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Dear Nick and Mark,

**CONFIRMATION OF DEMAND CURVE PARAMETERS FOR THE FIRST CAPACITY AUCTION**

Thank you for your Adjustment to Demand Curve report delivered to me on 6<sup>th</sup> October. In line with the recommendation contained within this report, I would like to confirm that I have adjusted each of the demand curve parameters in Table 1 downwards by 2,200MW. This means that for the first four-year ahead auction to be held this year for delivery in 2018/19 the target capacity is now 48,600MW.

The further auction parameters for this years 'T-4' auction are set out in Table 2 and remain unchanged.

**Table 1: Target volume to procure in the four-year ahead capacity auction to be held in 2014 for delivery in 2018/19**

Parameter	Value	Explanation
Target capacity for 2014 T-4 auction	48,600MW	Reduction of 2,200MW from 1 <sup>st</sup> August target capacity taking account of mandatory CMUs opting-out of the Capacity Market but stating that they will remain operational
Maximum capacity demanded at the price cap	47,100	Target capacity minus 1,500MW
Minimum capacity demanded at £0/kW/year	50,100	Target capacity plus 1,500MW

**Table 2: Other auction parameters for the four-year ahead capacity auction to be held in 2014 for delivery in 2018/19**

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	09.00
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)	3 hours/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

Note: All prices are based to 2012. Actual capacity payments made would be the 2012 price indexed to a point ahead of the 2018/19 Delivery Year (by the CPI All Items Index)



**EDWARD DAVEY**