



Department
of Energy &
Climate Change

Cross-Border participation in the GB Capacity Market

Elaine O'Connell
15th January 2015



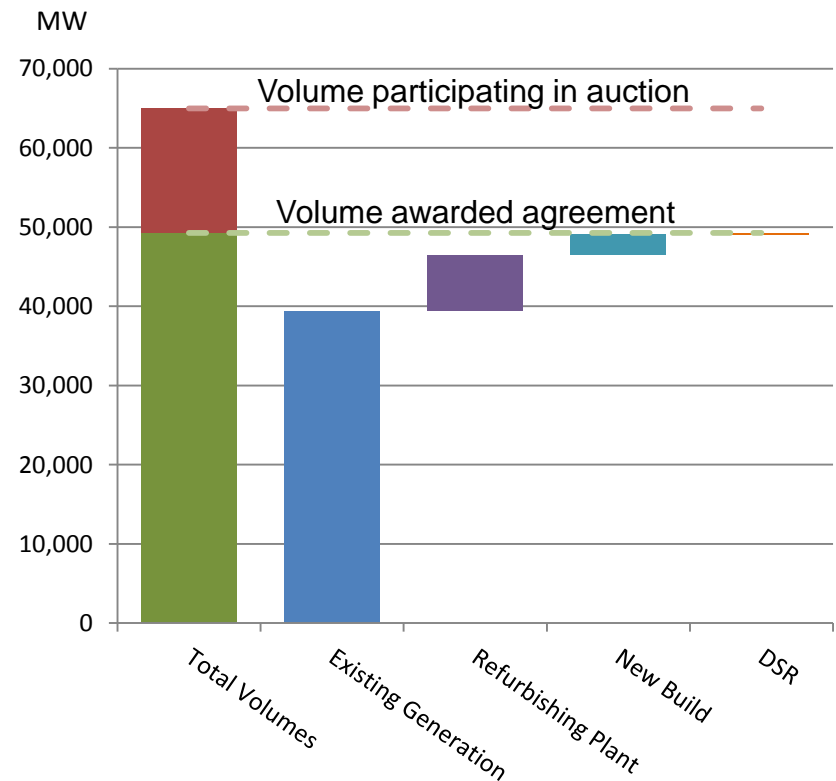
Agenda

- Capacity Market Results
- Cross border participation in the GB Capacity Market
- Next Steps



Results of 2014 Capacity Auction

- 65GW participated in auction
- 49.3GW of capacity secured for 2018/2019 – 76% of volume participating
- Capacity Price of £19.40 per kW p. a.
- 2.6GW of new generation including 1.6GW CCGT
- 39.4GW of existing generation
- 7GW of Refurbishing plant
- 0.17GW of DSR

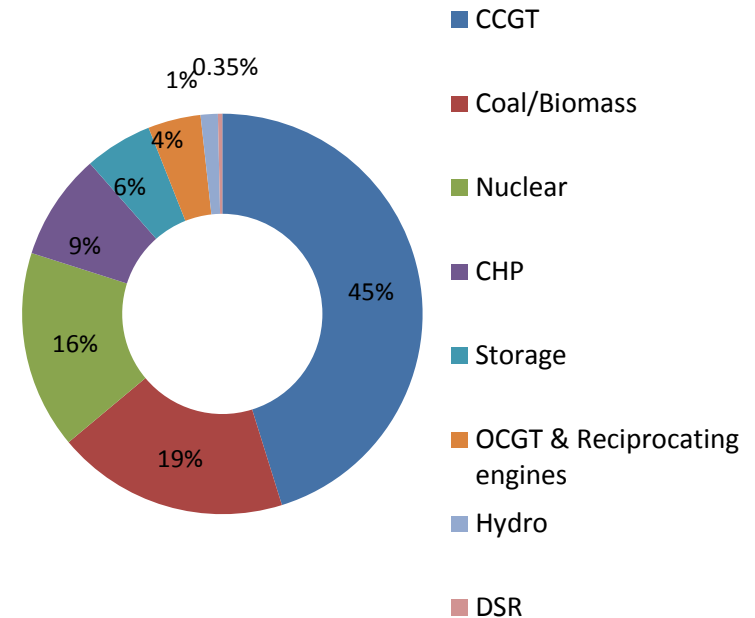


Source: DECC analysis; CM Register



Results of 2014 Capacity Auction

Capacity by Technology Type	
CCGT	22,259
Coal/Biomass	9,232
Nuclear	7,876
CHP	4,235
Storage	2,699
OCGT & Reciprocating engines	2,101
Hydro	682
DSR	174



Source: National Grid



How did we come to a GB approach?

