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4th Floor, Area D  
3 Whitehall Place  
London SW1 2AW

Our Ref: GS-000329

4 October 2011

Dear Sir/Madam,

**Re: Consultation on Possible Models for a Capacity Mechanism**

Thank you for the opportunity to respond to the Government's proposals for a capacity mechanism.

RES is one of the world's leading independent renewable energy project developers with operations across Europe, North America and Asia-Pacific. RES has been at the forefront of wind energy development since the 1970s and has developed and/or built more than 5GW of wind energy capacity worldwide, including projects in the UK, Ireland, France, Scandinavia and the United States. We also have a large additional portfolio under construction and in development. RES built its first wind farm in Cornwall in 1992 and since then has built more than 560MW in the UK and Ireland. RES is headquartered in the UK, with over 920 employees worldwide and nearly 400 in the UK.

Our broad technology base, independent status and international reach means we are well-positioned to comment on the proposals. We have responded to this consultation on the basis that;

- We need the government to be very clear on what the purpose of the capacity mechanism should be. It is our opinion that the capacity mechanism should be there to provide additional capacity during periods of extended system stress (1 day or longer).
- Periods of system stress over a shorter term period (1 day or less) should be provided by expanding and strengthening the Short Term Operating Reserve (STOR). STOR should be encouraged to contract over a longer period, to provide greater depth and to engage with demand side response and storage solutions.
- The capacity mechanism should be considered as a last resort option. We need to keep as many opportunities for new technologies and market based solutions as possible. Moving too quickly with blanket measures for capacity will squeeze these opportunities out of the market, removing a key ingredient for innovation.
- It is too early to implement a capacity mechanism at the moment; however, we agree that the structure should be defined now. And it is an important signal that the government has the mechanism to intervene if a market solution is not forthcoming.

- There is a high level of uncertainty in forecasts of capacity shortfall. The Government's forecasts currently suggest that a 10% margin threshold will be breached from 2017 onwards, they have not been publically scrutinised to ensure they accurately reflect the progression of plant up the merit order with age, new build expectations, and the broader impacts of the EMR. Furthermore by strengthening STOR to supporting new flexible generation and peaking facilities it is likely to reduce the overall need for the capacity mechanism.
- The CfD structure should incentivise dispatchable low carbon generators to respond in a flexible and effective manner. This does not appear to be the case for nuclear which appears to have a presumption of base-load operation embedded within its CfD (although manufacturers claims suggest significant ramping capability for new plant). The CfD structure can be used to support flexibility and also encourage the provision of capacity (such as the flexible CfD structure proposed for biomass) and we would encourage this.
- Our preference is for a Strategic Reserve that prioritises supporting plant that would otherwise be mothballed (older generation CCGTs) to ensure that they stay available to the system. It is then to support new investment in long-term generating equipment only if capacity can't be commissioned due to low load factor expectations.
- It is our view, that a market-wide mechanism will be overly costly, will not guarantee delivery, draws funds away from the wholesale market price (putting additional pressure on the level of public funds required support low carbon generation under the CfD) and complicates the delivery of the CfD structure.
- The capacity mechanism should not indiscriminately support existing plan, and it should be recognised that the 'slippery slope' argument applies equally to each of the proposed mechanisms.

It is our firm view that capacity mechanisms should only ever be small section of the market and should not impinge on broader price signals except under exceptional circumstances. The strategic reserve is the most appropriate solution for achieving this. For the strategic reserve to operate effectively, however, the strategic reserve should operate only under a very clearly defined circumstances and the trigger for commissioning new plant has to be subjective to extensive risk analysis to define the probability of a shortfall actually materialising.

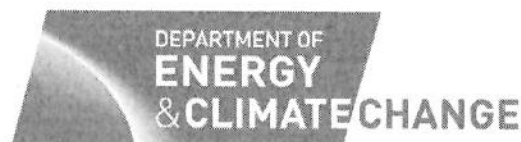
Forecasts are notoriously unreliable and the assumption should always be reserve capacity is not required unless conclusively shown to be otherwise. We do not think that the case for reserve capacity has been sufficiently demonstrated, although we agree with defining the mechanism now in advance of any such requirement.

