

# Cash out & the Capacity Market

**Tim Lord**  
**DECC**

**30<sup>th</sup> April 2012**

# Agenda

---

- **An Overview of Electricity Market Reform**
- **Capacity Market**
- **Interaction with cash out**

## Why we think the electricity market needs reform

---

### **Decarbonisation:**

Electricity sector is key to meeting Government's 2050 decarbonisation goals

### **Security of supply:**

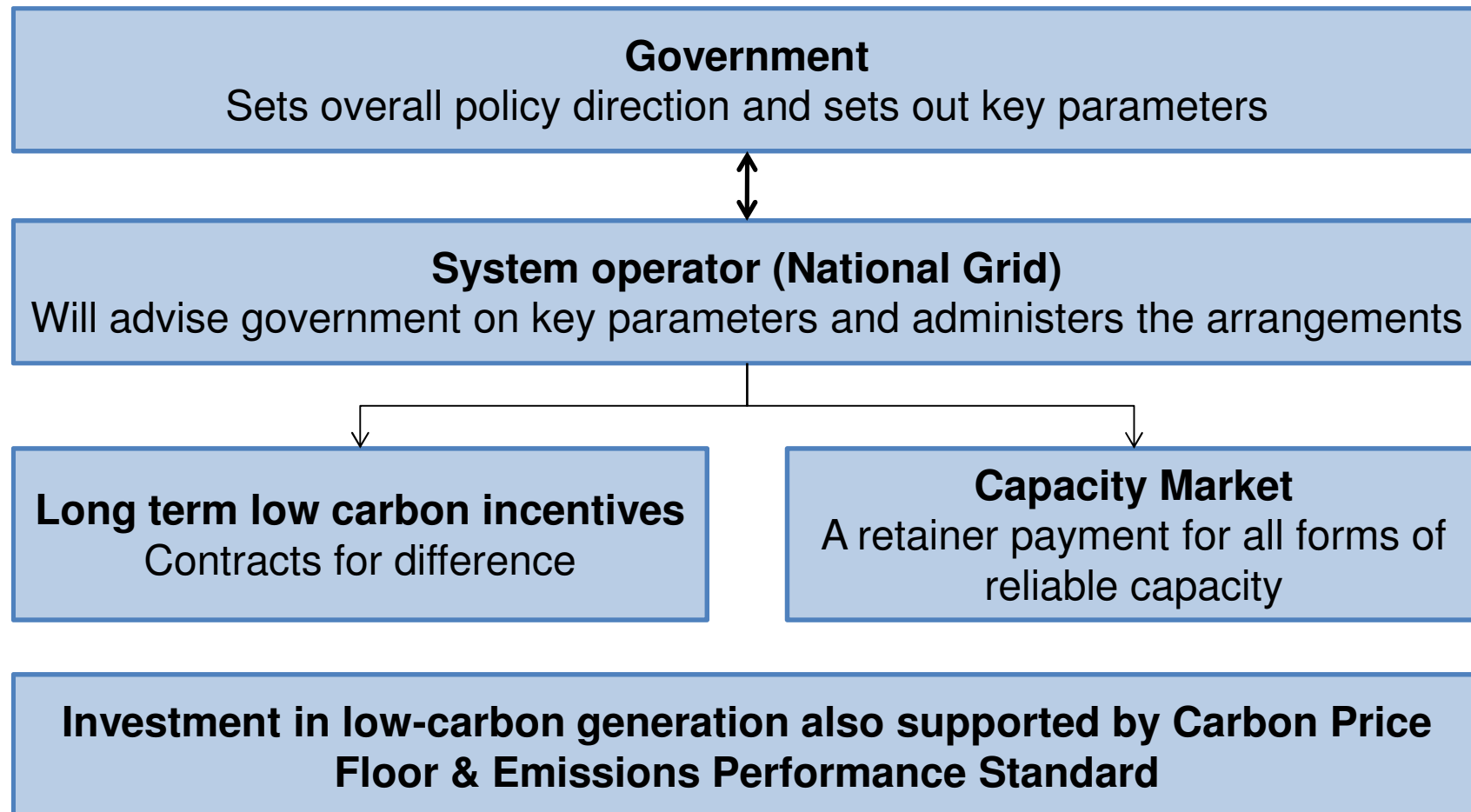
Need to ensure adequate reliable capacity

### **Affordability:**

need to deliver changes at least cost to consumers

# We have set out the proposed market reform framework and are aiming to legislate later this year

---



# Agenda

---

- **An Overview of Electricity Market Reform**
- **Capacity Market**
- **Interaction with cash out**

# Capacity Market objective

---

Capacity  
Market  
objective

To design and implement a Capacity Market which:

- a. enables the provision of adequate reliable capacity in the GB electricity market,
- b. at minimum cost to consumers,
- c. minimises unintended consequences and risks, and supports delivery of wider DECC objectives,
- d. and can be implemented to deliver capacity auction as early as 2014 if required.

