

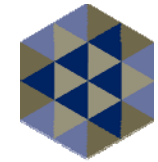
E3G

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# EU State Aid and UK EMR workshop – UK EMR in the State Aid context

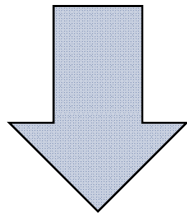
20<sup>th</sup> January 2014

# Why EMR?



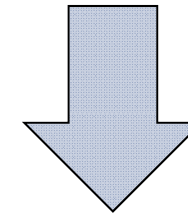
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The market cannot be relied upon to decarbonise the power system securely, efficiently and at the pace required



Regulate some market  
'inputs':  
*Carbon tax*  
*EPS*

Do not require State Aid  
clearance



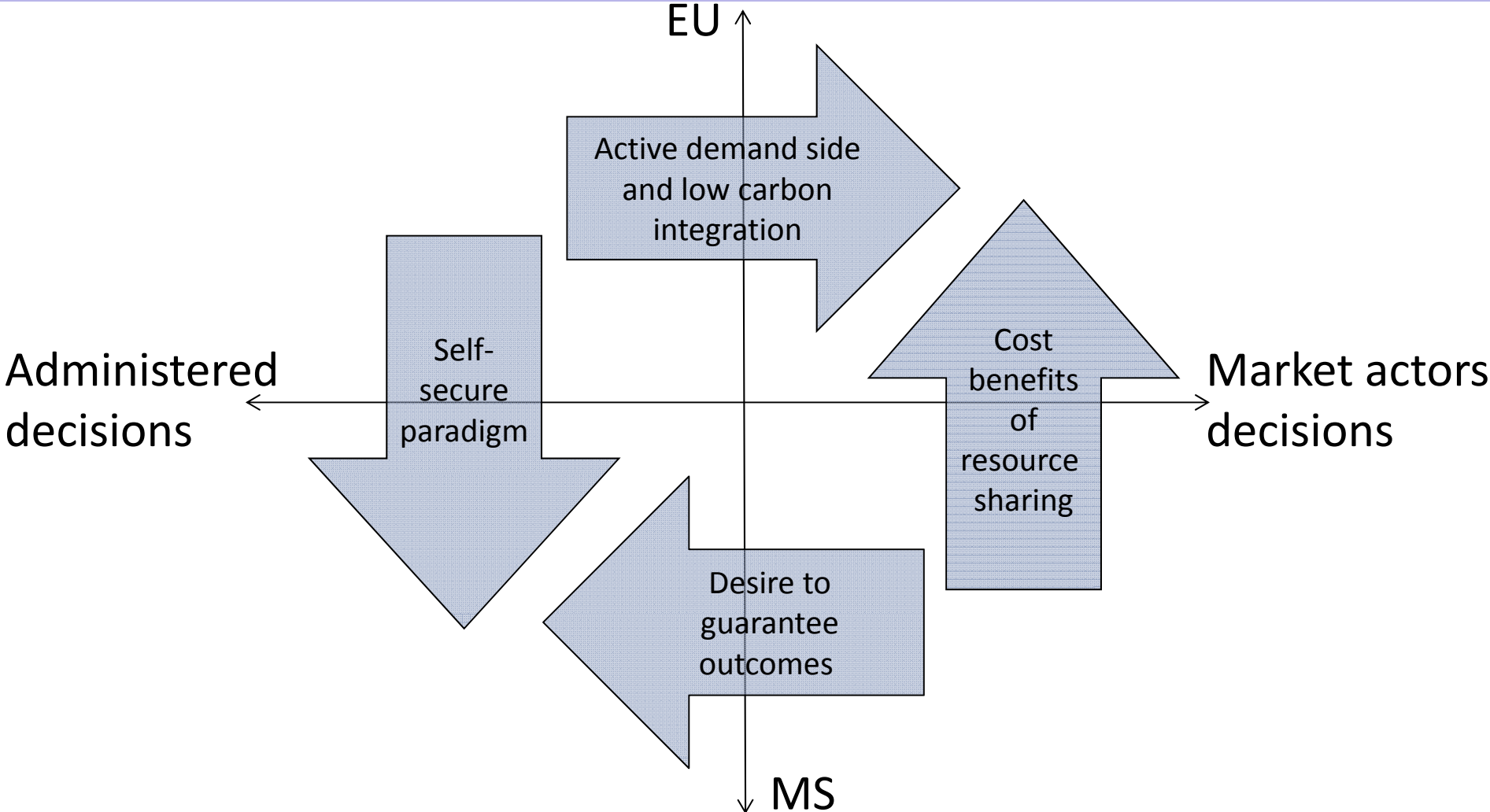
Regulate some market  
'outcomes':  
*Low carbon generation*  
*Generation adequacy*

