



Department of Energy & Climate Change

Energy Act: Access to Markets

Issue: Liquidity in the wholesale power market and the ability of independent renewable electricity generators to access the market under CfDs.

Policy commitment:

The Government views liquidity reform as critical in enabling Electricity Market Reform to deliver efficiently and cost effectively, and believes significant improvements are essential to promote a competitive market and long-term security of supply. Ofgem remains in the lead for delivering regulatory action and is currently taking forward an ambitious package of reforms. However, Government has taken backstop powers in the Act to provide it with the flexibility to act should Ofgem's proposals be delayed or frustrated.

The Government is committed to ensuring that the electricity market under EMR is open to independent generators, who are important for promoting innovation and competition, and for ensuring least cost decarbonisation. A Call for Evidence in July 2012 revealed that it had become harder for independent renewable generators to secure viable long-term Power Purchase Agreements (PPAs), which are typically needed to secure funding. Although the CfD mechanism will reduce the risks for independent generators and should improve the availability of PPAs, it may take some time for the market to adjust to the CfD. To facilitate this, the Government has initiated a process to develop sample PPAs and a set of best practice guidelines for PPA providers and generators.

Because there is a risk that the long-term PPA market will remain constrained, the Government introduced provisions to allow for the introduction of an 'Offtaker of Last Resort' mechanism. This will ensure that independent renewable electricity generators have a 'backstop' route to market at a specified discount to the market price. This will improve investor confidence and help independent renewable generators to compete on a level playing field bringing more competition and innovation into the generation and offtake markets.

Legislative proposal:

The Energy Act gives the Secretary of State powers to intervene in the wholesale power market to address the problem of low levels of liquidity, by modifying the conditions of electricity generation and electricity supply licences and their related codes to address low liquidity and facilitate participation in the GB market. It also gives the Secretary of State powers to establish a scheme to promote the availability of PPAs to independent renewable electricity generators by modifying the conditions of electricity supply licences and their related codes, and by making regulations conferring functions on the Secretary of State or Ofgem in connection with the scheme.



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Relationship to other legislative proposals:

Improved market liquidity will promote competition and increase the robustness of the Contracts for Difference reference price, a crucial element of the EMR programme. Action to improve the PPA market will make it easier for independent generators to develop projects, and improve the cost-effective delivery of EMR.