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Electricity Market Reform

National Grid Future Energy Scenarios, July 2013

Emily Bourne, Department of Energy and Climate Change

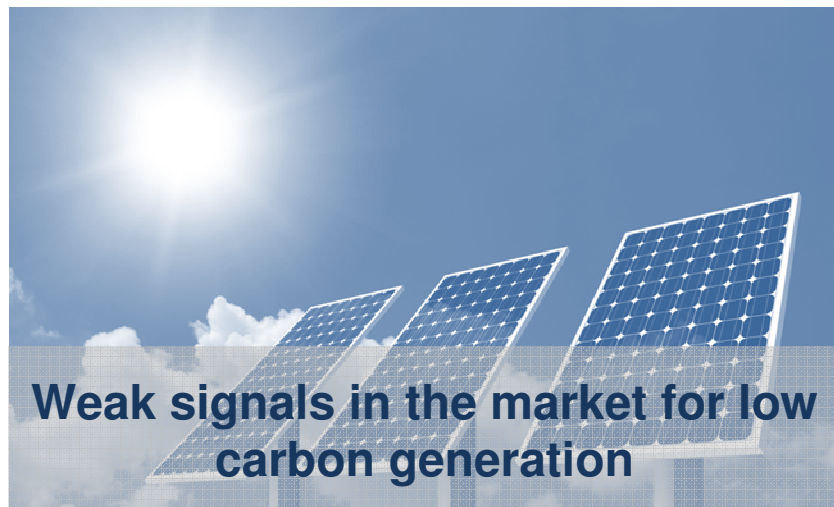
Agenda

1. Context and Overview
2. Contracts for Difference
3. Capacity Market
4. Delivery Plan
5. Next Steps

The rationale for EMR: Our electricity market faces big challenges



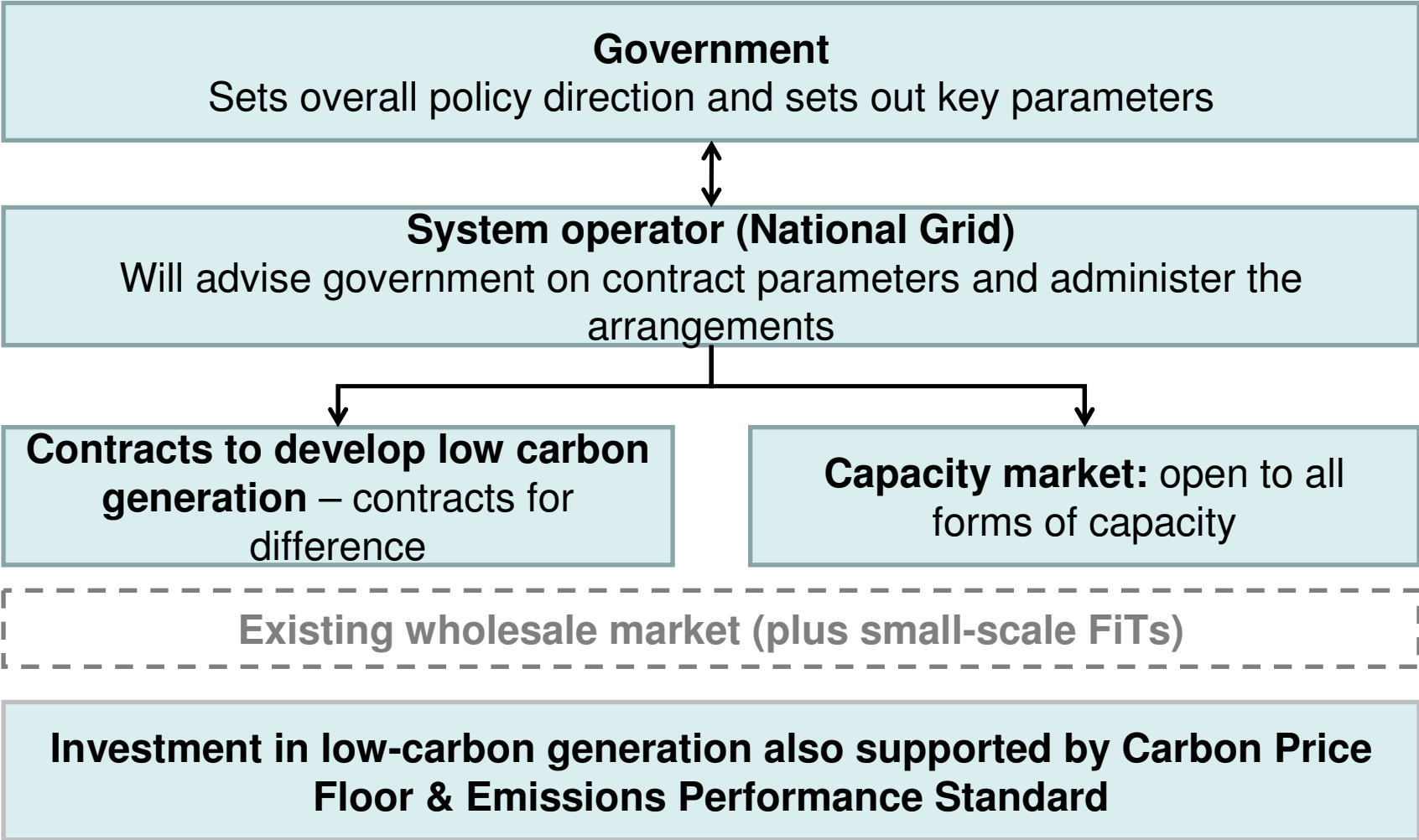
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The complete market reform framework