Again, thank you for the opportunity to respond. If there are any questions that arise from this response then please contact me.

[REDACTED]

Energy Economics and Policy Manager

[REDACTED]



## Consultation on Possible Models for a Capacity Mechanism

### Response form

Responses are welcome by email or post. You may find this document helpful for structuring your response, but can reply in a separate document if you prefer. If replying in a separate document please make clear which questions you are answering.

Respondent Details	
Name	[REDACTED]
Organisation	RES
Address	Beaufort Court Egg Farm Lane
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Postcode	WD4 8LR
Telephone	[REDACTED]
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Fax	

Tick this box if you are requesting non-disclosure of your response. ☐

#### Please return by 4 October 2011 to:

Department of Energy & Climate Change,  
Electricity Market Design – Security of Supply  
4th Floor, Area D  
3 Whitehall Place,  
London, SW1A 2AW

You can also submit this form by email to:  
[DECC.capacity.mechanism@decc.gsi.gov.uk](mailto:DECC.capacity.mechanism@decc.gsi.gov.uk)

## Consultation questions

Note: the references in square brackets refer to page and figure numbers in the consultation document where more information can be found, and the questions are set out in context. The consultation document is Annex C of the Electricity Market Reform White Paper, and is available here:

[http://www.decc.gov.uk/en/content/cms/consultations/cap\\_mech/cap\\_mech.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cap_mech/cap_mech.aspx)

### Targeted mechanism

Consultation question [page 167]	
<b>1</b>	<b>Does this table [see Figure C3] capture all of your major concerns with a targeted Capacity Mechanism? Do you think the mitigation approach described will be effective?</b>
<b>Response</b>	<p>Whilst we appreciate the concerns that have been raised we think that they can be easily mitigated through effective design and suitable control measures. Key mitigations measures need to be taken into account in the design. Specifically;</p> <ol style="list-style-type: none"> <li>1) The purpose of the Strategic Reserve and the way it operates in the market has to be clearly defined in advance. As far as possible this should be based on volume rather than price measure (although price may be the most effective measure of scarcity).</li> <li>2) Procuring capacity under the Strategic Reserve should only be instigated as a last resort, i.e. when there is industry agreement that there is an issue that needs to be addressed and based on transparent modelling assumptions.</li> <li>3) As a priority the strategic reserve should look to keep 'mothballed' CCGT capacity available to the system rather than investing in new capacity.</li> <li>4) New capacity should be invested in only if there is clear evidence that the new generation can't be supported due to low operating hours.</li> </ol> <p>One of the concerns raised in the consultation document was regarding eligibility and innovation. We disagree that this is a concern, and argue that this would be a benefit; as innovation can be encouraged through the STOR, and only if it does not deliver would the strategic reserve be implemented.</p>

Consultation question [page 168]	
<b>2</b>	<b>How long should the lead time for Strategic Reserve capacity procurement be and why?</b>
<b>Response</b>	<p>If the priority is initially placed on maintaining aging plant that would otherwise have been mothballed on the system, then procurement time is not an issue. By targeting plant at the end of its life, it incentivises sites to be put into the reserve and new, more efficient generation, to infill at the bottom of the merit order.</p> <p>It is only becomes an issue if there is an insufficient quantity of plant on available so that new plant needs to be commissioned. This will depend on how effective measures are to improve DSM, technological advance in storage, market based solutions and the strengthening of the STOR are to providing additional capacity.</p>