- 2 public consultations – October 2013 & September 2014
- Extensive stakeholder engagement:
 - meetings with industry (IC developers, industry associations representing GB and non-GB generators)
 - relevant ministries in other European governments
 - European Commission: DG Energy, DG Comp
 - European agencies and associations.
- Consultancy study



Options considered

Initially considered simply extending eligibility to non-GB capacity but enhanced coordination needed between member states, TSOs, Regulators & EC:

- Agreement on what product is being traded
- Preparation for implementation:
 - determination of how much capacity to auction in the interconnected countries i.e. common approach to de-rating interconnectors
 - agreement on how to prequalify and de-rate plants in interconnected countries (UK currently connected to FR, NL & IRL)
 - inter-TSO agreements on how to test and verify/monitor these plants (and how to pay for this service)
 - the implementation of a zonal auction which is likely to have different clearing prices in different countries
 - international cooperation on the enforcement of penalties, agreement on how to split the penalty between the generators & interconnector
- Even if all this is achieved, it would be impossible to guarantee flows to GB during stress events - the basis of the current GB delivered energy model



Options for including Interconnection

	IC	Generator
Delivery	<ul style="list-style-type: none">- Obligation with party that does not have dispatch control- Flows governed by market coupling, not guaranteed to GB	<ul style="list-style-type: none">- Incentivises party with most (though not complete) influence- Complex arrangements needed (capacity to procure, M&V, penalty enforcement)
Availability	<ul style="list-style-type: none">- IC treated differently to national generation; distortion to investment incentives?- Politically difficult?	<ul style="list-style-type: none">- Non-GB generators treated differently to nat'l generation. Reduced/distorted investment incentives?- Politically difficult?

Interim GB approach: Interconnector-led delivery obligation

Capacity to procure

Interconnection contribution included in the amount to procure (no longer an amount to be subtracted)

Eligibility & Prequal

Interconnectors (individually de-rated) eligible to bid directly into the Auction for one year agreements.

Auction & Trading

Same treatment as domestic generation – existing ICs enter auction as price-taker, same treatment for secondary trading

Delivery

Same treatment as domestic generation – delivery performance monitored during periods of GB system stress

Payment

Same treatment as domestic generation – capacity payments made to interconnector owner.

Payments treated as market revenues for applicable revenue caps managed by Ofgem.



Benefits of GB approach

- Practical and implementable, builds confidence
- Good first step to improve modelling of individual markets
- Offsets any dampening effect on the wholesale price by the CM, thereby preserving investment opportunity for interconnection [enabling GB to deepen integration with the Single Energy Market]
- One year agreements would give us flexibility to move to an EU solution



Next steps

For GB:

- Lay regulations in Parliament (including IA): January 2015
- Amended Regulations come into force: March 2015
- Amended Rules published & in force: March 2015
- Next CM Auction (Dec 2015) for DY 2019/20 to include interconnection

For EU solution:

- Need the Commission to coordinate all groups working on cross-border approach to CMs:
DG COMP technical groups, DG ENER Electricity Coordination Group, Pentelateral forum, ACER, ENTSOe, IEA workshops...
- Coordinated timeline/programme for coming to an agreement



Department
of Energy &
Climate Change

Annex: De-rating



De-rating

- Secretary of State will provide the de-rating factor based on a number of inputs including analysis from National Grid
- Complex calculation – first step is to embed modelling to ensure consistency through FES, winter outlook, capacity report etc.
- Publish de-rating factors annually in June to the same timeline as for domestic generation (these are published by the Delivery Body in the auction guidelines)
- Interconnectors de-rated individually according to:
 - technical reliability and
 - likelihood of importing at times of system stress