## Capacity Market – high-level design

---

- **Forecast of peak demand** made, and translated into a capacity requirement
- Modelling of what market will bring forward – **timing of first auction decided by Ministers**
- Total amount of capacity contracted for from providers (potentially including DSR, storage etc as well as generation) through a **central auction**
- Providers of capacity **commit to be available when needed or face penalties**
- Capacity Market **operates alongside the energy market** – it does not replace it
- Costs of capacity shared between suppliers, probably in proportion to their market share.
- Detailed rules (e.g. on establishing the criteria for providing capacity, auction design, incentive regime) are set in **detailed design phase**

# Agenda

---

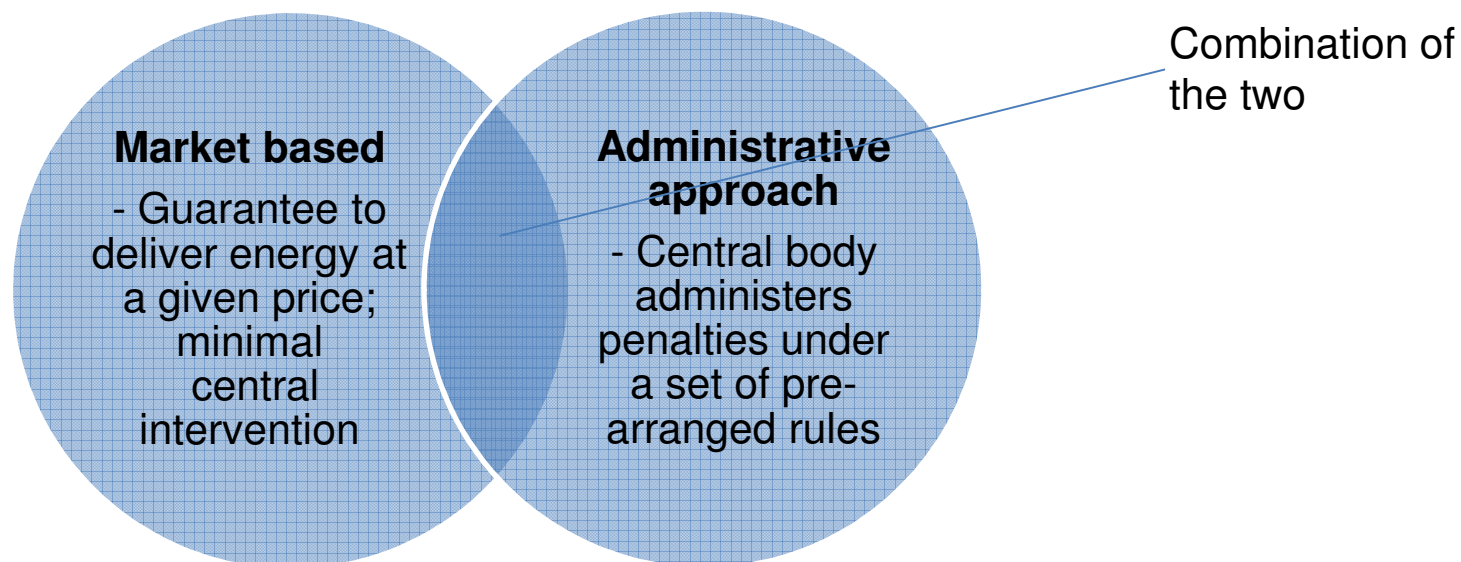
- **An Overview of Electricity Market Reform**
- **Capacity Market**
- **Interaction with cash out**



## How capacity providers are incentivised to deliver

---

- Capacity providers must be incentivised to deliver energy when needed
- This can be done through:



- Market-based penalties will require a reference price, which cash out will be important for
- Cash out will also improve security of supply in its own right by improving the incentives to balance