Missing Money and Missing Markets: Reliability, Capacity Auctions and Interconnectors

EPRG Working Paper      1508
Cambridge Working Paper in Economics      1513

David Newbery

Abstract In the energy trilemma of reliability, sustainability and affordability, politicians treat reliability as over-riding. The EU assumes the energy-only Target Electricity Model will deliver reliability but the UK argues that a capacity remuneration mechanism is needed. This paper argues that capacity auctions tend to over-procure capacity, exacerbating the missing money problem they were designed to address. The bias is further exacerbated by failing to address some of the missing market problems also neglected in the debate. It examines the case for, criticisms of, and outcome of the first GB capacity auction and problems of trading between different capacity markets.

Keywords capacity markets, renewables, procurement volume, interconnectors

JEL Classification L94, D44

Contact dmgn@cam.ac.uk
Publication February 2015, updated July 2015
Financial Support no specific financial support

www.eprg.group.cam.ac.uk