

Rethinking power markets: capacity mechanisms and decarbonisation

Whitley, Shelagh

Head of Climate and Energy, Overseas Development Institute, United Kingdom,
s.whitley@odi.org

This report introduces capacity mechanisms, a policy instrument for power markets, considers their implications for meeting parallel objectives of security of supply and decarbonisation.

Our review suggests that capacity mechanisms risk undermining parallel energy and climate objectives by locking in dependence on high-carbon, inflexible power generation assets. The introduction of these tools is often politically motivated and not based on a rigorous analysis of their need. Finally, the uncoordinated introduction of capacity mechanisms risks undermining wider efforts to integrate energy markets, which, paradoxically, are meant to ensure a more efficient use of resources and improve security of supply.

As a number of countries are moving ahead with the design and implementation of domestic capacity mechanisms, it is therefore a key moment to influence this process.