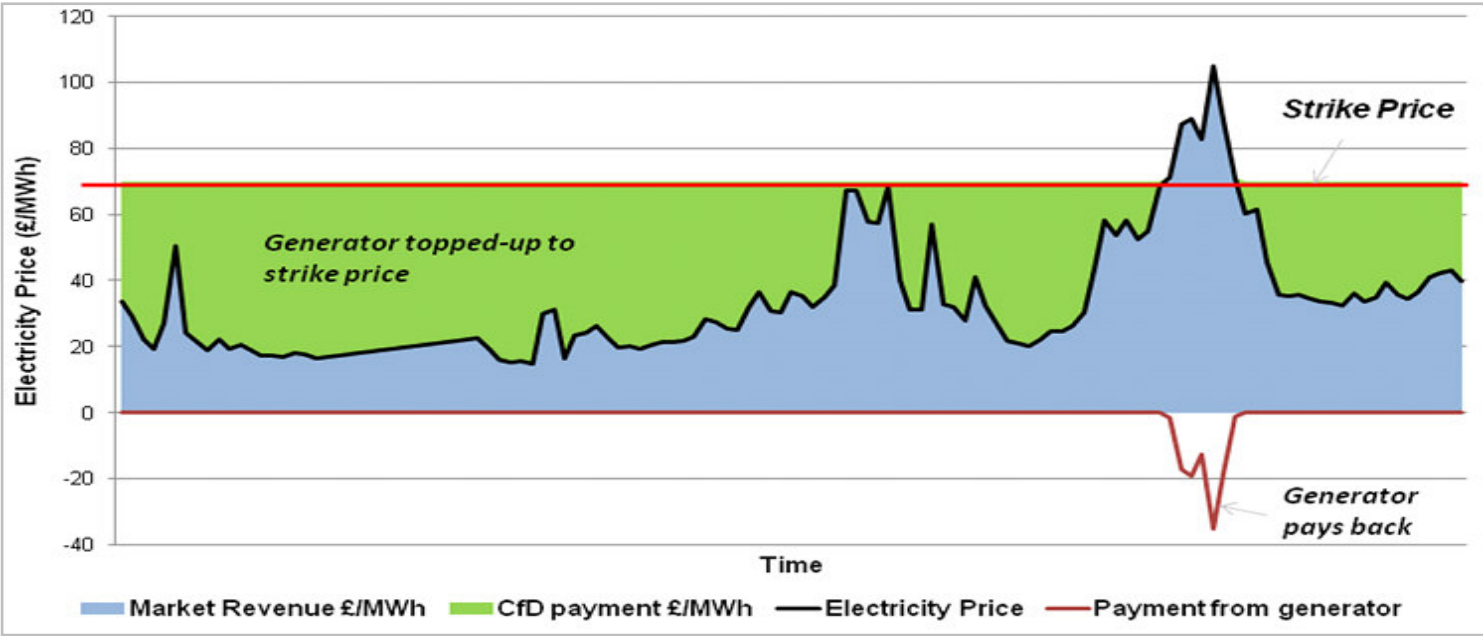
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