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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)

We welcome the opportunity to respond to Ofgem's consultation on its price cap inputs. The consultation considers two different inputs to the to the price cap calculation for April 2024. These inputs are:

- Capacity Market (CM). The proposal is to use the latest CM inputs and to update the CM allowance on a quarterly basis when there is more up to date information available.
- Energy Intensive Industry (EII) exemption scheme. The proposal is to use the expectation of 100% EII exemption and to amend this at the next price cap update if the legislation does not come into place as expected

We have provided some comments on these in Annex 1.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

**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)
– SCOTTISHPOWER RESPONSE**

The consultation considers CM and EII inputs to the price cap calculation for April 2024. We discuss each of these in turn.

Capacity Mechanism

The T-1 2023 Auction for the 24/25 CM year is due to take place over 20 to 21 February 2024. This timing means that it will not be possible to take the T-1 2023 auction price into account in the price cap for period 12a which will be announced on 23 February 2024. According to the current rules, the next opportunity to update the CM allowance would be for price cap period 13a.

We agree with Ofgem's proposal to allow an update to the CM allowance on a quarterly (rather than six-monthly) basis, where there is more up to date information available, as there will be this year.

Ofgem must also consider what to use for both capacity and price in the price cap period 12a.

- Its proposal for capacity is to use the targeted capacity for the auction T-1 2023 as confirmed in footnote 3 of the consultation letter¹. We agree with the proposal to use the targeted capacity as noted in the footnote as the best available information.
- Its proposal for price is to use the T-1 2022 price as the clearing price for the T-1 2023 auction. We do not consider this to be the best option and consider that Ofgem has additional options to set the price. At a minimum, we consider that Ofgem should increase the price by CPI. This would be relatively simple from a practical perspective since CPI is used for the T-4 auction prices. Ofgem should also consider using an average over 2 or 3 previous years (each indexed to CPI) rather than just using 2022 to set the price.

Energy Intensive Industry (EII) exemption scheme

We agree with the proposal to use the expectation of 100% EII exemption in the price cap and to update policy costs in price cap 12b only if the relevant EII legislation is not in place.

ScottishPower
February 2024

¹ The link in footnote 3 is here [Final auction parameters, T-1 and T-4 Capacity Market auctions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/115422/final-auction-parameters-t-1-and-t-4-capacity-market-auctions.pdf)