

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 <sub>2</sub> 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	<b>Capacity market</b>	<b>Contracts for difference</b>	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.

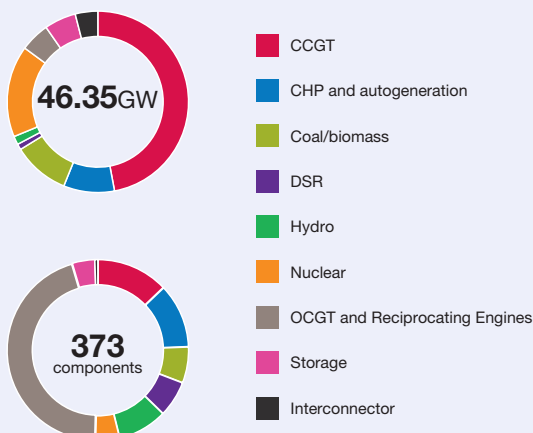
#### National Grid's role

As the delivery body National Grid manages key pre-qualification, application and auction processes, including running capacity auctions and administering resulting capacity agreements with generation and demand side participants.

#### 2015/16 Results

- 46.35GW of generation received contracts

#### Capacity awarded by technology type



#### Basic principles

- All licensed generation is required to prequalify or opt out
- 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
- Next Auctions:
  - New 'Early Auction' in January 2017 for delivery in 2017/18
  - Second Transitional Arrangements Auction in March 2017 for delivery in 2027/18
  - Third T-4 Auction in December 2016 for delivery in 2020/21
  - Pre-qualification for all three auctions will run in parallel during August 2016

## Contracts for difference

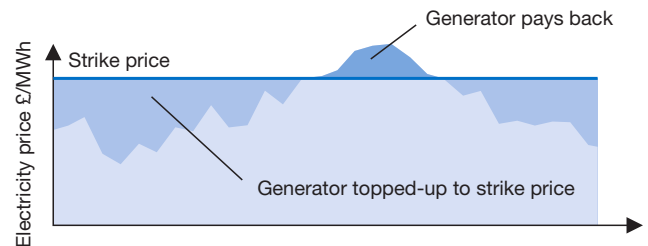
Contracts for difference (CfDs) are long-term contracts meant to provide stable and predictable incentives for companies to invest in low carbon generation.

### 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 >= 300 MW, supplemental requirements for phased offshore projects

### National Grid's role

- Strike prices set by Department of Energy and Climate Change (DECC) and were informed by analysis from National Grid
- Inform the CfD policy design
- Deliver customer engagement to enable applicant readiness and knowledge ahead of and during CfD Round
- Administer the eligibility and allocation process for the CfDs mechanism



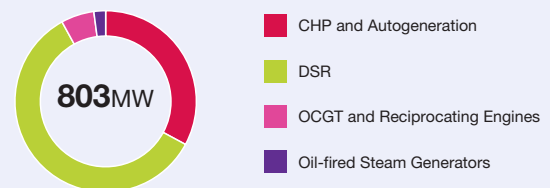
### CfD round 1 pots

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

### 2015/16 Results

- Applications exceeded program budget set by DECC, lowering the cost to consumers
- 27 applicants were offered CfDs; 25 signed contracts

#### Capacity Awarded by Technology type



### CfD round 2

There were no CfD Allocation Rounds opened in 2015, this followed a decision by DECC in Autumn 2015 to run at least three CfD Rounds in the current parliament. DECC have announced that the next CfD Round will open in late 2016. In March 2016, HMT announced an update to the CfD budget

Key Points from the announcement:

- Government has confirmed that £730m (per year for each year of 15 year contracts) has been allocated to the next wave of Contracts for Difference (CfD) auctions to be held this Parliament

#### Important notice

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