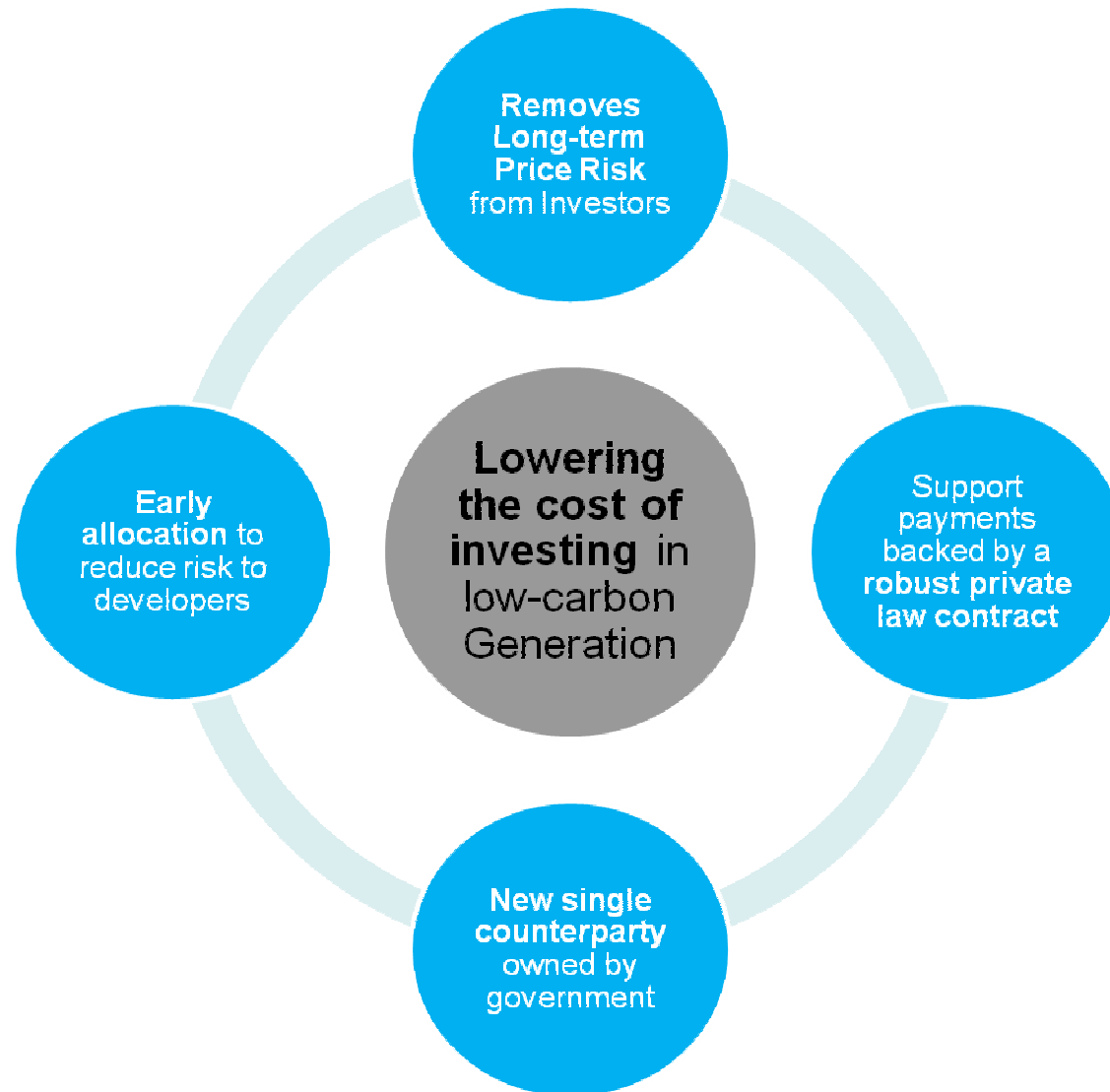
CfDs provide long term revenue stabilisation for low carbon technologies



