

**ELECTRICITY MARKET REFORM: 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 2012 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, 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 auctions**, the **possible initiation of the capacity market** and first auctions, and the **transition from the RO to the CfD**, will work, and key indicative timings.

The roadmap also sets out how the responsibilities for delivering these indicative milestones are split between Government and the System Operator (SO), 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 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 a regular basis on our website to ensure stakeholders are kept abreast of any changes to the timeline and latest developments. We intend to publish the first update of the roadmap when the Energy Bill is introduced into Parliament later in 2012.
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 of the required changes to license conditions and codes.
5. The draft Energy Bill has been published for pre legislative scrutiny. Following this, any required revisions to the Bill will be made and the Bill is likely to be introduced into Parliament in late 2012. We envisage that the Bill will spend most of 2013 in Parliament, and will likely receive Royal Assent towards the end of that year. We will work with the three Devolved Administrations to ensure necessary Legislative Consent Motions are secured to reflect relevant Devolved competencies.
6. The process for developing secondary legislation is likely to begin in summer 2013, with a consultation expected to take place towards the end of that year. Further amendments will be made in light of stakeholder feedback with a Government response published around early 2014, before laying the statutory instruments before Parliament shortly afterwards. Secondary legislation will come into force around mid 2014.

PRODUCING THE EMR DELIVERY PLAN

7. The roles within the proposed institutional framework described in Annex A involve Government setting the policy approach and taking key policy decisions against which the SO will deliver the CfD and Capacity Market. The roadmap sets out the proposed process through which Government intends to take those policy decisions and publish them in a delivery plan every five years and annual updates. All timings are, as above, subject to the passage of legislation through Parliament.
8. The process to produce the first delivery plan (for 2014-2018) will start later in 2012 when the SO will begin to gather evidence and conduct detailed analysis to inform the Government's policy decisions, for example, on the CfD strike prices. The Government will establish a Panel of Technical Experts to scrutinise the SO's evidence and analysis and they will present a report of its assessment to Government alongside the evidence and analysis provided by the SO.
9. Based on this analysis, Government will follow the process described in Annex A (for example, consulting with the Devolved Administrations) and make provisional policy decisions. Government will set these out in a delivery plan to be published in draft form by mid-2013, for a public consultation on the underpinning analysis. The intended contents of the 2014-2018 plan are summarised in Figure 2 in Annex A.

10. Following consideration of consultation responses and the process described in Annex A, Government will publish the final delivery plan by the end of 2013.
11. The SO will report annually to Government with information on delivery of the mechanisms (for example, number and type of CfDs allocated and the volume of capacity contracted for under the Capacity Market once initiated), and updated analysis of the implications for Government's objectives and plausible pathways, which were set out in the five yearly delivery plan. Assuming capacity auctions are initiated, this could also include the updated security of electricity supply outlook and advice on the volume required for the upcoming auction. The information contained in the SO's report will enable Government to publish an annual update to the delivery plan by the end of Q4 of each year. These updates will ensure that investors have visibility of any changes to future strike prices. For example, we expect the 2015 annual update to contain the renewable strike prices for 2019-2020.
12. 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 technology-specific auctions and therefore the content of future delivery plans will reflect that accordingly. The expected content of future delivery plans is set out in Figure 2 in Annex A. As for the first delivery plan, the SO will feed in evidence and analysis to Government ahead of publication, following a similar process as described above and in detail in Annex A, including the publication of the annual report.

CONTRACTS FOR DIFFERENCE

13. This line of the roadmap sets out the process for implementation of the CfDs, including the setting of the first round of strike prices; the commencing of the CfD regime; price setting for the second round of strike prices; and the move towards technology specific auctions.
14. For the remainder of 2012, Government and the SO will undertake further analysis and continue to work on the detailed design of the CfD. We will also continue to engage with interested parties and the expert group on our proposals set out in the draft Operational Framework. The final version of the Operational Framework will be published this autumn, and will give developers sight of the CfD contract terms.
15. In summer 2012, as part of preparations for the Government's 2014-2018 delivery plan to be published in 2013, the SO will commence the price discovery process for the first set of CfD strike prices which will come into force in 2014. It is proposed that Government appoints a Panel of Technical Experts to scrutinise the SO's analysis (and any consultants they engaged) which will include reviewing the cost and deployment data and the methodology associated with that data collection process.

16. Government will publish final CfD strike prices for legislation in the delivery plan and they will be given effect through secondary legislation as set out above.
17. Following this, the CfD regime will be fully commenced and CfD contracts will be available, and once signed and the plant is generating, CfD payments will begin to be made to Developers.
18. 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 strike prices is likely to begin in 2014. This will set strike prices for 2019 and 2020.
19. The SO will continue to carry out analysis on whether technology specific auctions can begin. It will assess evidence on whether the market conditions supporting successful auctions exist. For those technologies with longer build times that are deploying after 2020, we would expect this to start happening from 2016. The auctions may begin in 2017. Following the auction the SO would report back to Government on the amount of capacity that came forward in that auction.