	<p>If new plant needs to be commissioned then a four year time period appears to be ample time, however, the correct answer to this will be determined by;</p> <ul style="list-style-type: none"> <li>- the time it takes to commission a new plant (especially if more appropriate reserve plant has different lead times),</li> <li>- the method of commissioning new strategic reserve (ie are there plants with planning permission and grid readily available),</li> <li>- the sensitivity of the trigger points to commission new build under the strategic reserve and the shortfall in generation capacity within the time that it will take to commission new reserve capacity (ie are we protecting against a 5% risk of a shortfall occurring or a 30% risk).</li> </ul> <p>The key point of when to commission strategic reserve depends on the quality of the assessment that underlies it and the independence of the commissioning guidelines. Using effective probabilistic analysis (where the assumptions are subject to public and industrial scrutiny) will ensure that strategic reserve is only commissioned when it is actually required, avoid slipping into a precautionary based commissioning.</p>
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Consultation question [page 168]	
<b>3</b>	<b>Should the length and nature of contracts procured by the Strategic Reserve procurement function be constrained in any way?</b>
<b>Response</b>	<p>The duration of the contract really depends on its nature.</p> <ul style="list-style-type: none"> <li>• If the purpose of the contract is to maintain existing plants on the system, then a shorter contract period would be sensible to avoid unnecessary windfalls.</li> <li>• If new plant is being commissioned, then we would suggest that the strategic reserve contracts should be in place for a longer period of time. – ie ten to fifteen years.</li> </ul> <p>The primary reason for this longer period is that it will ensure that independent generators are able to commission plant and finance them, rather than constraining the market to the established utilities that are able to finance their facilities without resorting to project level debt.</p> <p>The secondary reason for this is that if contracts are shorter then there would be an incentive to recover the capital costs and a minimum return requirement during that period before moving to the liberalised electricity market. This is likely to increase the overall cost of capacity provision.</p>

Consultation question [page 169]	
<b>4</b>	<b>Which criteria should providers of Strategic Reserve be required to meet?</b>
<b>Response</b>	<p>The government needs to be very clear when it defines the purpose of the strategic reserve. Our view is that ramping rates and other mechanisms for providing flexibility should be incentivised through the STOR.</p> <p>It is our view that the strategic reserve should be used for incentivising capacity to be available for operation for a sustained period and that it should be recognised that this may not be predictable. As a result availability and cost of providing capacity should be the primary criteria for the strategic result.</p>

	<p>Arising from the need to minimise costs we would recommend that the strategic reserve primarily focuses on maintain existing CCGTs on the system when they would otherwise have been mothballed. It is our view that new plants should be incentivised only when they would not otherwise be commissioned in a low carbon electricity market when there is robust forecast evidence of low and unpredictable load factors that it would be operating under.</p>
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Consultation question [page 169]	
<b>5</b>	<p><b>How can a Strategic Reserve be designed to encourage the cost-effective participation of DSR, storage and other forms of non-generation technologies and approaches?</b></p>
<b>Response</b>	<p>Our view is that the government should use the strategic reserve as a last resort to incentivise firm capacity if that capacity is not forthcoming in the market due to low load factors.</p> <p>Shorter term response – as is currently characterised by DSR and storage – should be through an enhancement of the STOR.</p> <p>It may be that DSR and storage become sufficiently established that it can also contribute to longer term provision of capacity. It should not therefore be ruled out, although the primary route to commercialisation is probably most effectively realised through STOR.</p>

Consultation question [page 175]	
<b>6</b>	<p><b>Government prefers the form of economic despatch described here. Which of the proposed despatch models do you prefer and why?</b></p>
<b>Response</b>	<p>We agree with the Government's proposal that the strategic reserve should be despatched on the basis of economic despatch. However, both economic despatch and the value of lost load require a judgement on the price at which they should be despatched.</p> <p>The important point of consideration is that existing plant at the peak of the merit order should be able to achieve a sufficient return to remain on the system. As peaking plant are typically older plants that have already recovered their capital costs they need to be incentivised only to remain on the system – ie recover their operating costs. Last resort despatch is likely to over compensate them and increase the overall cost to the consumer.</p> <p>We agree that a clear and sensibly defined economic despatch level should minimise the distortion to the market whilst protecting consumers from the very high cost of volatility and the cost implied by the value of lost load.</p> <p>Furthermore if these peaking plants are expected to opt into the strategic reserve towards the end of their operational life, then the choice of whether a plant opts into the strategic reserve or remains in the open market will depend on their expectation for operating hours up until that price point.</p>



