Electricity Market Reform
Making sure your business is ready
Electricity Market Reform is here

The UK’s energy policy is no longer in debate: it’s now reality.

On 1 August 2014, the Capacity Market and Contracts for Difference became law.

They join the two other EMR policies introduced in 2014: the Carbon Price Floor and the Emissions Performance Standard.

The new elements will have a more direct impact on your business. So it’s time to focus on understanding the ins and outs of these new policies, to work out the best way for your business to respond.

Make sure your business is ready

- This e-factsheet is designed to bring you up to speed on the why, what and how of the Capacity Market and Contracts for Difference.
- You’ll get an overview of the impact these two schemes are likely to have on your business.
- And you can use it to help explain EMR to other people who need to know.
- Part of it would even look good as a poster on your office wall (just print out pages 3-6 single-sided).
- On pages 7 and 8 you’ll find a handy timeline and a rough guide on how to budget – these are based on information we know today, but may change as the government confirms more details.
- For more specific information about how EMR will affect your business, please get in touch with your relationship manager. They’ll do everything they can to help make sure you’re ready for EMR.
RISING TO THE CHALLENGES OF AN ELECTRICITY INFRASTRUCTURE FIT FOR 2050

SECURITY | AFFORDABILITY | LOW CARBON

ELECTRICITY MARKET REFORM

CANC THE UK GENERATE ENOUGH ELECTRICITY FOR EVERYONE?

DIMINISHING CAPACITY

Demand for electricity is increasing but nearly half of the UK's generating capacity is due to retire within 15 years. And much of the new-build low carbon generation is intermittent. Take wind farms: the amount of electricity they generate depends on when and how much the wind blows. If the UK just stood by and did nothing, there may not be enough capacity to provide electricity for everyone when the network's under pressure.

CARBON

CANC THE UK MEET ITS TARGETS FOR REDUCTION IN CARBON EMISSIONS?

AMBITIOUS TARGETS

The UK has legally binding targets to reduce its emission levels in 2050 to just 20% of what they were in 1990. Which means almost fully decarbonising the electricity sector by 2030. But the UK is not currently building enough new low carbon electricity infrastructure to meet these targets.

The story continues on the next page.
What's more, at those times when there's not enough electricity to go round, prices could spike. And we all pay for that.

Which is why the UK needs to introduce a way of increasing its capacity, particularly for peak times.

The current UK electricity market is too volatile and risky for developers to get the finance they need from investors to build new low carbon generation facilities.

Which is why the UK needs to bring in a way of reducing the volatility and risk, making it easier to finance and build new low carbon facilities.

So the Government set out to encourage the investment we need to replace older power stations and provide backup for more intermittent low carbon sources, ensuring:

- Generators benefit because they are paid fairly for being on stand-by.
- Large electricity users benefit because they are paid fairly for agreeing to reduce their consumption when required.
- The price of electricity at peak times is less volatile.
- And we all have enough affordable electricity when we need it most.

So the Government set out to ensure revenues from electricity generated by low carbon sources are predictable for over a decade to come, which should mean:

- Developers benefit because they can secure the finance they need to build.
- Consumers benefit because the price they pay for electricity is more stable.
- More low carbon infrastructure is built at a lower cost.
- And the UK meets its decarbonisation target – affordably.

The story continues on the next page.
The Capacity Market is designed to encourage generators to invest and then generate electricity, and large users to use less electricity when the network most needs it. It’s a step closer to more active management of demand in the electricity network.

Generators will be paid regular payments to keep their plant available to produce electricity when required. Large users will receive regular payments for agreeing to reduce consumption when required.

It will be managed through an auction process so that the most competitive prices are set.

Contracts for Difference will encourage new investment in low carbon electricity generation by stabilising the price of electricity from low carbon sources.

Generators will make competitive bids for contracts to ensure that only the best and most cost-effective low carbon projects are supported.
ESC OPERATIONAL COSTS will be passed on to customers from April 2015 by adding them into the Elexon charge.

PAYMENTS TO CAPACITY PROVIDERS will be divided between suppliers based on their market share of working day peak consumption (4-7pm) from November to February. The charges will be small at first, then increase in 2018 as the Capacity Market ramps up.

LCCC OPERATIONAL COSTS will be divided between suppliers based on their market share of their electricity consumption in Q1 2015.

PAYMENTS TO GENERATORS will be divided between suppliers based on their consumption of electricity. The charges will be small at first, then are expected to increase from 2016 as more Contracts for Difference are awarded.

PAYMENTS TO CAPACITY PROVIDERS will be passed on to customers from October 2016 based on their working day peak consumption (4-7pm) from November to February.

ESC SET-UP COSTS are estimated to be about £1.4m and will be divided between suppliers based on their market share in Q1 2015.

ESC OPERATIONAL COSTS will be divided between suppliers based on their market share of working day peak consumption (4-7pm) from November to February.

LCCC SET-UP COSTS are estimated to be about £6.5m and will be divided between suppliers based on their market share in Q1 2015.

