



Department
of Energy &
Climate Change

Annex F: Indicative Electricity Market Reform Implementation Roadmap

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Executive Summary

The indicative Electricity Market Reform (EMR) implementation roadmap sets out the **indicative key milestones, processes and activities on EMR between now and 2020**.

The roadmap and narrative looks at the individual aspects of EMR – the legislative timetable, delivery plan, Contracts for Difference (CfD), Capacity Market, Emissions Performance Standard, and Renewables Obligation (RO) transition - and also sets out how these instruments will work together.

The plan provides detail on how processes like the **production of the first delivery plan** (including the administrative price setting for CfDs), the **move to technology specific competitive price setting**, the **potential initiation of the Capacity Market** and first auctions, and the **transition from the RO to the CfD**, will work, and provides indicative timings.

The roadmap also sets out how the responsibilities for delivering these indicative milestones are split between Government and the System Operator, and intends to provide more clarity to potential investors, developers, and capacity providers on what information they will receive and by when, in order to help them understand how they can get a CfD or participate in the Capacity Market, and on when key further information will be made available to them

The Roadmap

1. The roadmap is indicative, illustrating our emerging thinking on the timing of activities on EMR. The aim is to provide a visual representation of key stages up to 2020 and to show how the strands of EMR will work together. For more information on the strands, refer to the individual annexes. All activities and milestones are subject to change as the detailed design process continues and are dependent on the passage of legislation through Parliament.
2. As we proceed with the detailed design phase our planning will be refined further. We will therefore update the roadmap on our website to ensure stakeholders are kept abreast of any changes to the timeline and latest developments.
3. The following sections provide further explanation on the milestones set out in the roadmap.

Legislation

4. This line of the roadmap sets out the key steps and milestones required to legislate for the EMR framework and are subject to Parliamentary time and the will of Parliament. We will continue throughout this period to work with industry to develop detailed implementation plans for the required changes to license conditions and codes.
5. The Energy Bill has been introduced into Parliament alongside the publication of this document. We envisage that the Bill will spend most of 2013 in Parliament, and will likely

receive Royal Assent by the end of that year, subject to the will of Parliament. We will work with the three Devolved Administrations (DAs) to ensure necessary Legislative Consent Motions are secured to reflect relevant devolved competencies.

6. Secondary legislation is being developed in parallel to the passage of primary legislation through Parliament, with a view to consultations from October 2013 onwards. Further amendments will be made in light of stakeholder feedback, before laying the statutory instruments before Parliament with the aim of Secondary legislation coming into force around mid 2014, subject to the will of Parliament
7. The EMR delivery mechanisms will be up and running in 2014.

Producing the EMR delivery plan

8. This section of the roadmap sets out the proposed process through which Government intends to take policy decisions, and the process for publishing these in a delivery plan every five years and through annual updates. All timings are, as above, subject to the passage of legislation through Parliament.
9. The process to produce the first delivery plan (for 2014-2018) has begun, with the System Operator putting out a call for evidence¹ to assist them in conducting detailed analysis to inform Government's decisions to be contained within the first EMR delivery plan. The Government will establish a Panel of Technical Experts to scrutinise the System Operator's analysis and they will present a report of their assessment to Government alongside the evidence and analysis provided by the System Operator.
10. In this period, Government will follow the process described in Annex E (for example, consulting with the DAs). Government will make provisional policy decisions and set these out in a draft delivery plan to be published in July 2013, for public consultation. The content of the first delivery plan is explained in Annex E.
11. Following consideration of consultation responses and the process described in Annex E, Government will publish the final delivery plan by the end of 2013, subject to Royal Assent.
12. Following the first EMR delivery plan, the Government will publish annual updates. These will be informed by reports from the System Operator which will reflect new information on delivery of the mechanisms (for instance the type of contracts signed including the capacity in MW, and the results from the Capacity Market auction), and updated analysis of the implications for Government's objectives.
13. The 2015 annual update is likely to include the CfD strike prices for renewables for later years of this decade, as it would be difficult to appropriately or accurately set those strike

¹ http://www.decc.gov.uk/en/content/cms/news/pn12_121/pn12_121.aspx

prices in the first delivery plan. The documents will also, where possible, signpost the timeline for key changes in the operation of the CfD or Capacity Market, including, for example, the timing of the move to competitive price setting for CfDs. Government intends to publish an annual update to the delivery plan during Q4 of each year.