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CfDs are designed to provide greater certainty to investors



Draft CfD Strike Prices (£/MWh, 2012 prices)



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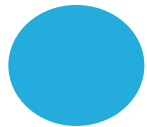
<u>Technology</u>	2014/15	2015/16	2016/17	2017/18	2018/19
Advanced Conversion Technologies (with or without CHP)	155	155	150	140	135
Anaerobic Digestion (with or without CHP) (>5 MW)	145	145	145	140	135
Biomass Conversion	105	105	105	105	105
Dedicated Biomass (with CHP)	120	120	120	120	120
Energy from Waste (with CHP)	90	90	90	90	90
Geothermal (with or without CHP)	125	120	120	120	120
Hydro (>5 MW)	95	95	95	95	95
Landfill Gas	65	65	65	65	65
Offshore Wind	155	155	150	140	135
Onshore Wind (>5 MW)	100	100	100	95	95
Sewage Gas	85	85	85	85	85
Solar Photo-Voltaic (>5MW)	125	125	120	115	110
Tidal Stream	305	305	305	305	305
Wave	305	305	305	305	305

CfD Contract Terms

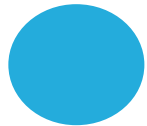
High-level positions



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27 June publication Set out Government's **policy on key terms** affecting value and risk allocation



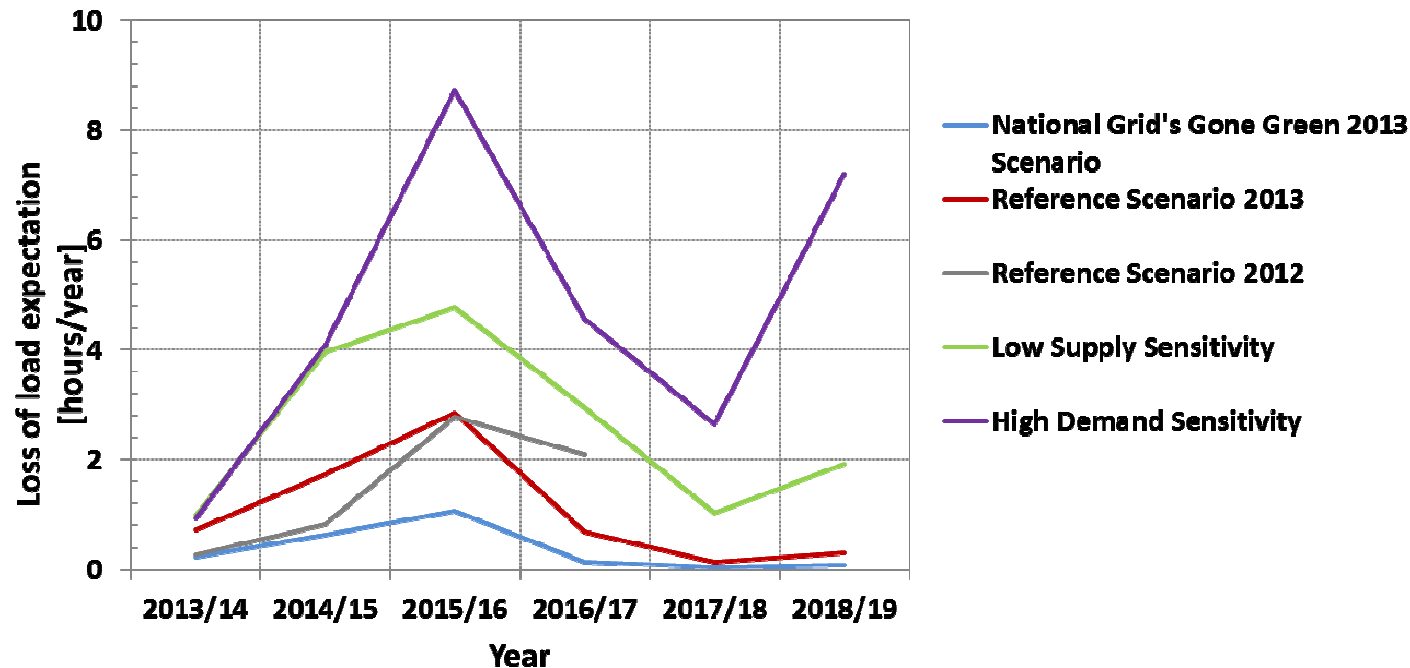
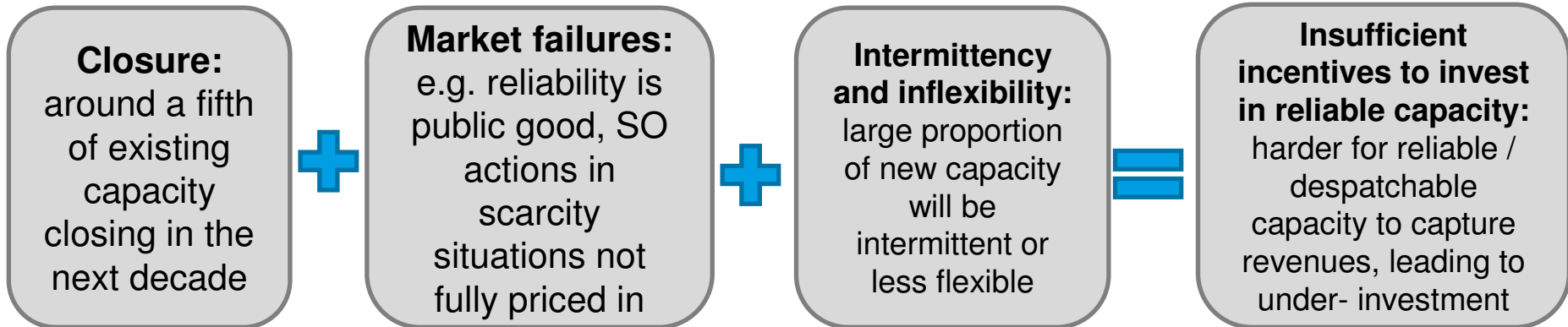
Significant aspects of the announcement:

