

The goal of Electricity Market Reform (EMR) is to enable the UK to develop a clean, diverse and competitive mix of electricity that will meet the targets on renewable electricity and decarbonisation while providing security of supply to meet peak demand and keeping consumer bills as low as possible.

EMR drivers

| Decarbonise electricity by 2020 | Ensure security of supply | Affordability | Encourage investment to meet rising demand |
|--|---|--|---|
| 80% CO ₂ reduction by 2050, ~15% energy from renewables | Existing power station closures ~25% of total capacity by 2020 | Minimise impact on bills by insulating against volatile fossil fuel prices | Transport |
|  |  |  |  |

Our role in delivering EMR

National Grid was selected as the EMR Deliver body responsible for:

| | | | |
|----------|------------------------|---------------------------------|---|
| Planning | Capacity market | Contracts for difference | Report progress against expected outcomes |
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Capacity market

The capacity market is intended to encourage investment in generation capacity, demand-side response and storage to meet peak energy demand in the medium to long term at least cost to customers.

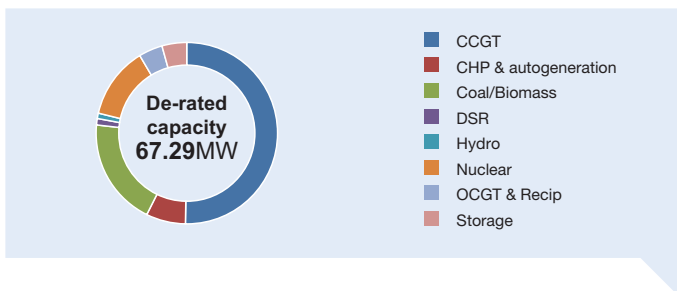
National Grid's role

Implementation Coordinator

Informing the policy design and ensuring appropriate industry engagement so that all potential participants have a necessary understanding of the Capacity Market systems and processes

Delivery body

Manage key pre-qualification, application and auction processes, including running capacity auctions and administering resulting capacity agreements with generation and demand side participants



Basic principles

- Existing, refurbished and new build generation as well as demand side response have the opportunity to "bid" for capacity in an auction run by National Grid
- Successful bidders receive the auction cleared price where capacity matches target volume and will be paid a fee for a set agreement period to generate or reduce demand when called upon
- Fees will be passed to consumers via electricity suppliers

| Contract | Type | Price cap |
|----------|-----------|-----------|
| 1 year | Existing | £75/kW |
| 3 year | Refurb | £125/kW |
| 15 year | New build | £250/kW |

- Failure to meet the obligations will result in a penalty of 1/24 of the annual capacity payment
- A first capacity auction happens four years ahead of the delivery year and a second auction one year ahead. Auctions for Demand Side Response capacity will be held annually from 2016

| Prequalification round | 4 Aug–5 Sep | Prequalification results day | 3 Oct | Capacity Auction | 16 Dec–19 Dec |
|------------------------|-------------|------------------------------|-------|------------------|---------------|
|------------------------|-------------|------------------------------|-------|------------------|---------------|

- All licensed generation must prequalify or opt out
- Existing, refurbished and new build generation and demand side response may apply
- Declarations: Solvency, legal ownership, certificate of conduct, etc.
- 76.61 GW of prequalified capacity, 67.29 GW of de-rated capacity
- 11.64GW of prospective generation and demand-side response
- 325 capacity market units (CMUs)
- >80% of declared generation opted in
- First auction for 2018/19 delivery year: 50.8GW
- Descending clock auction, 4 rounds per day
- Auction opens at £75/kW, round price decrement £5/kW
- Results announced by 5 January 2015

Contracts for difference

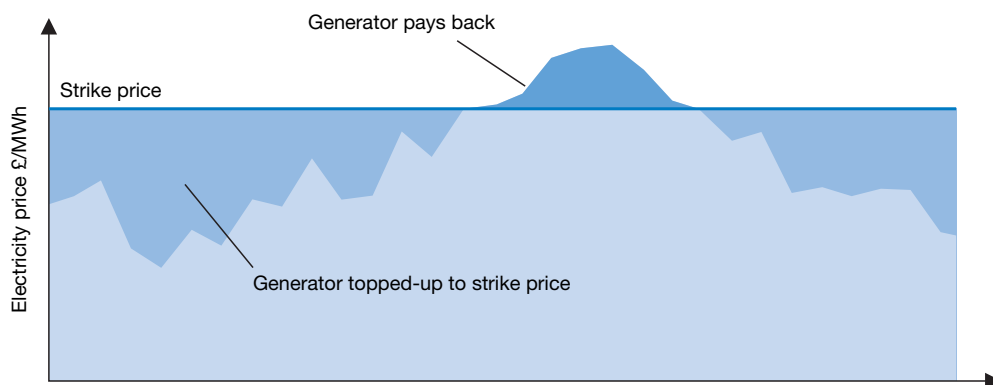
Contracts for difference (CfDs) are long-term contracts meant to provide stable and predictable incentives for companies to invest in low carbon generation.

Overview

- CfDs provide top-up payment to generators, with the size of the payment being the difference between the price that a generator could be expected to sell its energy for in the wholesale energy markets and the contracted strike price.
- In the event that the revenues a generator could be expected to receive in the wholesale energy market exceeds the strike price, the generator would repay the difference providing certainty to investors and protection for consumers
- Eligibility requirements: Connection agreement(s)/ Countersigned Offer(s), planning permissions, supply chain plan \geq 300 MW, supplemental requirements for phased offshore projects

National Grid's role

- Strike prices set by Department of Energy and Climate Change (DECC) in December 2013 and were informed by analysis from National Grid
- Administer the eligibility and allocation process for the CfDs mechanism
- Report progress against milestones for CfD build and progression towards CO₂ targets



| | |
|--|--|
| Pot 1 Established technologies | <ul style="list-style-type: none"> ■ Onshore wind (>5MW) ■ Solar Photovoltaic (>5MW) ■ Energy from waste with CHP ■ Hydro (>5MW and <50MW) ■ Landfill gas ■ Sewage gas |
| Pot 2 Less established technologies | <ul style="list-style-type: none"> ■ Offshore wind ■ Wave ■ Tidal Stream ■ Advanced conversion technologies ■ Anaerobic Digestion ■ Dedicated biomass with CHP ■ Geothermal |
| Pot 3 Potential established technologies | <ul style="list-style-type: none"> ■ Biomass conversions |

| Process Step | Date | |
|-------------------------|----------------|----------------|
| Application Window | 16 Oct–30 Oct | |
| Appeal Requests | 8 Nov–12 Nov | |
| Eligibility Results Day | 13 Nov | |
| Review Requests | 14 Nov– 20 Nov | |
| | Scenario 1 | Scenario 2 |
| Review | N/A | 21 Nov–5 Dec |
| Auction Notice | 2 Dec | 17 Feb |
| Sealed Bids | 3 Dec–9 Dec | 18 Feb – 2 Feb |
| CfD Notifications | 6 Jan | 18 Mar |

Important notice

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