Consultation question [page 175]	
<b>7</b>	<b>How would the Strategic Reserve methodology and despatch price best be kept independent from short-term pressures?</b>
<b>Response</b>	<p>It is very important the rules for both the commissioning and the despatch of strategic reserve should be clearly defined and fully understood by the whole industry.</p> <p>To this end we would recommend that the rules for commission and operation should be kept completely separated from the organisation that is charged with procuring and dispatching the strategic reserve.</p> <p>We would also suggest that the strategic reserve should be rewarded on the basis of the firm capacity that it provides over the lifetime of the contract. Compensation for operation should be based only on the short run marginal cost of actual generation, rather than the value of electricity generated.</p> <p>This will ensure that the return on investment is incentivised through the capacity element rather than the operational element, and will minimise the incentive to enter into the market prematurely and resulting market distortions.</p>

Consultation question [page 175]	
<b>8</b>	<b>Do you agree that a Strategic Reserve should be periodically reviewed? If so, who would be best placed to carry out the review and how often should it be reviewed?</b>
<b>Response</b>	<p>We would therefore encourage a regular review, so that the level of reserve and the manner of its dispatch can be adjusted as the market evolves towards a low carbon market.</p> <p>If the strategic reserve is rewarded on a capacity basis, with operational compensation only covering the direct costs of operation, then the plant commissioned under the strategic reserve should be indifferent to the frequency with which it is dispatched and should be unaffected by a regular review of the operational criteria under which the plant operates.</p> <p>Similarly, by adherence to the principle of economic dispatch and ensuring that the peaking plant should achieve a sufficient return to incentivise them to remain on the system, then existing plants should not be threatened by a regular review.</p>

Consultation question [page 176]	
<b>9</b>	<b>Into which market should Strategic Reserve be sold and why?</b>
<b>Response</b>	<p>Again it is very important for the Government to clarify the purpose of the strategic reserve. Our expectation is that it should be there to protect against an unexpected mid-to-long term outage of a generation facility (whether this is repair of nuclear or a high pressure event that may last several days).</p> <p>These events are typically foreseeable a day or more in advance (the STOR should cover unexpected within day outages) but are rarely foreseeable more than a week in advance. The strategic reserve should therefore look operate within that space of day-ahead to week ahead-markets.</p> <p>In reality however, we would not expect the price signal to be sufficiently established much beyond the day-ahead market. So any despatch in longer-dated markets is likely to be limited in their occurrence and only during peak periods.</p>

Consultation question [page 178]	
<b>10</b>	<b>Do you have any comments on the functional arrangements proposed for managing a Strategic Reserve?</b>
<b>Response</b>	The government's proposals for the functional arrangements appear to be sensible.

Consultation question [page 179]	
<b>11</b>	<b>Given the design proposed here and your answers to the above questions, do you think a Strategic Reserve is a workable model of Capacity Mechanism for the GB market?</b>
<b>Response</b>	<p>Yes, we think that it is the preferable mechanism.</p> <p>Our view is that fast response, ramping services and truly responsive plant should be incentivised through an extension and strengthening of the existing STOR.</p> <p>That the strategic reserve should only be used for incentivising capacity to be available for operation for a sustained period. Because of this we would recommend that the strategic reserve primarily focuses on maintain existing CCGTs on the system when they would otherwise have been mothballed.</p> <p>New plants should be incentivised only when they would not otherwise be commissioned in a low carbon electricity market due to low and unpredictable load factors.</p> <p>Furthermore flexibility should be encouraged within the CfD proposals. Currently the nuclear CfD is expected to be a baseload contract, however, both of the nuclear plants being assessed by the UK's office of Nuclear Regulation (Westinghouse's AP1000 and the EPR) stress their ability to behave in a flexible manner as a key selling point. The EPR is promoted as being able to adjust output at a rate of 5% of nominal power per minute between 65% and 100% of output. Whilst the AP1000 has been promoted as being able to adjust at a rate of 5% of nominal power per minute of between 15% and 100% of output. The situation for biomass is less clearly defined (due to the variety of manufacturers), however, they are likely able to demonstrate similar flexibility when incentivised correctly.</p> <p>By effectively incentivising flexibility in the CfD and enhancing STOR then the commissioning of new plant under the strategic reserve should be maintained to a minimum, and may not be required at all.</p>