May require State Aid  
clearance

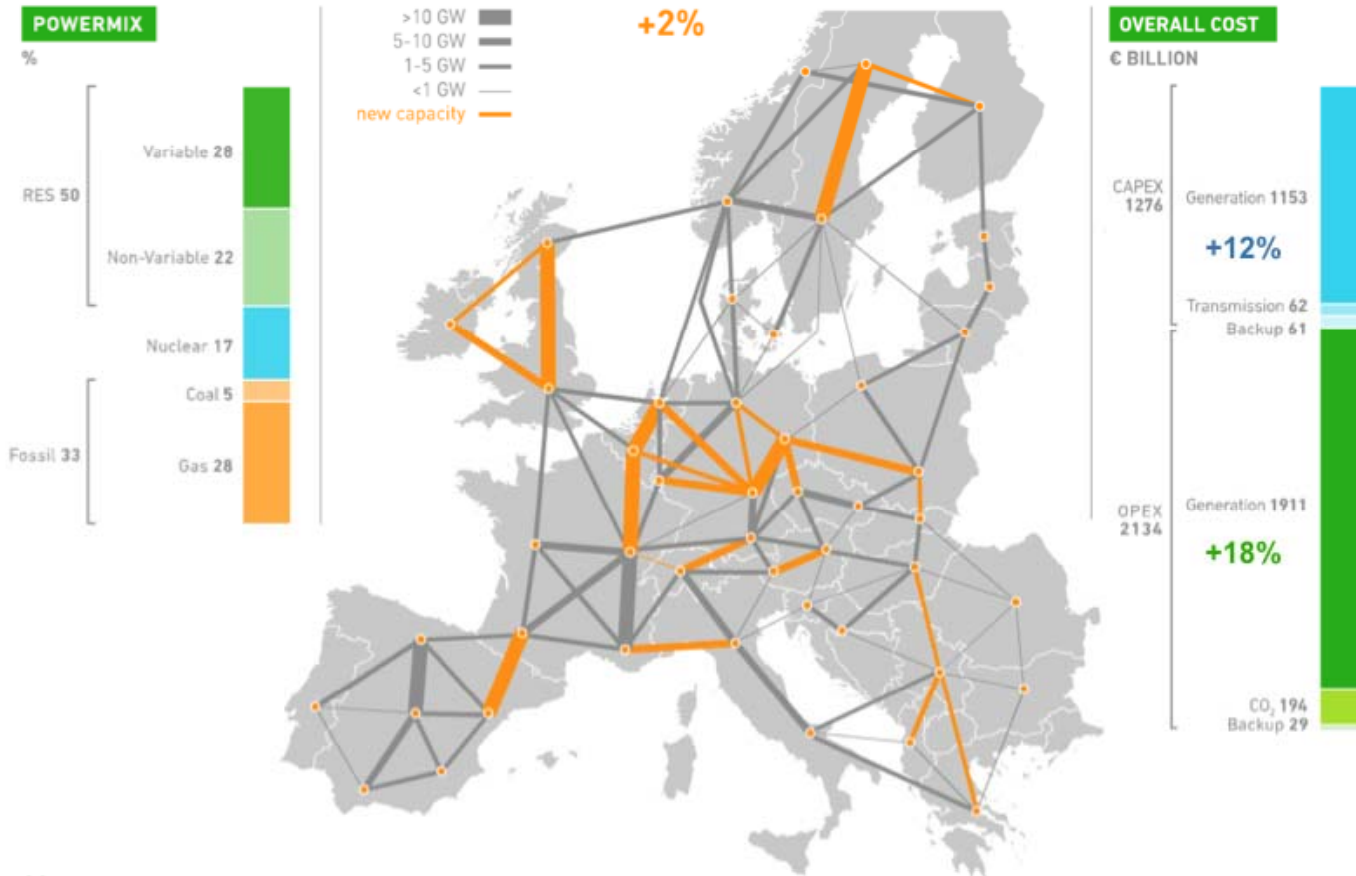
# The Policy Landscape



