

Ms Emma Kelso  
Associate Partner – Wholesale Markets,  
OFGEM,  
9 Millbank,  
London  
SW1P 3GE

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Dear Emma

We welcome the opportunity to comment on OFGEM's draft guidance on the capacity market rules change process. As an independent generator keen to participate in the capacity market, we are anxious to ensure that the rule change process is (a) simple and efficient, (b) does not impose an unacceptable administrative burden on smaller independent generators and new entrants, and (c) it minimises the investor uncertainty relating to the combined impact of regulations and rules on the commercial viability of the capacity market.

Briefly, our comments on the draft consultation document are as follows:

#### CHANGE PROCESS

We agree with the overview of the change process outlined in the consultative document. We would not support a process of "continuous" amendment for the following reasons:

- It would involve both OFGEM and market participants in a time-consuming and costly process of permanent review and rule change impact assessment.
- It would add greatly to investor uncertainty ahead of the auction
- It would run the risk of there being too many amendments with not enough time available to compare, contrast, prioritise and evaluate fully those changes, which best further the objectives of the capacity market.

#### POLICY OBJECTIVES

We support DECC's decision to set out in the Regulations a short list of objectives which will determine the basis for evaluating proposed changes to the capacity market rules. In addition, given the need for the capacity market to facilitate essential new investment in generation capacity, we were pleased to see that in evaluating proposed rule changes, OFGEM will also have

regard to its own general duties and obligations in particular the need to adopt measures which are “best calculated to promote competition in generation, distribution and supply”. The Government has accepted that without significant new investment there is a serious risk that the future supply of electricity will not be sufficient to meet demand. Furthermore, as regards the impact assessment process, we would agree that proposed changes should be accompanied by some rationale but OFGEM is best placed to conduct a detailed impact assessment of the preferred modifications to emerge from a filtering process process (see below).

## WEIGHTING OBJECTIVES

The current design of the capacity market is a compromise between seeking to maintain existing capacity on the system and encouraging new build. In trying to meet these objectives there is a balance to be struck between minimising the short and long term costs to consumers of the capacity market and ensuring both short and long term security of supply. We accept that it is the job of politicians and DECC to try and prioritise the objectives of affordability, security and competition but in the time available it would be very helpful for new investors if DECC, together with OFGEM, could indicate the relative importance weighting to be attached to the different objectives that will be used to evaluate both changes to the regulations and capacity market rules during the operation of the capacity market.

## REGULATIONS AND RULES

We welcome DECC ‘s decision to “grandfather” certain commercial parameters which will have a major influence on whether there is any new investment in capacity and any increase in competition in the UK wholesale electricity market. However, there is always a risk that Government might want to change these parameters (especially following next year’s general election) and this could have a direct and immediate impact on the capacity market rules. In short, there is a real risk that major regulation and rule changes could be introduced as soon as next year i.e. before the commencement of a second auction. All this adds to investment uncertainty and we would therefore urge OFGEM, together with DECC, to put in place a change process which ensures that (a) the market is consulted on any future regulation changes, and (b) the same evaluation criteria (see Policy Objectives above) are used by OFGEM to assess the impact of combined regulation and rule changes.

## FILTERING OPTIONS

To avoid unnecessary duplication and ensure consistency in the evaluation process we would recommend that OFGEM introduce into the process procedures whereby:

- a) all recommended rule changes that are submitted by the deadline date (set by OFGEM) are displayed on the website clustered by topic

- b) market participants then have the opportunity to withdraw amendments and/or agree with others to combine proposals (this may be done bilaterally or at a stakeholder session)
- c) OFGEM decides unilaterally which proposals it will take forward for a formal impact assessment (taking into account the evaluation objectives –see above)
- d) OFGEM publishes its list of changes for the next auction and provide feedback on the rationale for its decision.

We are concerned about the degree of uncertainty that still surrounds the design and implementation of the capacity market, particularly in connection with the EU “State Aid” review and the UK general election on 9 May 2015. In this context, clarification of how the operation of the capacity market might change, and how and by whom changes will be evaluated, is of paramount importance for those of us who are investing huge sums of money in bringing forward new generation capacity to participate in the capacity auction.

I hope you find these thoughts useful and if you have any questions then please do not hesitate to call me.

Sincerely,

A handwritten signature in dark ink, appearing to be 'G. Grant', with a large loop at the start and a cross at the end.

George Grant  
Managing Director

