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Dear Nick Winser and Mark Ripley,

CONFIRMATION OF DEMAND CURVE PARAMETERS FOR THE FIRST CAPACITY AUCTION

Thank you for your Electricity Capacity Report 2014 (ECR) delivered on 12 June. In line with the recommendation this report contained, I would like to confirm the following demand curve parameters for the first 'T-4' capacity auction to be held this year for delivery in 2018/19 set out below in Table 1 and further auction parameters set out in table 2. We note that the parameters set out in table 1 may be refined subject to the prequalification and the appeals process.

Table 1 – Target volume to procure in the capacity auction to be held this year for delivery in 2018/19

Parameter	Value	Explanation
Target capacity for 2014 T-4 auction	50,800MW	Recommended target amount in ECR (53,300MW) with a reduction of 2,500MW which will be set aside for a T-1 auction
Maximum capacity demanded at the price cap	49,300MW	Target capacity minus 1,500MW
Minimum capacity demanded at £0/kW/year	52,300MW	Target capacity plus 1,500MW

Table 2 – Other Auction Parameters

Parameter	Value
Non Variable Price-Duration Auction or Variable price auction	Non Variable Price Auction
Price decrements for auction rounds	£5/kW/year
Auction start time	09:00am

Auction window i.e. start to end time for round	1 hour and 30 minutes
Time between rounds	30 minutes
Number of auction rounds	4 rounds per day
Number of auction days	4 days
Reliability standard (LOLE)	3hours/year
15 Year Minimum £/kW Threshold	£250/kW de-rated capacity
3 Year Minimum £/kW Threshold	£125/kW de-rated capacity
Price cap	£75/kW/yr
Net Cone	£49/kW/yr
Price Taker Threshold	£25/kW/yr

Table footnote: All prices are based to 2012. Actual capacity payments made would be the 2012 price indexed to a point ahead of the 2018 Delivery Year (by the CPI All Items index)



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