The Capacity Market How it works

The Capacity Market is the mechanism through which the government plans to maintain secure electricity supplies - in other words keep the lights on. It's been designed to do so at the lowest cost to consumers.

The GB electricity market is currently an 'energy only' market. This means electricity generators receive income for the electricity they generate as **one** payment.

In fact generators actually provide two services:

- **1. Energy** electricity generated to meet demand at any given time, measured in megawatt hours; and
- Capacity capacity in power stations which gives the electricity system the ability to produce electricity when required by consumers.

Keeping a power station open regardless of whether it is generating electricity or not, incurs substantial costs. SSE spends hundreds of millions each year just to keep power stations ready to generate. This is what it costs to provide capacity to the system to generate electricity.

These 'fixed' costs include maintenance, upgrades to ensure safety and reliability, business taxes, the costs of connecting to the electricity transmission network, and salaries for the people who work there.

The price companies like SSE receive for the electricity they generate is

meant to reflect the provision of both services – the provision of capacity to generate electricity and the production of the electricity itself. But in recent years the income that generators have received has not been covering both of these elements, making some stations unprofitable. Indeed SSE's coal- and gas-fired power stations were loss making in the first half of this financial year.

This situation is not likely to change in the future. Forecast future revenues are both low and increasingly unpredictable as a result of changes to the sources of electricity production, including renewables.

As a result generators have found it increasingly difficult to invest to keep some existing stations open, or to build new stations. To make these investments generators need to be confident they can give a sustainable return to potential investors, but as things stand in the current market, they aren't.

The Capacity Market will change this by introducing a stable payment for the capacity generators provide to the system. They will continue to sell the electricity they generate in the energy market. This means they will be paid separately for the two services they provide.

Importantly, generators will only receive "capacity" payments if they are available to the electricity system when they are needed by the System Operator, National Grid. If they are not then they will face large financial penalties.









(CURRENT)

