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Dear Duncan

Capacity Market Auction Parameters 2019

Thank you for your Electricity Capacity Report 2019 (ECR) delivered on 31 May and for the helpful analysis that your team has undertaken, which has served to underpin my final decisions. I have also benefitted from advice from my Panel of Technical Experts (PTE); and in accordance with regulation 12(5) of the Electricity Capacity Regulations 2014, I have also had regard to the reliability standard and the matters set out in section 5(2) of the Energy Act 2013. Considering all this, I am writing to confirm the parameters for the next Capacity Market T-4 auction planned for March 2020 and the T-1 auction planned for February 2020. I am also informing you of the provisional parameters for the T-3 auction I am minded to request you to run in January 2020 if the Electricity Capacity (No. 2) Regulations 2019 are approved by Parliament.

T-4 Auction
In Table 1 below, I set out the parameters for the T-4 auction for delivery in 2023/24, incorporating a total target volume of 44,700MW of which I am setting aside 1200MW leaving 43,500MW to be auctioned in the T-4.

Whilst this decision is consistent with the ECR recommendation, the Panel of Technical Experts (PTE) recommended a target 800MW below the ECR recommendation due the ESO’s “systematic demand over forecasting bias of 0.8GW during recent years”. The PTE also identified uncertainties relating to non-delivery that might require additional capacity to be secured, which they were not able to quantify. I have concluded the target capacity recommended in the ECR remains an appropriate target for this auction based on the information available to me at this time, including the uncertainty over non-delivery sensitivities. However, in recognition of the divergence between the ECR and PTE recommendations, I would like continued engagement between the ESO and the PTE over the coming months on these issues to inform future parameters decisions.

T-1 Auction
Table 1 also sets out the parameters for the T-1 auction for delivery in 2020/21. I have decided to target a volume of 300MW.

This is not consistent with the ECR recommendation of 0MW. There are some non-delivery risks that NG:ESO have not specifically accounted for in their recommendation, for instance, uncertainties created by recent plant outages and those relating to the difficulties for capacity providers created by the standstill period resulting from last November’s court judgment. These risks and the Government’s commitment, as part of our State aid notification, to set targets for T-1 auctions at a level of at least half the original set-aside, justify a departure from the ECR recommendation to a 300MW target, half of the T-1 set-aside.

T-3 Auction
As I set out in my letter of 9th June 2019, if the Electricity Capacity (No. 2) Regulations 2019 are approved by Parliament, I am minded to hold a T-3 auction for 2022/23 and schedule it for January 2020.

I have considered the parameters for this auction on a provisional basis based on the initial assessment set out in the ECR. At this point, I am minded to agree that your provisional target recommendation for 2022/23, a total target volume of 45,400MW, is appropriate for the same reasons as my decision for the 2023/24 delivery year and propose to set aside 1200MW leaving 44,200MW to be auctioned in the T-3. Table 1 below sets out these minded to parameters in more detail.

If the Regulations are approved by Parliament, you will submit an annex to the ECR relating to the T-3 auction which I will consider when formally determining the parameters for this auction. I am providing a provisional view at this point so that you are aware of what my decision is likely to be if your formal recommendation confirms your provisional view and circumstances are otherwise unchanged. I look forward to receiving the annex to the ECR after the Regulations are made.

Interconnection
Table 2 sets out the de-rating factors for interconnectors that I have determined for the T-4 and T-1 auctions, and my minded to decisions for the T-3. In reaching this decision I have considered the technical analysis of this issue provided in the ECR alongside advice from the PTE. My decisions are in line with this advice and with the provisions set out in the Capacity Market Rules.

I note that, for the auctions confirmed above, the parameters may be refined and amended following the auction prequalification and related appeals processes.

Yours sincerely,

CHRIS SKIDMORE MP

Full details of auction parameters and interconnector de-rating factors:

Table 1: Auction parameters			
	T-1 Auction for delivery in 2020/21	**T-3 Auction for delivery in 2022/23 (minded to decision)**	**T-4 Auction for delivery in 2023/24**
Target capacity	0.3GW	44.2GW	43.5GW
Demand curve: minimum capacity at price cap	0GW	43.2GW	42.5GW
Demand curve: maximum capacity at £0	0.3GW	45.2GW	44.5GW
Reliability Standard	3 hours LOLE	3 hours LOLE	3 hours LOLE
Net CONE	£49/kW/yr	£49/kW/yr	£49/kW/yr
Price Cap	£75/kW/yr	£75/kW/yr	£75/kW/yr
Price Taker Threshold	£25/kW/yr	£25/kW/yr	£25/kW/yr
15-year agreement threshold	NA[1]	£270/kW[2]	£275/kW[3]
3-year agreement threshold	NA[1]	£135/kW[2]	£135/kW[3]
Indexation	NA	2017/18	2018/19

Table 2: Interconnector de-rating factors[4]				
Interconnector	**Capacity (GW)**	**T-1 DRF (%)**	**T-3 DRF (%) (minded to decision)**	**T-4 DRF (%)**
IFA (France)	2	NA	69	63
IFA2 (France)	1	87	71	65
ElecLink (France)	1	92	75	69
BritNed (Netherlands)	1.2	NA	50	36
Moyle (Northern Ireland)	0.5		56	44
EWIC (Republic of Ireland)	0.5		56	44
NemoLink (Belgium)	1	82	58	46
NSL (Norway)	1.4	NA	88	88
VikingLink (Denmark)	1.4[5]	NA	NA	32

[1] Multi-year agreements are not awarded in T-1 auction.
[2] Adjusted from the previous T-4 (for the 2021/22 delivery year) for inflation indexed to the 2017/18 inflation level and rounded to nearest £5.
[3] Adjusted from the previous T-4 (for the 2021/22 delivery year) for inflation indexed to the 2018/19 inflation level and rounded to nearest £5.
[4] The NG:ESO ranges have been adjusted to account for the physical characteristics of each interconnector and then rounded.
[5] This is the capacity of the interconnector but this figure will be subject to the level of TEC acquired.