*Market-wide mechanism*

Consultation question [page 182]	
<b>12</b>	<b>How and by whom should capacity in a GB market be bought and why?</b>
<b>Response</b>	<p>We do not think that the market-wide capacity market is desirable, however if it was to be implemented then it would be most appropriate and simplest for it to be purchased by a central institution.</p> <p>The other proposals for an obligation to be placed on suppliers, will involve instigating a complex mechanism for a mechanism that should only be implemented as a last resort (ie if flexible CfDs and extension to STOR have been shown to be insufficient). Given the series of complex reforms that the government is embarked on in the EMR it would be advisable to keep at least one aspect of the reform programme simple.</p> <p>Finally, it would appear to be quite ironic to disrupt the renewable market to remove the obligation because it was politically unacceptable whilst then reinventing it elsewhere.</p>

Consultation question [page 183]	
<b>13</b>	<b>What contract durations would you recommend for a Capacity Market?</b>
<b>Response</b>	<p>As with the strategic reserve we would suggest that the market-wide capacity market contracts should be in place for a longer period of time. – ie ten to fifteen years. This would ensure that capacity is there for a significant period of time and minimise the ability of older inefficient plants that have reached the end of their life staying in place longer than economically viable (whilst a shorter duration contract would encourage this).</p>

Consultation question [page 184]	
<b>14</b>	<b>How long should the lead time for capacity procurement be? Should there be special arrangements for plant with long construction times?</b>
<b>Response</b>	<p>To answer this question the government needs to be clear on whether it is supporting new capacity only or whether it is supporting existing capacity.</p> <p>Our understanding of the proposal is that the intention is to support all capacity (a principle that we disagree with). In which case then the lead time between policy announcement and implementation can be relatively short - 6 months to a year.</p> <p>However the market wide capacity mechanism is a much blunter tool and will therefore needs to be a much longer lead time between the announcement and the expected occurrence of a shortfall. The reasons for this are;</p> <ul style="list-style-type: none"> <li>Investors will be relying on the price in the wholesale market to and the revenues from the capacity mechanism to support their investment decisions. As there will be an indirect relationship between the two (ie a high level of capacity support is likely to dampen the wholesale market price) it will take time for this relationship to become sufficiently established to feed into investment cases.</li> </ul>

	<ul style="list-style-type: none"> <li>• As the revenues from a capacity mechanism that are spread across all generators, then it will not be clear how much capacity it is actually bringing forward. So further action may be required to bring forward capacity.</li> <li>• It is very unclear how the success of this proposal will be judged and what the criteria are to determine whether it is successful in bringing forward new capacity and whether it is cost-effective?</li> </ul> <p>In the SEM, a market wide capacity mechanism is in place as generators are required to bid into the market at their short-run marginal cost, and it is therefore a component of capital cost recovery. We aware of a clear case of it bringing forward additional capacity, and in the less transparent UK market there is a risk that it simply supports the position of the incumbent generators.</p>
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Consultation question [page 185]	
<b>15</b>	<b>Should there be a secondary market for capacity? Should there be any restrictions on participants or products traded?</b>
<b>Response</b>	<p>There should not be a secondary market for capacity and there should not be traded products.</p> <p>The UK electricity market is characterised by particularly poor levels of liquidity at the moment. We do not believe that it is a good use of government resources to try and create a new market in a new produce that is liquid. These resources would be far better utilised in building liquidity in the existing electricity market rather than trying to introduce a new market that will suffer from equally poor levels of liquidity. Furthermore an illiquid market would be more susceptible to abuse.</p>