- 100% indexation to CPI
- Baseload reference price: season-ahead, moving to year-ahead
- Termination: narrower scope & removing 'hair-triggers'
- Change of Law: some broadening of cover
 - General changes, without objective justification
 - Adjustments for some system costs and 'curtailment' risks

Next steps on CfD contract terms and allocation

Date	Milestone
Early August 2013	Draft contract terms & allocation design published
Summer 2013	Engagement with stakeholders on contract drafting and allocation design
Autumn 2013	Government consultations on secondary legislation for EMR
Winter 2013	Final Strike Prices, Contract Terms and Allocation design published
2014	First CfDs allocated

Capacity Market: why it's needed



Security of Supply – announced alongside the Spending Review



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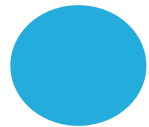


Capacity Market Reliability Standard

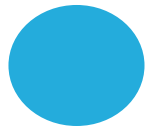


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Capacity to contract



Enduring reliability standard established by Govt – consulting on Loss of Load Expectation of 3 hours



System Operator forecasts peak demand, and translates into a capacity requirement to meet Reliability Standard

Next steps for the Capacity Market

Date	Milestone
Autumn 2013	Government consultations on secondary legislation for EMR
Winter 2013	Final Capacity Market reliability standard published (in Delivery Plan)
2014	First capacity auction

The Draft Delivery Plan – published 17 July



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Chapter	Description
1	Introduction
2	Contracts for Difference for Renewables
3	Capacity Market – Reliability Standard
4	Summary of Price and Bills impact
5	Forward look to 2030
6	Next steps
Annex A	Developing the modelling and analysis
Annex B	Strike price methodology
Annex C	Reliability standard methodology
Annex D	Levy Control Framework
Annex E	Report from the System Operator (National Grid)
Annex F	Panel of Technical Experts Report

Consultation closes 25 September 2013

Forward look to 2030



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Situation in 2030 depends on which technologies prove cheapest



Government has published potential scenarios in Chapter 5 of the Draft Delivery Plan



Scenarios are based on different views of how key technologies will develop

We are working towards implementation in 2014...



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Draft CfD Strike Prices Headline CfD terms CM design and first auction confirmed Draft EMR Delivery Plan for consultation June/July 2013	CfD contract drafting and Allocation Policy Update on CfD Supplier Obligation July/Aug 2013	Start implementation process with industry August 2013	Secondary legislation consultation Oct 2013	Royal Assent (subject to will of Parliament) Final EMR Delivery Plan Final CfD contract End 2013
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- **First CfDs signed under enduring regime – 2nd half of 2014**
- **First Capacity Market auction – end 2014**