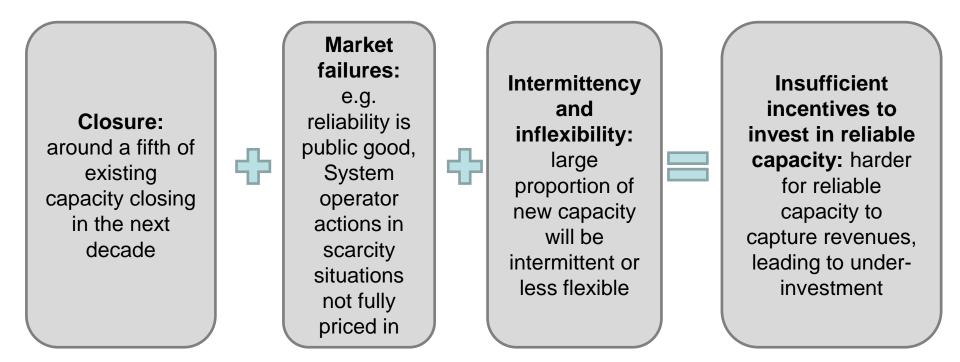
Ensure security of supply

We need diverse, reliable and resilient electricity supplies to keep the lights on

Keep electricity affordable For taxpayers and for bill payers

Capacity Market: why it's needed





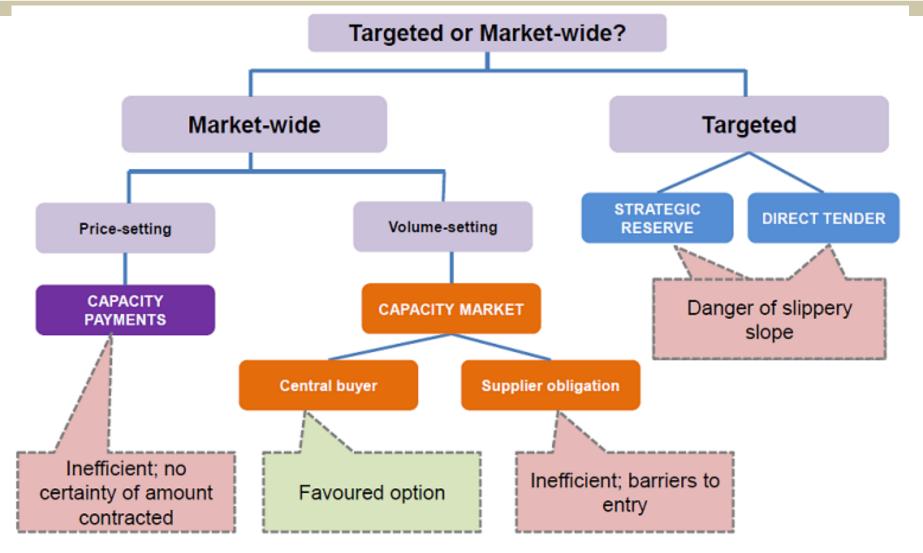
Options for addressing security of supply risks



Create a demand-side to the electricity market	Enable consumers to see and respond delivery risks		Long-term goal – but delivery risks and won't happen fast enough				
Address problems with current market	Some problems with current market could be addressed (e.g. we can improve cash out)		delivery risks and won't happen fast enough Helpful, but practical barriers & trade-offs mean won't solve all problems Reduces need for backup capacity				
Develop European internal energy market	e.g. more interconnection will help cope with a more intermittent generating mix across Europe		Reduces need for backup capacity across Europe	Work und			
These actions will not happen fast enough to mitigate risks							
Introduce a capacity mechanism	Explicitly incentivise adequate capacity		yment nt costs				

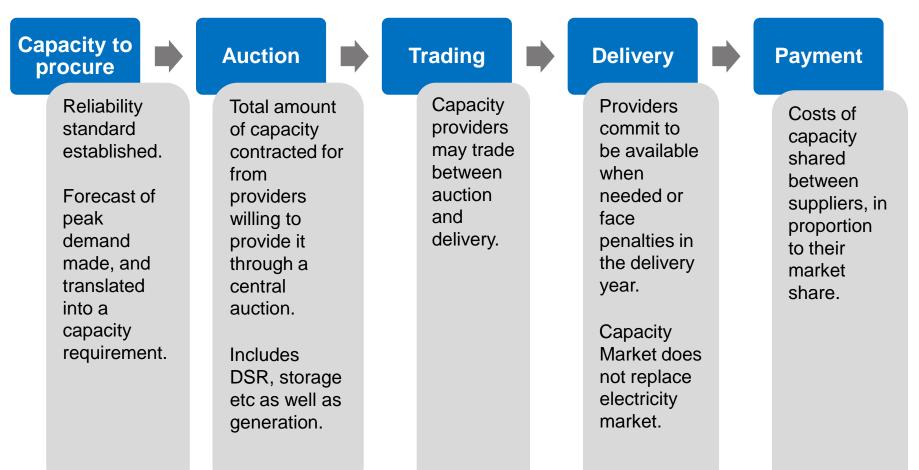
Capacity mechanism options considered





Capacity Market – high-level design





Capacity Market - timeline



Consultation on implementin g legislation	Implementin g legislation in force	Pre- qualificatio n for first auction	Pre- qualificatio n appeals	First auction	First delivery year starts
Oct – Dec 2013	July 2014	April – Sept 2014	Oct 2014	Nov 2014	Oct 2018

Capacity Market: transition

Department of Energy & Climate Change

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	 Smart meters Building DSR capability through the Capacity Market 	
More interconnection and more efficient single market trading	 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	 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.