Consultation question [page 186]	
<b>16</b>	<b>What are the advantages and disadvantages of making a central, administrative determination of (i) the capacity that can be offered into the market by each generator; (ii) the criteria for being available; and (iii) the penalties for non-availability? In outline, how would you suggest making these determinations?</b>
<b>Response</b>	<p>We think that there needs to be a central administrative determination of each of these issues. However there are difficulties with each.</p> <ul style="list-style-type: none"> <li>- The capacity of plant that can offered by each generator. Unfortunately there appears to be few options for the central administrator to define this. There will be instances when it is desirable to allow 100% of the plant to be supported by the capacity mechanism (if it an older CCGT that would otherwise close down) and very efficient plants that run baseload and provide little capacity benefit.</li> <li>- Setting the criteria for being available. Again this is very difficult to determine and implement centrally for a market-wide mechanism. If it is based on average availabilities or outage rates over a period of time then there would appear to be little incentive for the plant to be available when the system is under stress, rather the incentive is to achieving their targets across the year in general.</li> <li>- Penalties for non-availability. The penalty for non-availability is only useful if it incentivises plant to be available when it is required at a time of system stress. The effectiveness of the penalty depends upon the effectiveness of the criteria.</li> </ul>

Consultation question [page 191]	
17	<b>How should the reference market for reliability contracts be determined and what would be an appropriate reference market if it is set by the regulator? How could any adverse effects of choosing a particular option be mitigated?</b>
Response	We do not agree that a reliability market is desirable. It appears to add an enormous amount of uncertainty to a market that is already subject to a vast amount of political and regulatory risk.

Consultation question [page 192]	
18	<b>For a Reliability Market, how should the strike price be determined? If using an indexed strike price, which index should be used?</b>
Response	As far as we are aware, there is not an appropriate index for the strike price.

Consultation question [page 193]	
19	<b>For a Reliability Market, what level of physical back up (if any) should be required for reliability contracts and how should it be monitored?</b>
Response	It is a very good question that goes right to the heart of our concerns. We are not convinced that level of physical back-up could ever be effectively monitored or that penalties for non-delivery could be set sufficiently high to ensure capacity is made available.

Consultation question [page 194]	
20	<b>Do you agree that a vertically integrated market potentially raises issues for the effectiveness of a Reliability Market? If so, how should these issues be addressed?</b>
Response	The level of vertical integration raises issues regarding the effectiveness of the reliability market, and the potential for gaming the system. This risk of this increases as more complex systems whose effectiveness can't be measured and assessed in a straightforward manner.

Consultation question [page 195]	
21	<b>What could we do to mitigate interactions between a Capacity Market (especially if a Reliability Market) and Feed-in Tariff with Contract for Difference without diluting the effectiveness of either?</b>

<b>Response</b>	<p>There is a real risk that the capacity market has the potential to draw revenues away from the wholesale electricity market and to increase the amount of support that the government needs to pay out to support low carbon generation.</p> <p>This is not a desirable outcome and therefore why we are supportive of a strategic reserve that is only implemented once it is clear that new capacity will not be forthcoming under other circumstances.</p> <p>A second issue that appears to have been lost is that the CfD structure should incentivise despatchable low carbon generators to respond in a flexible and effective manner. This is clearly not the case for nuclear where the government appears to assume that has to operating baseload. With biomass there is some potential under the flexible CfD structure proposal.</p>
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Consultation question [page 196]	
<b>22</b>	<b>How can a Capacity Market be designed to encourage the cost-effective participation of DSR, storage and other non-generation technologies and approaches?</b>
<b>Response</b>	We do not see how a capacity market can incorporate these features effectively; rather these have to be incentivised through an extension to STOR.

