Capacity Mechanism Results Roundup & Comments
19th December 2014

The capacity mechanism closed at £19.40/kW/year with contracts awards to new plants for 2.6GW, but with a number of existing plants being unsuccessful, putting in doubt whether those existing plants will be around by 2018/19.

In 2014 the GB major power station fleet had a total calculated capacity of 83.5GW and against this the plants noted to have opted-out of the capacity mechanism before it started (excluding Longannet) had a capacity of 3.8GW; Longannet has opted out but stated that has not ruled out bidding in the T+1 auction.

Those plants that did bid into the auction and were not successful in the capacity market had a capacity of 9.8GW. Between unsuccessful existing plants and those that had opted out, 13.6GW of capacity in the GB market now has an uncertain future with this amounting to 16.2% of total GB capacity.

In the scenario where all the opt-outs and non-awards close (and with no new builds considered beyond those awarded payments via the capacity mechanism) the overall existing capacity could fall by 13.6GW offset by new builds of 2.6GW resulting in a net potential reduction of 11.0GW of capacity.

Beyond this loss of capacity, one of the unintended consequences of the capacity market could be that it makes prices and margin more volatile in the period until it comes into force, which may require National Grid to enter into a number of short term contracts to maintain adequate margin in the intervening period.

In terms of levels of generation, the average levels of generation across 2014 at the opted-out plants has been around 490MW (4.3TWh) while those not receiving contracts generated around 2,700MW (23.0TWh), with the total generation for both classifications totalling 9.2% of overall generation in 2014. The opted-out out units had availability levels averaging around 2,170MW while the non-awards had levels averaging around 5,190MW with the two classifications providing 13.7% of 2014 total levels of availability.

Of interest within the awards to new builds were numerous small low capital cost units which could at low levels of generation provide cheap backup to the market. These low-cost style units are likely to play an increasing role in providing ‘margin’ and backup following the rise in levels of wind generation and interconnector imports.

Paul Verrill (Director of EnAppSys): “We think it is fair to say that the low closing price and the list of winners and losers will be a surprise to many, leaving stakeholders in the market trying to determine what it all means for the future. Whilst the UK Government is likely pleased at the low price reducing the cost of the mechanism to the consumer it may be considered a lost opportunity to promote a modernisation of the UK fleet.”

Looking at the long term achievement of the capacity market the chart below issued by National Grid shows that the process has a long way to go to secure a long term capacity margin.

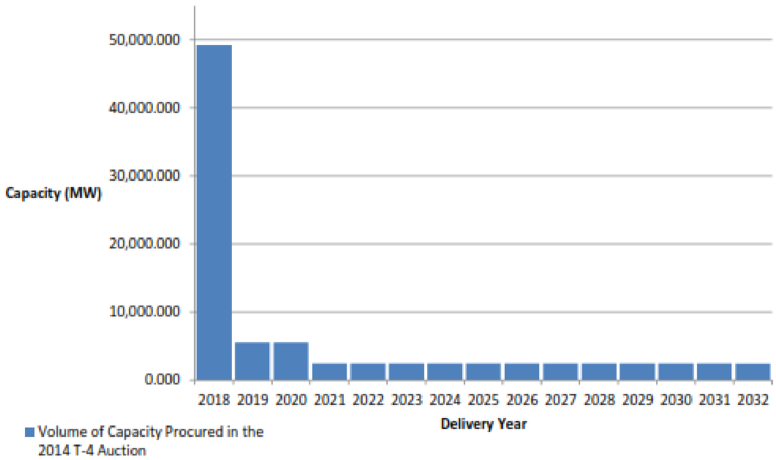

Figure 7: Volume of Capacity Procured by Delivery Year

Ref. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389512/Provisional_Results_Report_final.pdf