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Dan Norton
Deputy Director Retail Price Protection
Ofgem
10 South Colonnade
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Dear Dan,

Consultation on the timing of price cap inputs for capacity market cost allowance, and the introduction of proposed policy changes relating to energy intensive industries (EII)

Thank you for the opportunity to respond to Ofgem's consultation on the timing of price cap inputs for capacity market cost allowance, and the introduction of proposed policy changes relating to energy intensive industries (EII).

We welcome Ofgem's proposals for dealing with late or uncertain inputs to the price cap calculation for April 2024 relating to Capacity Market (CM) cost allowances and planned changes to the Energy Intensive Industry (EII) exemption scheme. However, we want to note that the extremely short consultation period is preventing us from carrying out any a significant analysis of the proposed changes which limits our ability to provide views. It would be helpful if Ofgem consults on technical changes using the standard consultation timeframes even when outcomes are uncertain, enabling the industry to carry out a comprehensive review and assessment on facts.

We are in favour of the more frequent updates to the Capacity Market (CM) allowance aimed at ensuring the most up to date CM allowance inputs can be accounted for in the price cap as quickly as possible and have no alternative data proposals which could be used in lieu of the previous auction prices. At the same time there continues to be a risk that the allowance is not fully aligned or representative with changes in underlying costs. There have been instances in the past where the difference between the auction clearing prices from one year to another has been significant. If this is the case for the interim period until the price cap allowances are aligned to costs a reconciliation methodology may need to be considered and consulted on with suppliers.

Ofgem should closely align and cooperate with DESNZ and other stakeholders in advance of implementation for any future price cap updates which are linked to legislative changes. This will ensure that adequate notice is given to the industry to enable a comprehensive review of the impacts on their business and facilitate sufficient implementation lead times, preventing delays in updating IT systems and internal processes which can cause detriment to businesses and how they support their customers.

Yours sincerely,
Ben Middleton
Senior Regulation Manager