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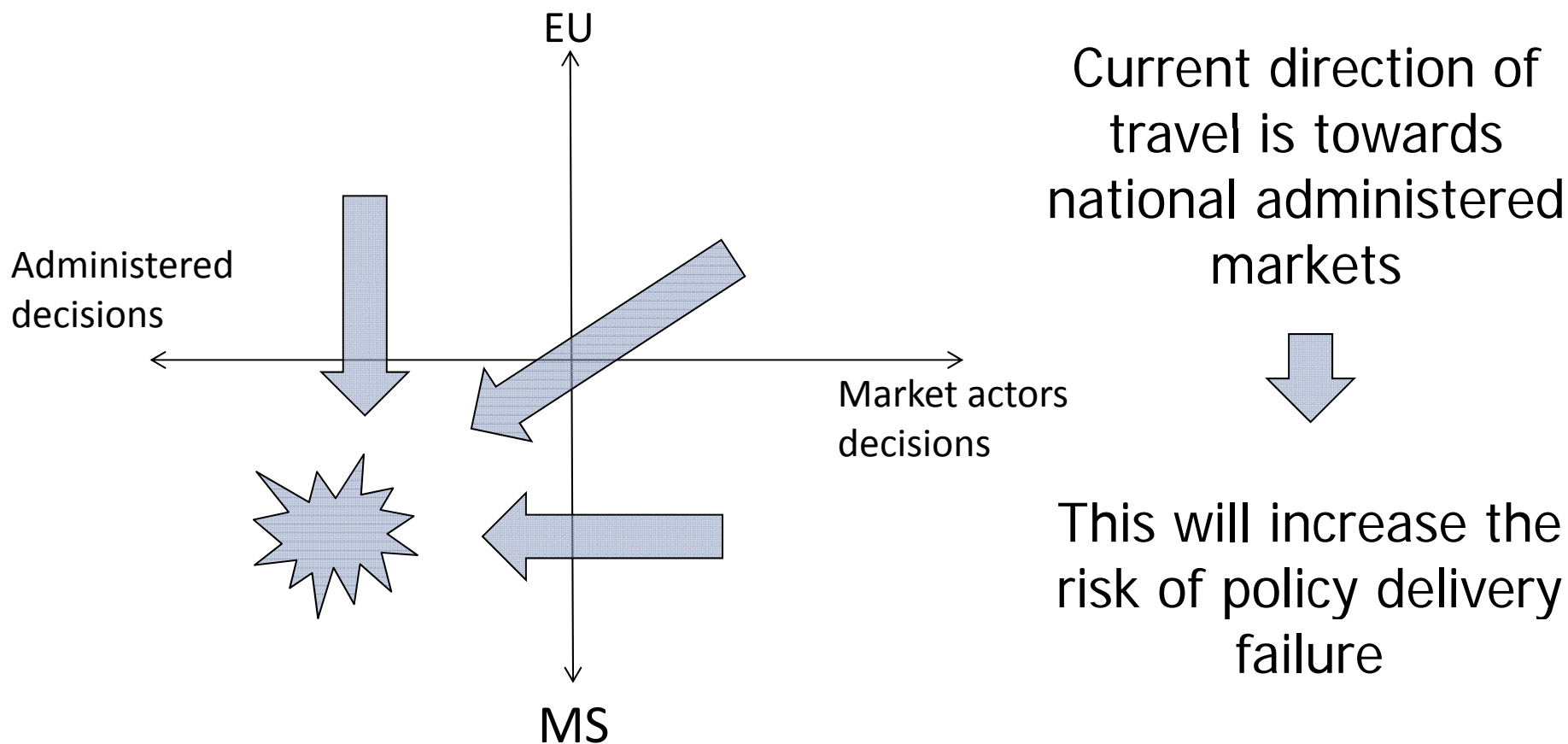
# Cost opportunity from optimal resource sharing