Consultation question [page 199]	
<b>23</b>	<b>Do you have any comments on the functional arrangements proposed for managing a Capacity Market?</b>
<b>Response</b>	<p>We prefer a central institution is charged with formulating the rules that govern how and when a strategic reserve can commission capacity and the circumstance through which it is operated.</p> <p>The actual commissioning of capacity and dispatch should then rest with the current balancing authorities.</p>

Consultation question [page 199]	
<b>24</b>	<b>Do you think that a trigger should be set for the introduction of a Capacity Market? If so, how do you think the trigger should be established, and how should it be activated?</b>
<b>Response</b>	<p>We do not think that either a market-wide capacity mechanism or a reliability market is the correct solution for the long term provision of capacity.</p> <p>If the government disagrees with this and chooses to pursue either of these options then it becomes important that it should be implemented as soon as a clear case has been made that there will be a capacity shortfall as it will take time for the incentives to feed through the system.</p> <p>However, as we have stated we would encourage the government to refrain from implementing this until there is clear evidence that other options can't provide adequately.</p>

Consultation question [page 199]	
<b>25</b>	<b>What is the most appropriate design of Capacity Market for GB and why?</b>
<b>Response</b>	<p>We do not agree that a capacity market is most appropriate and would prefer a strategic reserve, however, if it is the government's view that it needs to be implemented then we would prefer a simple capacity under which the capacity is contracted centrally.</p> <p>The reason for this is to minimise political and regulatory uncertainty and to maximise the potential for delivery. The other proposals appear to be overly complex and this reduces their ability to be implemented and the confidence that they will be effective when they are called upon.</p>

### *Capacity mechanism Assessment*

Consultation question [page 210]	
<b>26</b>	<b>What are your views on the costs and benefits of a Capacity Mechanism to industry and consumers?</b>
<b>Response</b>	Unconvincing, the assumptions that underlie these assessment and the risk of different eventualities arising have to be set out far more clearly and effectively stress-tested.

Consultation question [page 211]	
<b>27</b>	<b>Which Capacity Mechanism should the Government choose for the GB market and why?</b>
<b>Response</b>	<p>Strategic Reserve.</p> <p>It is our view that short term system stresses (1 day or less) should be provided for by expanding and strengthening the Short Term Operating Reserve (STOR). STOR should be encouraged to contract over a longer period, to provide greater depth and to engage with demand side response and storage solutions.</p> <p>The strategic reserve provides the most targeted, quickest and least intrusive intervention in the market, but even with this it should be considered as a last resort option.</p> <p>Before it is implemented it is important to ensure that as many opportunities for new technologies and market based solutions as possible. This can be achieved by incentivising flexibility through an enhanced STOR and encouraging an effective market price signal by encouraging dispatchable CfDs (nuclear and biomass) to behave responsively.</p> <p>In our opinion the Strategic Reserve should be implemented only when there is clear evidence that other options are not able to deliver sufficient capacity. Under these circumstances we think that the priority should be to target support to plant that would otherwise be mothballed (older generation CCGTs) and secondly to support new investment only when capacity can't be commissioned due to low load factor expectations.</p> <p>This will minimise the cost of providing the strategic reserve, and ensure that as many options remain open as long as possible whilst we move to a low carbon electricity mix.</p>



	<p>A blanket market-wide measure for capacity is likely to squeeze these opportunities out of the market, removing a key ingredient for innovation and cost savings. Furthermore, there is a risk that the market-wide mechanism will be overly costly, will not guarantee delivery, and draw funds away from the wholesale market price (putting additional pressure on the level of public funds required support low carbon generation under the CfD).</p>
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Please select the category below which best describes who you are responding on behalf of.

- ☐ Business representative organisation/trade body
- ☐ Central Government
- ☐ Charity or social enterprise
- ☐ Individual
- X Large business ( over 250 staff)
- ☐ Legal representative
- ☐ Local Government
- ☐ Medium business (50 to 250 staff)
- ☐ Small business (10 to 49 staff)
- ☐ Micro business (up to 9 staff)
- ☐ Trade union or staff association
- ☐ Other (please describe):

Thank you for taking the time to let us have your views.

The Government does not intend to acknowledge receipt of individual responses unless you tick this box. ☐