Box 1: Further information for Developers and investors on CfD

We understand that it is crucial to give investors and renewable developers who may wish to get a CfD the maximum amount of certainty and visibility on key decisions and relevant information.

Therefore by autumn of this year we will publish the final CfD Operational Framework which will set out final contract terms. The draft delivery plan, to be published by mid 2013, will give first sight of draft strike prices, which will be confirmed when the final delivery plan is published by the end of 2013. This will give developers and investors up to a year visibility on intended strike prices before they come into force in mid 2014.

CAPACITY MARKET

20. This line sets out the process for the design of the Capacity Market, and then once a decision has been taken to initiate it, how the auctions will be run.
21. Government will continue working on the detailed design of the Capacity Market throughout 2012 with stakeholders and the expert group. We intend to publish emerging design choices at the end of the year, and to consult on the detailed design for a Capacity Market in late 2013 as part of the consultation on the secondary legislative package.

22. As shown on the roadmap, the first capacity auction could, if required, take place as early as Q3 2014, for delivery in winter 2018-2019. It is important to note that the date of the first capacity auction and the first delivery year will be dependent on the security of electricity supply outlook and analysis provided by the SO and possibly other technical experts (including Ofgem)¹, and that the mechanism will only be initiated if Ministers judge it is appropriate to do so.
23. As an indicative example, if Ministers decided to initiate the mechanism in time for a capacity auction in 2014, we envisage the auction cycle entailing the following steps:
- i) Q4 2013 – In the 2014-2018 delivery plan, Ministers publish a decision on the volume of capacity required in the delivery year (e.g. 2018-19);
 - ii) Q1 2014 - SO publishes draft auction guidance setting out what will be required of potential capacity providers when compiling auction bids;
 - iii) Q1-3 2014 – Auction guidance finalised when the secondary legislation comes into force. Potential capacity providers prepare and submit their auction bids to the SO;
 - iv) Q3 2014 – SO reviews and verifies bids received, in line with any criteria determined as part of the detailed design of the Capacity Market;
 - v) Q3/Q4 2014 – SO holds capacity auction for delivery year 2018-19, and Government receives latest capacity assessment from SO and possibly other technical experts (including Ofgem);
 - vi) Q4 2014 – Government considers auction outcome, latest capacity assessment, and decides the volume of capacity to contract for;
 - vii) Q4 2014 – Government publishes auction outcome along with decision on the volume of capacity to be contracted for in the following capacity auction in the annual update to the delivery plan (cycle 2).
24. Assuming capacity auctions are initiated, a similar cycle would then be run in subsequent years.
25. We expect to enable trading of capacity agreements during the period between the initial issuing of capacity agreements through the primary auction, and the delivery year – in the example above between Q4 2014 and Q4 2018. This could allow capacity providers to manage the level of risk they are exposed to by increasing or reducing their capacity obligations.
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.

¹ As required by the Energy Act 2011, Ofgem will produce its first annual capacity assessment this September. It may be necessary to make some amendments to these statutory reporting requirements to ensure that reports in future years provide Ministers with the best possible information.

EMISSIONS PERFORMANCE STANDARD

27. This line sets out the process for the introduction of the Emissions Performance Standard (EPS), the process for monitoring compliance with it, and Government reviews of it. The EPS regime is intended to apply to any new fossil fuel plant which is granted development consent, and will come into force in Q1 2014. Government intends to commence work on regulations that will determine detailed aspects of the regime's scope in Q2 2013 and plans to consult on these in Q4 2013. We expect Government will respond to the consultation in Q1 2014. Government will lay the regulations in Parliament and they will come into force in Q3 2014, subject to Parliamentary time and the will of Parliament. We will work with the Devolved Administrations in establishing the necessary regulatory regime, to ensure it takes into account relevant Devolved powers and regulatory bodies.
28. 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 on 31 March 2016 at the earliest and every year thereafter.
29. 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 2010, which will happen on a three yearly basis starting in 2012. In practice, the first review of the EPS will be as part of the report due by the end of 2015.

RENEWABLES OBLIGATION TRANSITION

30. This line sets out how the move from the current RO to the CfD will work for renewable generators.
31. In the early months of 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 and 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. We will work with the

Scottish Government and Northern Ireland Executive with the aim of ensuring an orderly consistent transition across the three RO mechanisms.

32. It should be noted that, although Northern Ireland will close the Northern Ireland Renewables Obligation after 31 March 2017 it will introduce the CfD later than Great Britain and no earlier than 2016. Further detail on the Northern Ireland timeline will be provided by the Northern Ireland Executive.
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 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.