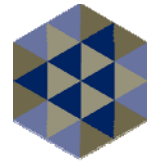
**Total of €416bn in the 2020-2030 timeframe:**

- 1/3 (€125bn) capex savings from optimising location of generation assets
- 2/3 (€291bn) opex savings from sharing (conventional) back-up resources and optimising system operation

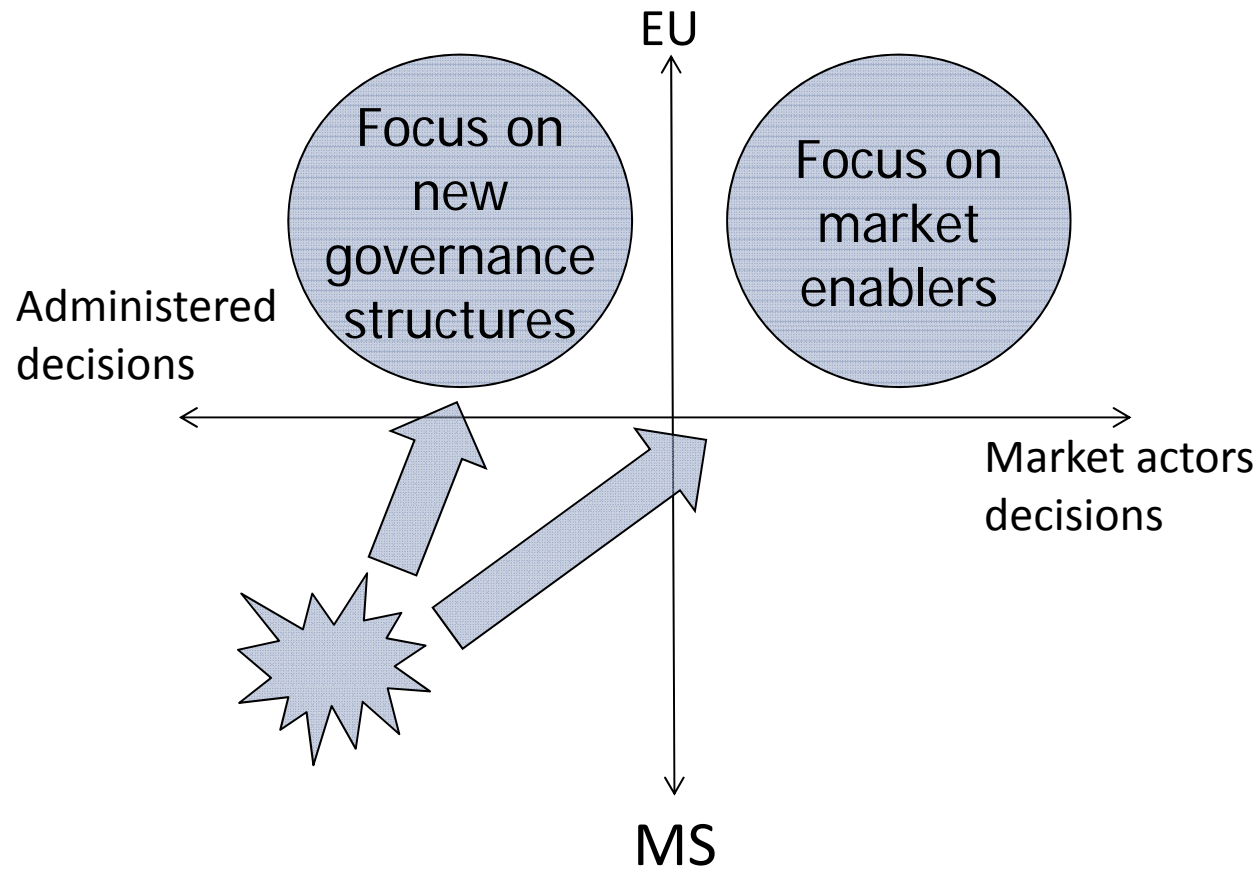
# Current realities



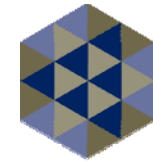
# Reversing the trend



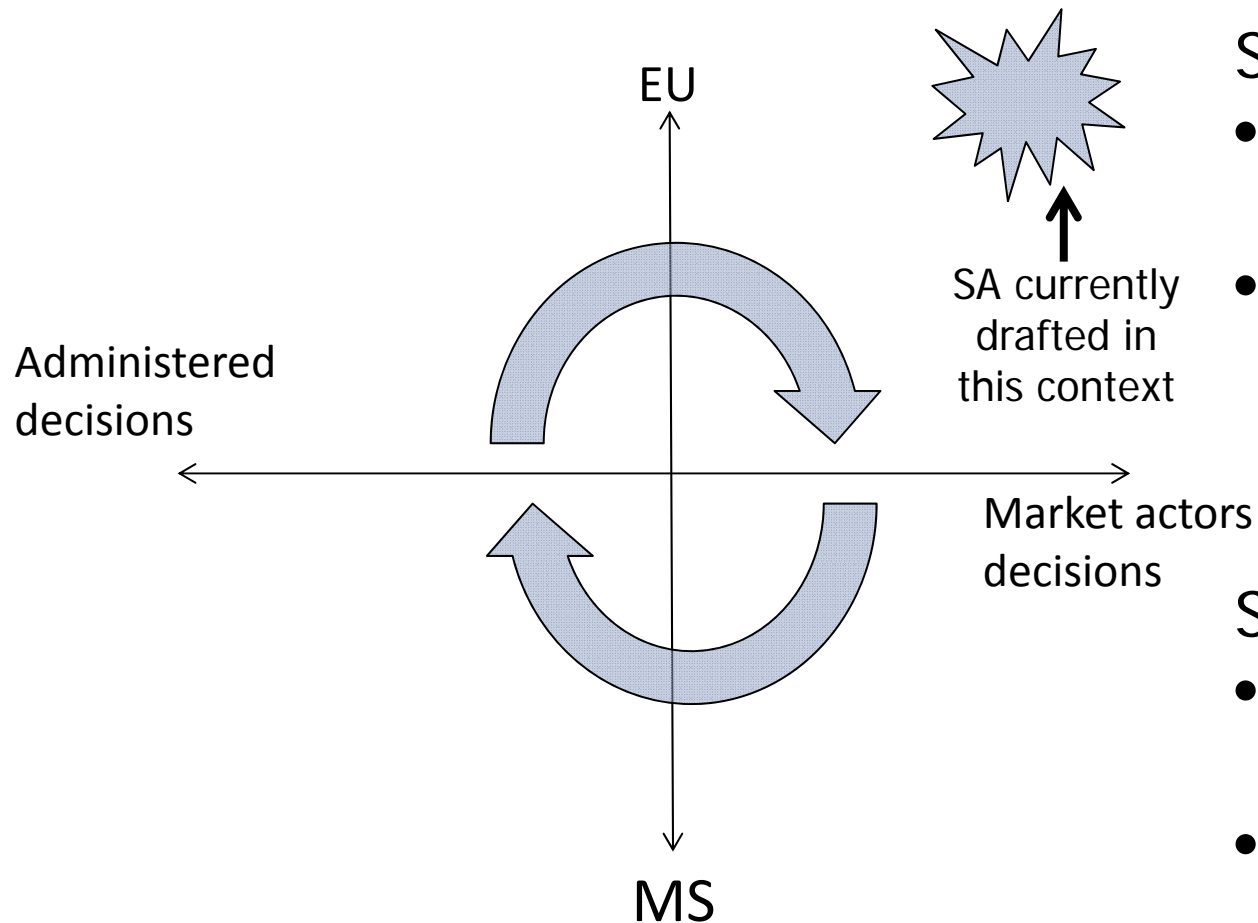
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# State aid is a key battleground



