EU State Aid and UK EMR workshop
– UK EMR in the State Aid context

20th January 2014
Why EMR?

The market cannot be relied upon to decarbonise the power system securely, efficiently and at the pace required.

Regulate some market ‘inputs’: Carbon tax, EPS
Do not require State Aid clearance

Regulate some market ‘outcomes’: Low carbon generation, Generation adequacy
May require State Aid clearance

January 2014
The Policy Landscape

Administered decisions

Self-secure paradigm

Active demand side and low carbon integration

Desire to guarantee outcomes

Cost benefits of resource sharing

Market actors decisions

EU

MS

January 2014 E3G
Total of €416bn in the 2020-2030 timeframe:

- 1/3 (€125bn) capex savings from optimising location of generation assets
- 2/3 (€291bn) opex savings from sharing (conventional) back-up resources and optimising system operation
Current realities

Current direction of travel is towards national administered markets.

This will increase the risk of policy delivery failure.
Reversing the trend

Focus on new governance structures

Focus on market enablers

Administered decisions

Market actors decisions

MS

EU

January 2014
State aid is a key battleground

State aid are ‘good’:
- The initial EMR logic remains sound
- The EU Governance structures are not currently drafted in this context

State aid are ‘bad’:
- Undermine trading and market efficiency
- Can be used to support different MS priorities
Questions on timing

• From when will the new guidelines apply?
• At what point does the UK need to apply for State aid Clearance?
  – Process already in train for Hinkley FID enabling contract
    • But FIDs not in force until July
    • Presumably not covered by new guidelines
    • What about RES FID contracts?
  – What about CfDs and capacity mechanism: July? November?
Big issues with new guidelines

• RES
  - Significant recent change in allocation proposals into line with draft guidelines
  - Is CfD ‘equivalent’ to premium?

• Capacity mechanism
  - Do penalties restrict trade?
  - Have we tried hard enough to include overseas resources?
  - Are restricted lock-in options discriminatory?

*How tough does CI ON want to be? Lots of subjective criteria*...