



1 AUGUST 2014

## EMR STAKEHOLDER BULLETIN

### ELECTRICITY MARKET REFORM GO LIVE

Dear Colleague,

Following the successful passage of the EMR legislation through Parliament we can confirm we are on track to deliver our major reforms to the electricity market with the CFD and Capacity Market auctions taking place later this year as planned. Today we can announce:

- The implementing legislation for electricity market reform is now live.
- The independent EMR delivery bodies, National Grid, Low Carbon Contracts Company (LCCC) and Electricity Settlements Company (ESC) are now fully designated and operational, and open for business.

This leaves only the publication of the final CFD contract and supporting notices, including the Allocation Round notice which will confirm the timing of the first CFD allocation round on 15 August. The Final Allocation Framework will be published on 1 September and the final CFD Budget Notice on 29 September.

Those wishing to participate in the Capacity Market and CFD need to take action:

- The pre-qualification process for generators wishing to participate in the Capacity Market, administered by National Grid opens on Monday 4 August. The deadline by which applications must be submitted to National Grid has been extended by two weeks to 29 August.
- The window for developers to submit Supply Chain Plans for the CFD is open and plans must be submitted by 26 August.

We are also publishing more detail on:

- The technical changes as a result of State Aid decision made by European Commission

## DETAIL

### *Legislation*

Today the legislation underpinning Government's reform of the electricity market has passed into law which, together with state aid clearance for the regime last week, means the framework is in place to implement our reforms this year.

### *Delivery bodies operational*

The delivery partners for EMR, National Grid, the Low Carbon Contracts Company, and the Electricity Settlements Company, are now operational and open for business.

- National Grid, as the system operator, will administer the Capacity Market and allocate CFDs.
- The Low Carbon Contracts Company (a Government-owned company) will be responsible for signing and managing CFD contracts with generators.

- The Electricity Settlements Company, another Government-owned company, will make capacity payments and retains accountability and control of the Capacity Market settlement process.

The purpose and remit of the [Low Carbon Contracts Company](#) and the [Electricity Settlements Company](#), the manner in which they will operate and the basis of their respective relationships with DECC, are set out in detail in the following Framework Documents:

- [Low Carbon Contracts Company Framework](#)
- [Electricity Settlements Company Framework](#)

### *Capacity Market*

The Electricity [Capacity Regulations 2014](#) and [the Capacity Market Rules 2014](#) come into force today.

The Secretary of State has now [formally determined](#) that the first capacity auction will take place in December 2014 (for delivery of capacity in 2018/19) and confirmed the auction parameters for this auction, as previously set out in a letter to National Grid on 30 June. The pre-qualification process for the first auction opens on 4 August and closes on 29 August.

HM Revenue & Customs have provided [clarification regarding VAT treatment in relation to the Capacity Market](#).

The Electricity Settlements Company has issued a [letter](#) confirming the approved metering configurations for Demand Side Response applicants ahead of prequalification:

### *Supply Chain Plans*

The [supply chain plan final guidance](#) is also published today. This contains minimal changes to the Draft Guidance published in April. The changes clarify the scoring system and the legal requirement that supply chain plans submitted for the first CFD round should state this in the application. [The window for developers](#) to submit their supply chain plans is now open and closes on 26 August 2014.

### *State Aid*

The European Commission confirmed State Aid approval of the Capacity Market, the CFD for Renewables and 5 FID Enabling for Renewables offshore wind projects on 23 July. As part of the State Aid approval process, it has been necessary to make some commitments. On 24 July, we confirmed for the CFD for Renewables:

- **Biomass conversions:** The Commission approved our proposal to have a specific auction for biomass conversion projects (pot 3). However due to concerns about the competitive pressure in this auction, the Commission has confirmed they will require individual notifications for biomass conversion projects in the enduring CFD regime. This means that if there is budget available for pot 3, any projects that are successful in that auction will need to be individually notified to the Commission. We will also evaluate the allocation rounds to determine whether and how increased competition can be introduced by 1 January 2017, for example, reviewing whether pot 1 and pot 3 might be merged
- **Scottish Islands:** The inclusion of Scottish Islands onshore wind in pot 2 (less established technologies) and the separate strike price have not yet been approved by the European Commission. Our policy intent remains the same but we will need to seek separate State Aid approval for this technology grouping. We plan to work with the Commission to do this as soon as possible.

We are today outlining further commitments as part of the CFD for Renewables and Capacity Market.

For the CFD for Renewables, these include:

- **Negative prices:** To ensure compliance with the new State Aid guidelines on environmental protection and energy, we will make a modification for contracts allocated from the start of 2016. This will introduce a new cap on CFD payments at zero for any consecutive period of 6 hours or longer when day-ahead power auction hourly prices are and remain negative. For periods of less than six hours during which day-ahead power auction hourly prices are negative, CFD payments are capped at the strike price, as previously announced. This does not impact on contracts allocated in the 2014 allocation round, for which payments remain capped at the strike price.
- **Imported renewable electricity exemption:** We will adjust the way in which electricity suppliers' liabilities for CFD payments are calculated. Eligible renewable electricity generated in EU Member States outside Great Britain and supplied to customers in Great Britain is not counted towards suppliers' market share of their supplier liabilities. This will only apply to imported renewable electricity generated by a plant which is commissioned after the CFD regime comes into effect (1 April 2015).

For the Capacity Market we have committed to including **interconnected capacity** in the Capacity Market from the second auction in 2015. This confirms our long-standing policy commitment to include interconnection in the Capacity Market. The amount to procure for the first capacity auction in December 2014 will remain unaffected by the decision to include interconnection in future years.

We are confident that these will not have a significant impact on the Capacity Market or CFD for Renewables mechanisms. We will work with the delivery bodies to implement these changes, consulting stakeholders where necessary. The full text of the European Commission's decisions on the State Aid cases will be published in the Official Journal of the European Union. When published, a link to the decisions will be placed on [EMR landing page](#).

Finally, the Government yesterday published a consultation on eligibility for EMR CfD exemption & RO FIT compensation. The Government encourages interested parties to respond to the consultation by 23 October 2014. The consultation is available [here](#).

Kind regards

The DECC EMR team

*If you know of any colleagues who would like to be added to the EMR Stakeholder Bulletin distribution list, please ask them to email [harry.bannister@decc.gsi.gov.uk](mailto:harry.bannister@decc.gsi.gov.uk)*



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