**Energy Bill 2012-13: Capacity Market**

**Lead Directorate:** Energy Markets and Networks

**Issue:** The introduction of a Capacity Market to ensure sufficient reliable electricity generating capacity is available

**Policy commitment:**
The Coalition Programme for Government stated: “We will reform energy markets to deliver security of supply and investment in low carbon energy” (page 16).

The EMR Technical Update (December 2011) stated: “the Government will legislate for the establishment of a Capacity Market”.

The Government proposes to legislate to introduce a Capacity Market - a policy intervention designed to ensure the future security of electricity supplies.

While there is no immediate threat to security of electricity supply in the UK, we face a potential risk to security of electricity supplies in the future, as around a fifth of existing electricity generation capacity is expected to close over the next decade and more intermittent (wind) and inflexible (nuclear) generation is built to replace it.

These changes to our market create an investment challenge, in particular for plant such as gas which can alter its output to meet demand. This is because low carbon plant has lower operating costs, meaning fossil-fuel plant will operate less often than now and be less certain of its revenues. This could lead to under-investment and uncomfortably low levels of reliable capacity.

The introduction of a Capacity Market will provide an insurance policy against the possibility of future blackouts - for example, during periods of low wind and high demand - with the aim of ensuring that consumers continue to benefit from reliable electricity supplies at an affordable cost.

We are legislating for a Capacity Market in order to guard against these potential risks to security of electricity supply. We will continue to monitor the security of supply outlook, and propose to legislate now to ensure we can respond if a capacity problem is likely to arise.

**Legislative proposal:**
The Energy Bill 2012-13 sets out in primary legislation the broad framework to enable a Capacity Market to be implemented alongside the electricity market in Great Britain.

The next stage in the Department's work is to carry out the detailed design for the Capacity Market. We are working with the System Operator (National Grid), the regulator (Ofgem) and other stakeholders to develop the best design for the GB market in parallel with the primary legislation going through Parliament. We will consult on the detailed design of the mechanism in 2013.
**Relationship to other legislative proposals:**
The Capacity Market is an integral part of the Government's proposals under the Electricity Market Reform package. The Capacity Market will work in concert with the Feed in Tariff with Contracts for Difference and the Emissions Performance Standard to deliver Government's aims and objectives of least cost decarbonisation and security of electricity supply.

**Background:**

**Where can I find out more about the Capacity Market?**
The publication in July 2011 of the Electricity Market Reform White Paper, *Planning our electric future: a White Paper for secure, affordable and low-carbon electricity*, set out the Government's commitment to introduce a capacity mechanism to ensure sufficient reliable and diverse capacity to supply electricity to meet demand. It also included a consultation on possible models for a capacity mechanism.

*Planning our electric future: technical update*, published in December 2011, is the Government's response to the consultation, and set out the decision to implement a market-wide mechanism in the form of a Capacity Market.