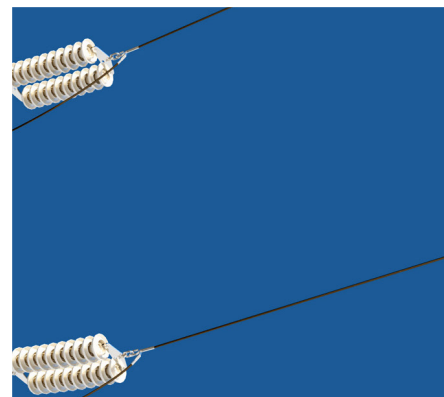
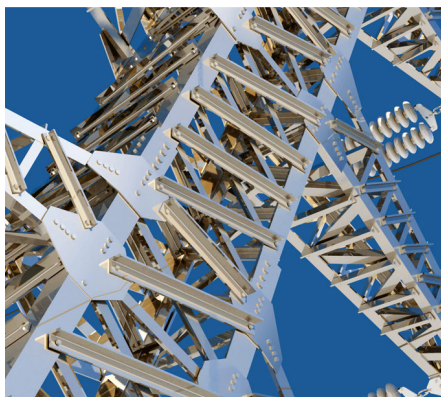


## Reforming the Capacity Market



On 31 March 2016, the Institute for Public Policy Research released its report entitled "Incapacitated: Why the capacity market for electricity generation is not working, and how to reform it" (the Report) – the full text of which can be found [here](#).

### Problems identified with the Capacity Market

The Report states that the Capacity Market is "failing". The key problems outlined in the Report are that the Capacity Market:

- provides poor value for money as it subsidises generators who would provide capacity regardless of the subsidies;
- works against decarbonisation as it provides a lifeline to coal power plants; and
- focuses on generation rather than smart energy technologies such as demand response and electricity storage.

### Key recommendations

The Report recommends:

- splitting the Capacity Market into two separate auctions, being one for old capacity and one for new capacity. At present, a uniform strike price is awarded to old and new generation which the Report believes has failed to boost new generation;
- applying an emissions performance standard to all capacity in receipt of capacity payments, with the aim of preventing carbon intensive generation from accessing the Capacity Market;
- requiring new large scale gas power plants to use carbon capture and storage if they are to stay open in the long term; and
- granting demand response providers access to longer contracts.

### European context

Issued on 13 April 2016 the European Commission outlined in its interim [report](#) that capacity mechanisms should "allow all potential capacity providers or technologies to participate" as to do otherwise would "limit competition among suppliers" or "raise the price paid for the capacity". Indeed, the Capacity Market was described by the European Commission, in its state aid approval of the Capacity Market in 2014, as embracing "the principles of technology neutrality and competitive bidding to ensure generation adequacy at the lowest cost for consumers, in line with EU state aid rules". With the final European Commission report on capacity mechanisms due later this year, it will be interesting to see the extent to which both sets of recommendations can co-exist.

For further information or advice on any of the issues discussed in this briefing note, please get in touch with Danny Lee or John Morrison.



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