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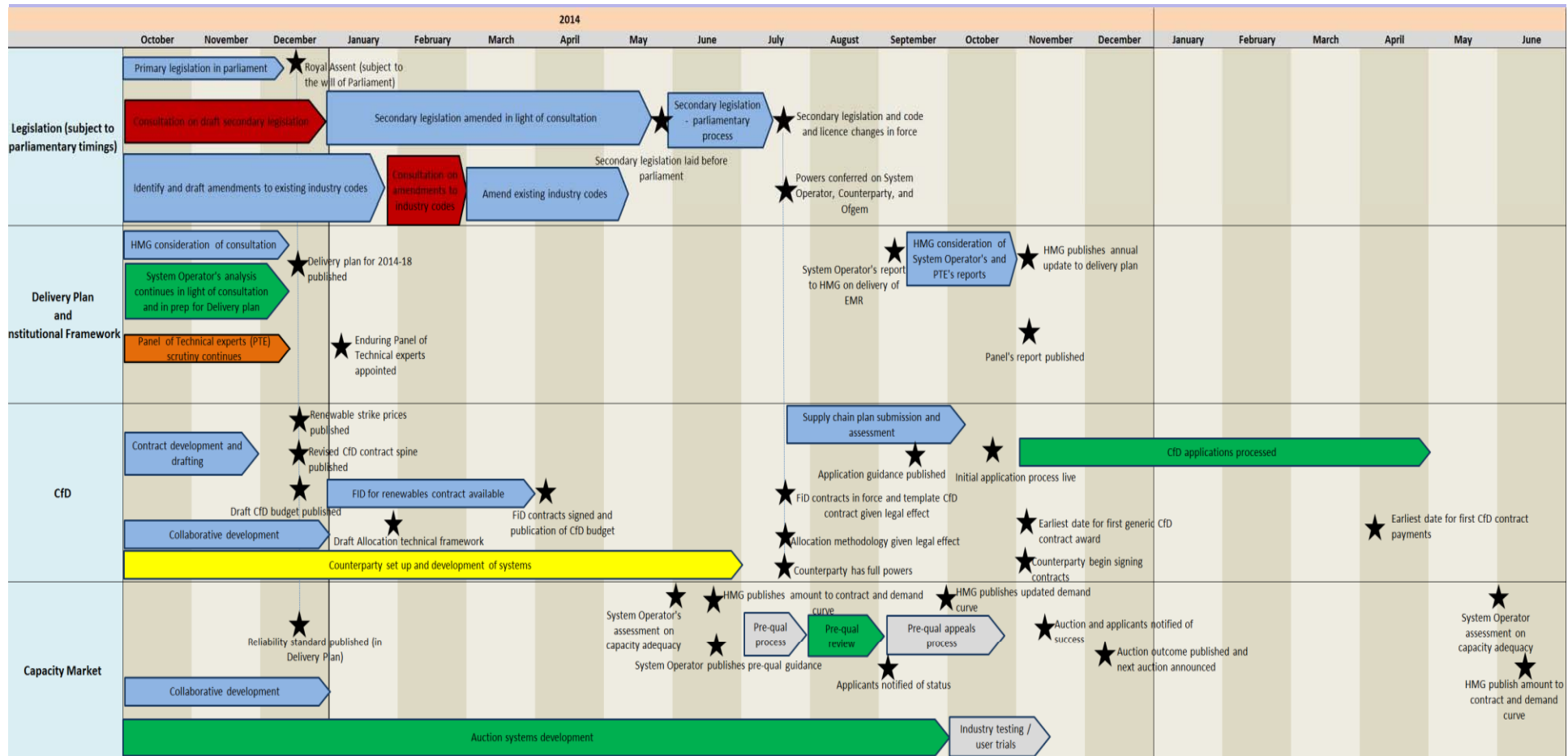
State aid are 'good':

- The initial EMR logic remains sound
- The EU Governance structures are not adequate

State aid are 'bad':

- Undermine trading and market efficiency
- Can be used to support different MS priorities

# EMR timetable

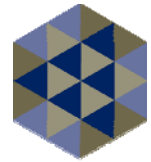


Key:





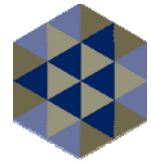
# Questions on timing



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- From when will the new guidelines apply?
- At what point does the UK need to apply for State aid Clearance?
  - Process already in train for Hinkley FID enabling contract
    - But FIDs not in force until July
    - Presumably not covered by new guidelines
    - What about RES FID contracts?
  - What about CfDs and capacity mechanism: July? November?

# Big issues with new guidelines



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- RES
  - Significant recent change in allocation proposals into line with draft guidelines
  - Is CfD 'equivalent' to premium?
- Capacity mechanism
  - Do penalties restrict trade?
  - Have we tried hard enough to include overseas resources?
  - Are restricted lock-in options discriminatory?

*How tough does CION want to be? Lots of subjective criteria...*