

# Commission ambition meets UK experience

Blog post by Adviser Matthew Duhan, 04 March 2016

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London always likes to think it is a step ahead of Brussels. In electricity generation policy it may just be. EU Energy and Climate Change Commissioner Miguel Arias Canete has just given a speech to the European Electricity Regulatory Forum in Florence on completing the internal market for electricity in Europe. He set out both an ambitious and pro-market program, calling for the need for “price signals for investment in adequate capacity or demand response”. So far, so Anglo-Saxon.

This is interesting because it foreshadows the focus for the legislative proposals on electricity market design expected at the back of this year and it will have gone down pretty badly among the ten member states who retain some element of price regulation in either wholesale or retail markets. Unlike Canete, who was free to signal his comfort with “short-term price spikes”, national governments have to answer to electorates when prices rise.

London will have liked the speech in particular, but there is some irony here. The irony perhaps is that just as the debate in Brussels on liberalisation is catching up with the UK, there is a realisation in London that the reality is arguably heading in the other direction. Secretary of State Amber Rudd’s admitted in her ‘energy reset’ speech that “we now have an electricity system where no form of power generation, not even gas-fired power stations, can be built without government intervention”.

This was a big marker of the difficulties the UK has had in incentivising new investment based purely on a wholesale power market price. A price which - as a product of both falling coal and gas prices and increasing zero marginal cost renewable generation - just continues to head lower. Meanwhile a growing proportion of the UK’s current generation capacity is now reliant on remuneration outside the wholesale market either through Contracts for Difference or payments in the capacity mechanism.

The good news for Brussels and London: they are describing the same destination. That is, (in Rudd’s words) “a competitive electricity market, with government out of the way as much as possible, by 2025”. However, with the UK’s system capacity margin falling as low as 1.2% in mid-2015 and the consequent resort to further intervention through the Capacity Market and Supplemental Balancing Reserve (SBR) the issue of whether liberalised wholesale power markets can send both dispatch and investment signals is still the big one.

When considering the future of European markets the Commission would do well to take note.