14. In 2018, Government will publish its second delivery plan, covering the period 2019-2023. By this point, we expect it is likely that some technologies will have moved away from administrative price setting to more competitive price setting. We intend to set out the expected content, analytical requirements and process for future delivery plans and annual updates in more detail in July 2013 alongside the draft delivery plan.

Contracts for Difference

15. This line of the roadmap sets out the process for implementing the CfDs for renewable projects, including the setting of the first round of renewable strike prices; the establishment of the CfD counterparty; the publication of the final CfD contract; the commencing of the CfD regime; price setting for the second round of renewables strike prices; and the move towards technology specific auctions. It also shows that prior to the full implementation of the CfD regime in 2014, 'investment contracts' will be available for eligible projects across all low carbon technologies through the final investment decision enabling (FID Enabling) process, to provide confidence to developers needing to take early final investment decisions. Investment contracts would be entered into by the Secretary of State (and contracts entered into before Royal Assent would be conditional on enactment of the Bill), and could be transferred to a CfD counterparty once the CfD regime is fully established.
16. Government will publish the final CfD contract in July 2013, and provide further detail on the allocation and price-setting process for CfDs for CCS and nuclear projects at the same time.
17. Government will publish final CfD strike prices for renewable technologies in the delivery plan, by the end of 2013, subject to Royal Assent, and they will be given effect through secondary legislation as set out above.
18. Following this, developers will be in a position to prepare for the first allocation of CfDs which is scheduled to take place in 2014.
19. In order to give technologies with long build times sufficient visibility in the run up to 2020, the price discovery process for the second round of renewable strike prices is likely to begin in 2014 and likely be published in the 2015 annual update to the EMR delivery plan. This will set strike prices for 2019 and 2020.
20. DECC, with the System Operator, will continue to carry out analysis on whether technology specific competitive price setting processes can begin. It will conduct analysis on whether the market conditions supporting successful competition exist. The auctions for renewables may begin in 2017.

Capacity Market

21. This line sets out the process for the design of the Capacity Market and how the auctions will be run. The Government is minded to run the first auction in 2014, for delivery of capacity in the year beginning in the winter of 2018/19. A final decision will be taken subject to evidence of need. This will be informed by updated advice from Ofgem and National Grid which will consider economic growth, recent investment decisions, the role of interconnection and energy efficiency, as well as consideration of the outcome of the review of the 4th Carbon Budget.
22. If implementing the Capacity Market the Government also intends to run pilot auctions for delivery of demand side response (DSR) and storage from 2015–18, to provide additional capacity during this period.
23. Government has published emerging design choices on the Capacity Market in Annex C, and will publish final design proposals in May 2013. Government plans to consult on the detailed design for a Capacity Market from October 2013 onwards as part of the consultation on the secondary legislative package.
24. If the first capacity auction is run in 2014, we envisage the auction cycle entailing the following steps (all dates below are indicative):
- i) December 2013 – In the 2014-2018 delivery plan, Ministers publish indicative capacity to contract for in 2014 auctions;
 - ii) January 2014 – Capacity providers begin preparation of their bids and pre qualification for auctions;
 - iii) July 2014 – Ministers make final decision on capacity to be contracted in 2014 auctions; System Operator puts final auction rules in place;
 - iv) July 2014 – System Operator reviews and verifies eligibility of potential capacity providers, in line with any criteria determined as part of the detailed design of the Capacity Market;
 - v) September 2014 – System Operator holds full capacity auction for delivery year 2018-19, and DSR auction for delivery in 2015/16;
 - vi) October 2014 – Government considers outcome of 2014 auctions;
 - vii) December 2014 – Government publishes (in the annual update to the delivery plan) the outcome of 2014 auctions along with decision on the indicative capacity to be contracted in the 2015 capacity auctions;
 - viii) October 2015 – DSR and storage capacity contracted through transitional arrangements must be delivered. Capacity payments made to these providers;
 - ix) October 2018 – Capacity contracted in full capacity auction must be delivered. Capacity payments made to all providers.
25. Once capacity auctions are initiated, a similar cycle would then be run in subsequent years, though the final transitional auction specific for DSR will run in 2016 for delivery of capacity in 2017/18. From 2017, there will be secondary auctions one year in advance of delivery.

