



The CMA's Energy Investigation: Wholesale AECs and Remedies

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The CMA identified only limited issues at the wholesale level in electricity – none in gas



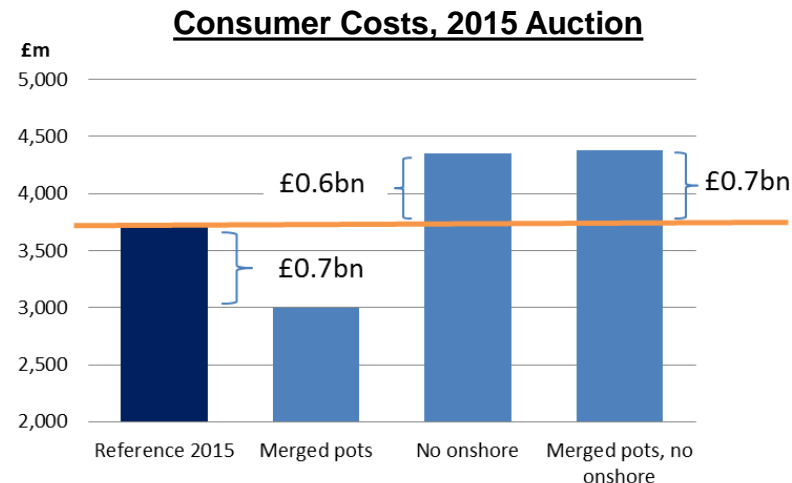
| <u>Operation of Competition</u> | | <u>Market Rules</u> | |
|---------------------------------|-----|---------------------------|-----|
| Issues | AEC | Issues | AEC |
| Generation Market Power | X | Self dispatch | X |
| VI and wholesale liquidity | X | Imbalance price reform | X |
| | | Capacity Market | X |
| | | CFDs for low-carbon | ✓ |
| | | Locational energy pricing | ✓ |

CFDs remedy: government should publish CBAs to justify its allocation decisions

1. Non-competitive allocation of CFDs (eg, FIDeR process)

- 58% of available CfD budget to 2020/21 allocated via FIDeR
- Strike prices set without regard for individual project costs
- Detriment estimated by CMA of c.£3Bn NPV or 1% on consumer bills

2. Allocation of technologies and budget to CFD “Pots”



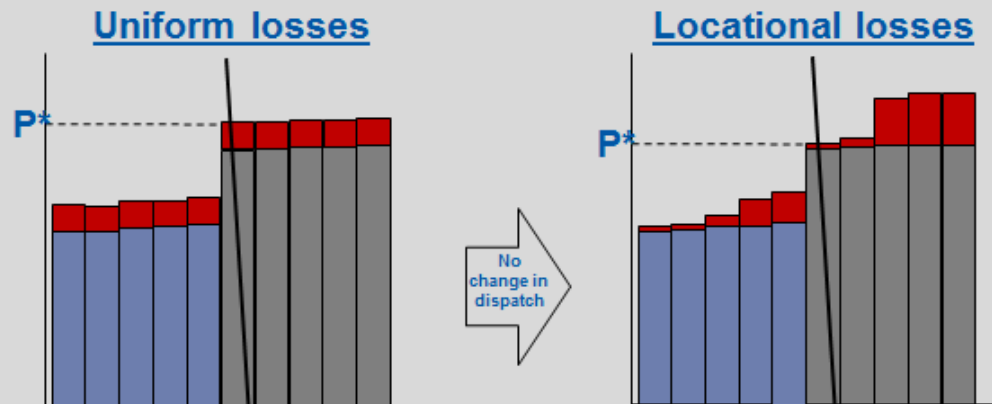
Source: NERA analysis for Citizens Advice

Locational losses remedy: NG to implement previous BSC modification proposal P229



1

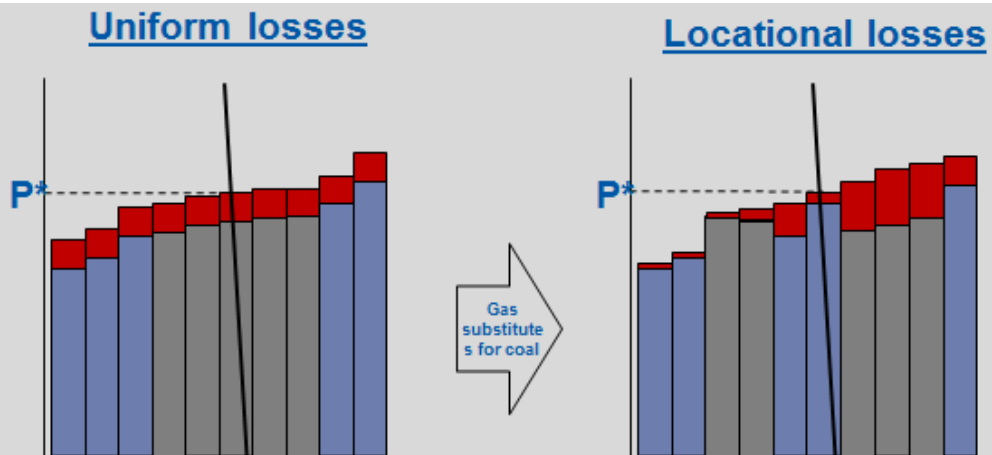
P229 =>
No
benefits



- NERA-Imperial College undertook modelling on behalf of the CMA to assess dispatch benefits
- We looked at 3 commodity price scenarios to test different supply curves
- We took account of interactions with neighbouring markets
- We forecast systematic savings from P229 of £131Mn to £159Mn (2015 prices) over the period 2017-2026
- In contrast, distributional impacts were non-systematic

2

P229 =>
Positive
benefits



The CMA report is not the final word



- Some important wholesale market issues were deemed out of scope by the CMA, including:
 - Ancillary service markets: excluded on grounds they concerned “natural monopoly regulation of National Grid”
 - Embedded benefits: which have now become a major regulatory issue that affects wholesale competition
- The CMA also eschewed detailed investigation of locational charging for constraints

The GB wholesale market is heading in the right direction, but there is still work to be done

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