

The Final Hurdle?: Security of supply, the Capacity Mechanism and the role of interconnectors

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Abstract The UK Government has developed a carefully designed Capacity Mechanism to ensure security of supply in the GB electricity system. This paper criticises the methods used to determine the amount of capacity to procure, and argues that the amount finally proposed is likely to be excessive, particularly (but not exclusively) in ignoring the contribution from interconnectors. More broadly, there has been too little attention to either the political economy, or the option value aspects. Procuring too little is risky, but fear of ‘the lights going out’ can easily become a catch-all argument for excessive procurement, and associated subsidy. The risk of over-procurement, particularly of new capacity on long-term contracts, is that it drives up the costs to consumers; undermines renewable energy by transferring capped resources from renewable to fossil fuel producers; and impedes the Single Market including by weakening the business case for future interconnectors. The paper argues that the development of technologies and markets, particularly on the demand-side and of potentially available – ‘latent’ – capacity - further lowers the risks and increases options. This implies greater potential to defer more capacity procurement – and enhances the value of a more appropriate treatment of interconnectors in security assessments.

Keywords Capacity Mechanisms, procurement volume, interconnectors

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