LCCC OPERATIONAL COSTS will be divided between suppliers based on their market share.
EMR Timetable

**What's happening?**

- **1 Aug 2014**: EMR passed into law
- **5 Sep 2014**: Capacity Market Pre-qualification closed
- **14 Oct 2014**: Applications for CfDs began
- **16 Dec 2014**: First generic CfDs awarded
- **18 Dec 2014**: Pre-qualified generators take part in the capacity auction
- **25 Feb 2015**: Successful applications for CfDs awarded to generators
- **1 Apr 2015 onwards**: Final generic CfDs awarded
- **Dec 2014**: CM Supplier Charge regulations came into force

**What's the impact?**

- **From 2014 onwards**: You may have received a Notice of Variation to your contract
- **From 2015 onwards**: CfD and CM charges will show on new quotes although the CM charge will remain zero until Oct 2016
- **From Apr 2015 onwards**: You pay a one-off charge to cover the set-up costs of the LCCC and ESC
- **From 2016 onwards**: From Oct 2016 onwards, a small CM charge kicks in
- **From 2018 onwards**: From 2018 onwards, a higher CM charge kicks in

**EMR set-up costs charged**

- **1 Apr 2015**: First possible CfD payments to generators
- **2015**: CfD payments made to generators

**EMR running costs and CfD charges begin**

- **Dec 2015**: Capacity Market Auction for Winter 2018/19
- **Jan 2016**: Demand Side Capacity Market Auction for 2016
- **Dec 2016**: Full Capacity Market begins
- **Dec 2017**: Capacity Market Auction for Winter 2020/21
- **2018 onwards**: Renewable Obligations closes to new projects

**Demand Side Capacity Market begins**

- **Oct 2016**: Demand Side Capacity Market Auction for 2016
- **Dec 2015**: Capacity Market Auction for Winter 2019/20
- **Jan 2016**: Demand Side Capacity Market Auction for 2016
- **Dec 2017**: Capacity Market Auction for Winter 2020/21
- **2018 onwards**: Renewable Obligations closes to new projects

**Capacity Market Auction for Winter 2019/20**

- **Dec 2015**: Capacity Market Auction for Winter 2019/20
- **Jan 2016**: Demand Side Capacity Market Auction for 2016
- **Dec 2017**: Capacity Market Auction for Winter 2020/21
- **2018 onwards**: Renewable Obligations closes to new projects

**EMR set-up costs charged**

- **1 Apr 2015**: First possible CfD payments to generators
- **2015**: CfD payments made to generators

**CfD payments made to generators**

- **Dec 2015**: Capacity Market Auction for Winter 2018/19
- **Jan 2016**: Demand Side Capacity Market Auction for 2016
- **Dec 2017**: Capacity Market Auction for Winter 2020/21
- **2018 onwards**: Renewable Obligations closes to new projects

**Capacity Market Auction for Winter 2018/19**

- **18 Dec 2014**: EMR set-up costs charged
- **2015**: EMR running costs and CfD charges begin
- **2016**: Capacity Market Auction for Winter 2019/20
- **2017**: Capacity Market Auction for Winter 2020/21
- **2018 onwards**: Renewable Obligations closes to new projects

**Full Capacity Market begins**

- **Winter 2018/19**: From Oct 2016 onwards, a small CM charge kicks in
- **2018 onwards**: From 2018 onwards, a higher CM charge kicks in

You may have received a Notice of Variation to your contract

- **CfD and CM charges will show on new quotes although the CM charge will remain zero until Oct 2016**
- **You pay a one-off charge to cover the set-up costs of the LCCC and ESC**
- **From April 2015 onwards, the CfD charge kicks in and the running costs of the LCCC and ESC start**
How to budget

LCCC + ESC set-up costs
10p / MWh
A one-off charge in Q2 2015 based on your electricity consumption in Q1 2015

LCCC + ESC running costs
6p / MWh
Included in the Elexon charge from April 2015 onwards

Cost of Payments to Capacity Providers
Our forecast range for 2016/17 is between £0.01 and £0.65 / MWh with a midpoint of £0.33 / MWh.
This cost will rise significantly in 2018/19. Our forecast range is from £3.12 to £5.14 / MWh with a midpoint of £4.13 / MWh.

Cost of Payments to Generators with CfDs
Our forecast range for 2015/16 is between £0.46 and £0.62 / MWh with a midpoint of £0.54 / MWh.
This cost will rise steadily to 2018/19. Our forecast range is from £6.41 to £7.93 / MWh with a midpoint of £7.17 / MWh.
Why an e-factsheet? At EDF Energy we are committed to using the most sustainable working practices wherever possible and this includes when delivering communications to our customers.

E-factsheets significantly reduce the volume of printed material we need, reducing our carbon footprint. Our customers appreciate e-factsheets because they offer timely delivery of easy to access information in an ideal format for the modern screen based working environment.

edfenergy.com/largebusiness

To view our fuel mix visit edfenergy.com/fuel-mix