

Press Release

Friday 5 October 2012

PROJECTED TIGHTENING OF ELECTRICITY SUPPLIES REINFORCES THE NEED FOR ENERGY REFORMS TO ENCOURAGE INVESTMENT

- **Analysis by Ofgem based on joint modelling with National Grid shows tightening margins for electricity generation over the next four years**
- **Margins are projected to fall from 14 per cent in 2012/13 to 4 per cent in 2015/16**
- **Challenges identified in Ofgem's Project Discovery remain, but coal/oil stations now set to close before end of 2015**

Analysis by Ofgem published today for the Department of Energy and Climate Change as required by the Energy Act (2011) forecasts a reduction in electricity generation margins* over the next four years.

The report shows that electricity margins, the amount of spare generation capacity on the system, could fall from 14 per cent today to 4 per cent in 2015/16. Coal fired-generation is likely to close earlier than expected under EU environmental legislation and the risk of a shortfall in electricity is highest in 2015/16.

Ofgem's Project Discovery report in 2009 identified the problems that Britain faced of an unprecedented combination of the global financial crisis, tough environmental targets and the closure of ageing power stations would increase the risk to consumers' energy supplies and could lead to higher bills. Today's report shows that these problems have not gone away.

The Government now has an Energy Bill to address these issues and to encourage the investment into Britain to build new generation capacity.

Edward Davey, Secretary of State for Energy and Climate Change said: "I am grateful to Ofgem for providing to Government their first annual Electricity Capacity Assessment. It provides a comprehensive analysis of the security outlook and Government will consider carefully the implications. We will respond formally before the end of the year.

"Security of electricity supply is of critical importance to the health of the economy and the smooth functioning of our daily lives. That is why the Government is reforming the electricity market to deliver secure, clean and affordable electricity."

Ofgem's Chief Executive, Alistair Buchanan said: "The unprecedented challenges facing Britain's energy industry, identified in Ofgem's Project Discovery, to attract the investment to deliver secure, sustainable and affordable energy supplies for consumers, still remain. Ofgem is working with Government on its plans to reform the electricity market to tackle these issues.

"Ofgem is playing its part by helping Britain to attract nearly £30 billion of network investment through its RIIO price controls.

“Ofgem is also seeking sweeping reforms to the retail market to ensure a simpler, clearer and fairer energy market for consumers. This is vital as if consumers are going to be expected to pay for this investment, it is only right that they see a complete change in the way suppliers treat them. Encouragingly we are increasingly seeing evidence that suppliers have got the message and we will be publishing our next reforms proposals shortly.”

** Ofgem and National Grid have used a de-rated capacity margin which takes into account the intermittent nature of wind generation and the fact that conventional generation plants may not be available at all times because of maintenance or break down.*

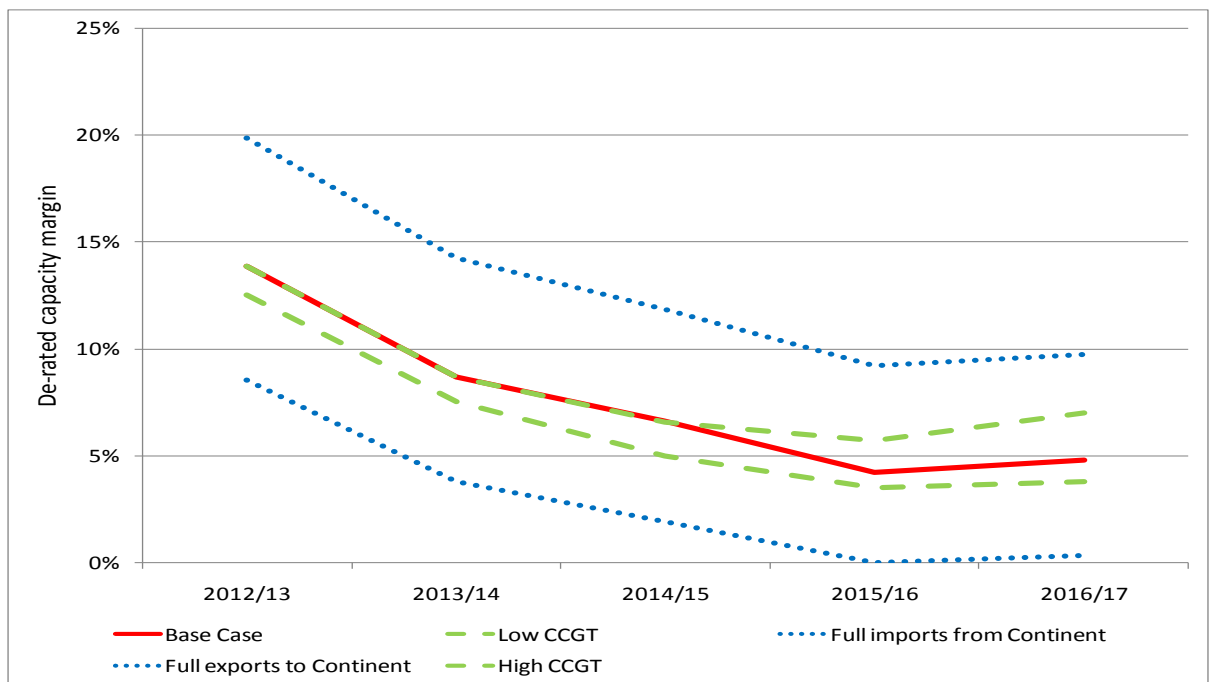
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Notes to Editors:

To look at the Capacity Assessment document please go to this page:

<http://www.ofgem.gov.uk/Markets/WhlMkts/monitoring-energy-security/elec-capacity-assessment/>

1. Capacity margin forecasts



The graph shows de-rated capacity margins for the Base Case and for sensitivities on interconnectors and CCGT mothballing and new build assumptions. It shows that de-rated margins are expected to decline significantly over the coming four years. Estimated margins decline from around 14% this year to just over 4% by winter 2015/16 in the Base Case. The high and low CCGT sensitivities show the range of uncertainty in CCGT mothballing and new build assumptions.

For more information see “Electricity Capacity Assessment, Ofgem report to Government” which is available from the Ofgem website.

2. Project Discovery

Ofgem's 2009 Project Discovery looked at a range of scenarios to assess the energy security risks for consumers over the next 10-15 years. Its scenarios highlighted a number of risks including:

- Britain will face significant levels of gas imports increasing our exposure to uncertainties in the global gas market, supply disruption and potential price increases,
- Given the levels of investment needed, there is a high likelihood of rising consumer bills, especially if oil and gas prices continue their underlying rise since 2003,
- The closure of aging power stations and the need to meet tough environmental targets, and
- The difficulty of attracting finance during a global financial crisis.

It concluded that leaving the present market arrangements unchanged was not an option given the challenge of delivering both security of supply and environmental objectives at affordable prices. The report's findings feed into the Government's review of the energy market which led to the current Energy Bill.

More information on Project Discovery is available from:

[http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Ofgem - Discovery - PR8 \(2\).pdf&refer=Media/PressRel](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Ofgem-Discovery-PR8%20(2).pdf&refer=Media/PressRel)

<http://www.ofgem.gov.uk/Media/PressRel/Documents1/Ofgem%20-%20Discovery%20phase%20II%20Draft%20v15.pdf>

3. The Energy Act 2011 requires Ofgem to produce this report for Government. Details of the act can be found at:
<http://www.legislation.gov.uk/ukpga/2011/16/section/79/enacted>

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