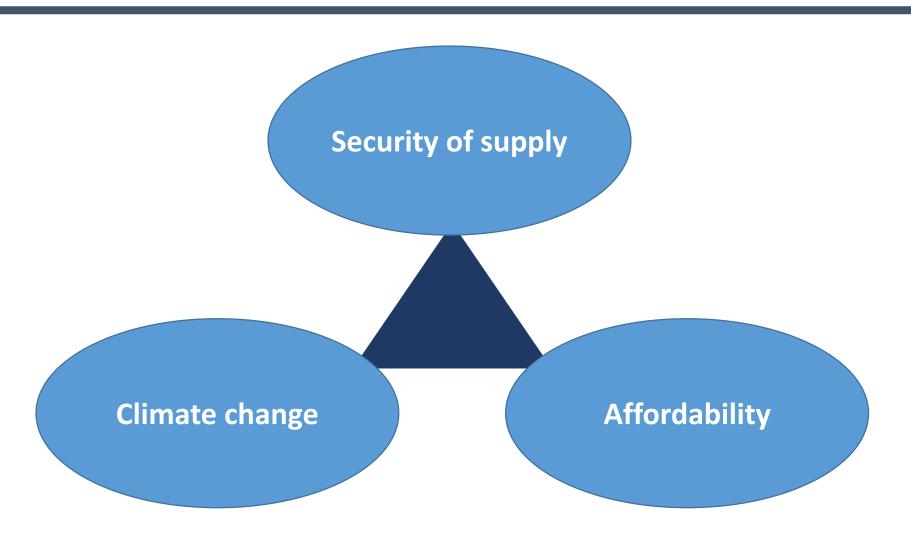
Future challenges in the electricity market

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

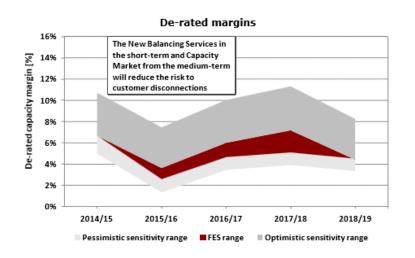


Equally, the challenges remain in the market

Low carbon challenge – demand for power might grow

Scenario for electricity generation capacity to 2050 Electricity 1,000 imports / 900 exports Non-thermal 800 renewable generation 700 **1840** 500 400 Nuclear power Combustion + CCS 300 Conventiona 200 I thermal plant 100 Domestic demand

Emerging security of supply risks



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

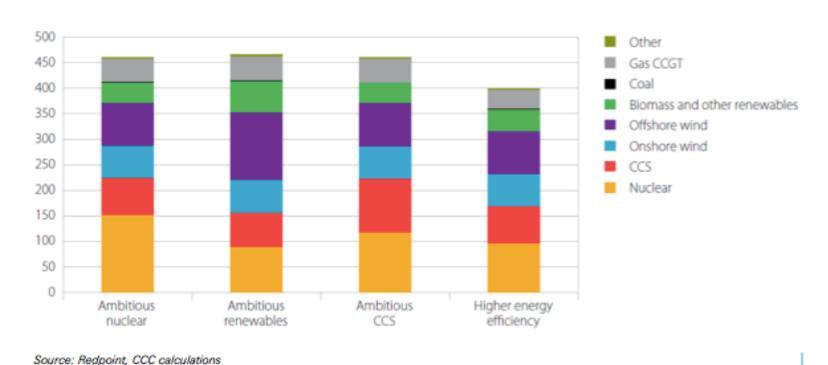
Possibly change the way we measure the LCF

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 Post 2020 LCF Set out wider Changes to design (if any) of instruments consequences Be open and Set out transparently any limits on the system clear about imposed for political or other reasons limits Build on auction With clear goals – leave it to developers to compete to deliver against them success

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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