



Department of Energy & Climate Change

Energy Act: Capacity Market

Issue: The introduction of a Capacity Market to ensure sufficient reliable electricity capacity is available.

Policy commitment:

The Coalition Programme for Government stated: “We will reform energy markets to deliver security of supply and investment in low carbon energy” (page 16). The EMR Technical Update (December 2011) stated: “the Government will legislate for the establishment of a Capacity Market”.

The Government has legislated to enable the introduction of a Capacity Market – a supplement to the electricity market designed to ensure the future security of electricity supplies.

The GB electricity market faces increasing the risks to security of supply, as around a fifth of electricity generation capacity that operated in 2011 is set to close over the coming decade and more intermittent (wind) and inflexible (nuclear) generation is being built to replace it.

These changes to our market create an investment challenge, in particular for plant such as gas which can alter its output to meet demand. This is because low carbon plant has lower operating costs, meaning fossil-fuel plant will operate less often than now and be less certain of its revenues. This could lead to under-investment and uncomfortably low levels of reliable capacity.

A Capacity Market will provide an insurance policy against the possibility of future blackouts – for example, during periods of low wind and high demand – with the aim of ensuring that consumers continue to benefit from reliable electricity supplies at an affordable cost.

We have legislated to enable the introduction of a Capacity Market in order to guard against these potential risks to security of electricity supply.

Legislative proposal:

The Energy Act sets out in primary legislation the broad framework to enable a Capacity Market to be implemented alongside the electricity market in Great Britain.

Relationship to other legislative proposals:

The Capacity Market is an integral part of the Government’s proposals under the Electricity Market Reform package. The Capacity Market will work in concert with the Contracts for Difference and the Emissions Performance Standard to deliver Government’s aims and objectives of least cost decarbonisation and security of electricity supply.