



Department
of Energy &
Climate Change

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The Rt Hon Amber Rudd MP
Secretary of State

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12 October 2015

Dear John Pettigrew and Cordi O'Hara,

**CONFIRMATION OF DEMAND CURVE PARAMETERS FOR THE NEXT T-4 AND
FIRST TA CAPACITY AUCTIONS**

Thank you for your report on 'Adjustment to Demand Curve' from the 5th October. I am writing to confirm adjustments to the auction parameters for the next, four-year ahead, T-4 capacity auction taking place in December this year for delivery in 2019/20, and for the first TA auction, for the Demand Side Response (DSR) sector, taking place in January next year.

T-4 Auction

I agree to your recommendations for adjustments to the target volume, and related changes to the demand curve. These parameters will now be as shown in Table 1.

Table 1: Target volume to procure in the four-year ahead capacity auction to be held in 2015 for delivery in 2019/20

Parameter	Value	Explanation
Target capacity for 2014 T-4 auction	44.665GW	Reduction of 735MW from original target capacity, for the reasons set out in National Grid's report
Maximum capacity demanded at the price cap	43.165GW	Target capacity minus 1.5GW
Minimum capacity demanded at £0/kW/year	46.165GW	Target capacity plus 1.5GW

Other parameters are unchanged.

Transitional Arrangements (TA) Auction

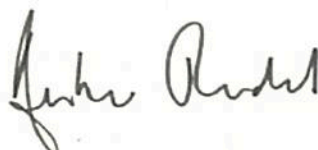
In the light of the evidence from prequalification, I have also decided to make adjustments to the parameters for the TA auction. I am reducing the target capacity by 600MW to 900MW, and adjusting the demand curve around that new target, as shown in Table 2.

Table 2: Target volume to procure in the TA capacity auction to be held in 2016 for delivery in 2016/17

Parameter	Value	Explanation
Target capacity for 2016 TA auction	900MW	Reduction of 600MW from original target capacity to reflect the risk of low liquidity following prequalification.
Maximum capacity demanded at the price cap	600MW	Target capacity minus 300MW
Minimum capacity demanded at £0/kW/year	1.2GW	Target capacity plus 300MW

Other parameters are unchanged.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Amber Rudd', is positioned above the printed name.

AMBER RUDD