Future challenges in the electricity market

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Our energy objectives remain the same – although different governments may make different trade-offs.

- Security of supply
- Climate change
- Affordability
Equally, the challenges remain in the market.

Low carbon challenge – demand for power might grow

Emerging security of supply risks

Scenario for electricity generation capacity to 2050

- Electricity imports / exports
- Non-thermal renewable generation
- Nuclear power
- Combustion + CCS
- Conventional thermal plant
- Domestic demand

Power prices are easing now, but have roughly doubled over 10 years.
EMR was designed to adapt to the future, but keep past promises

“A set of efficient tools which allow flexibility for adapting future strategy while keeping current and past commitments”
The new government face some emerging issues as EMR is embedded

- **Budgets**
  - The LCF is likely to be higher than planned
    - Falling power prices
    - Greater take-up of solar incentives
    - Higher utilisation of offshore wind

- **Design issues**
  - Some concerns around the capacity market design and potential unintended consequences

- **Politics**
  - Some decisions taken early are clearly political
How should the new government approach these challenges

1. Fix problems fast

2. Make your goals clear

3. Set out the consequences for the future

4. Expand your ‘supply options’
1. Fix technical problems fast

**Budgets**

If budgets need to change – change them fast and move on

Possibly change the way we measure the LCF

**Capacity market design**

Check gas and DSR are not crowded out by small scale generation (for example)
2. Make your goals clear early

A range of generation scenarios are possible but investors have a ‘stake in the ground’ to work with.
3. Set out the broad consequences for your goals

- Budget
- Set out wider consequences
- Be open and clear about limits
- Build on auction success

- Post 2020 LCF
  - Changes to design (if any) of instruments
  - Set out transparently any limits on the system imposed for political or other reasons
  - With clear goals – leave it to developers to compete to deliver against them
4 Expand your options – supply/demand may look very different in the future

Examples:

- Foreign generation
- Storage
- Smart/DSR

These newer options will require different support and regulations – for example international CfDs, innovation funding etc.
Questions?

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