26. In the example above, capacity providers would need to make capacity available from Q4 2018. Capacity providers would receive capacity payments in the delivery year.

Emissions Performance Standard

27. This line sets out the process for the introduction of the Emissions Performance Standard (EPS), monitoring compliance with it, and Government reviews of it. The EPS regime is intended to apply to any new fossil-fuel plant granted development consent after the EPS comes into force in January 2014 (the EPS may also apply to existing coal plant that undergo certain significant upgrades or life extensions after it comes into force). Government intends to commence work on regulations that will determine detailed aspects of the regime in April 2013 and plans to consult on these from October 2013. We expect Government will respond to the consultation in January 2014, with the regulations laid before Parliament shortly after and coming into force in mid 2014, subject to Parliamentary time and the will of Parliament.

28. We will continue to work closely with the DAs in establishing the necessary regulatory regime, with monitoring and enforcement of the EPS carried out by the DAs' respective environmental regulator.

29. As part of monitoring compliance with the EPS, it is our intention that plant will report their annual CO₂ emissions to the relevant environmental regulator by the 31 March following the relevant calendar year, as part of their reporting commitments under the EU Emissions Trading System. Given the time it will take to construct a plant once consented, we expect the first annual CO₂ emissions reports to be submitted to the regulators in 2017/18 at the earliest and every year thereafter.

30. The Government will review key elements of the EPS (including its level) on a regular basis. This will form part of the decarbonisation reporting process required under s5 of the Energy Act 2010². In practice, the first review of the EPS will be as part of the report due by the end of 2015.

Transition from the Renewables Obligation

31. This line sets out how the move from the current RO to the CfD will work for renewable generators.

32. In March 2013, Government will consult on draft regulations that will enable new renewables developers to choose which support regime they wish to participate in, the RO or the CfD, between 2014 and 2017. Government will publish a response to the consultation in the autumn of 2013. Following any necessary revisions to the regulations, they will then be laid as secondary legislation before Parliament in early 2014 and are likely to come into force on 1 April 2014. From this point until 31 March 2017, new renewable generation will have a one

off choice between participating in the CfD or the RO. The RO will close to new accreditations (and additional capacity commissioned at existing stations) on 31 March 2017, and no new generation will be able to accredit under the RO from that date.

33. We will offer limited grace periods for projects which have been delayed by factors outside the developer's control (e.g. delayed grid or radar installation).
34. From 31 March 2017 until 31 March 2027 the RO will be vintaged. This means that all technologies currently grandfathered will remain so during this period. On 31 March 2027, Government will fix the price of a Renewables Obligation Certificate – 'Fixed ROC' - to 31 March 2037, at which point the RO will close. Government will consult on fixed price ROCs and expects to do this in Q3 2014. Government intends to lay the Fixed ROC regulations as secondary legislation in Parliament in Q1 2015, and subject to the will of Parliament they will come into force in Q2 2015.

² http://www.decc.gov.uk/en/content/cms/legislation/energy_act_10/energy_act_10.aspx

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