

Energy UK response to the Ofgem consultation on further amendments to the Capacity Market Rules

19 August 2016

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry, from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Response to individual questions

Q1a. Do you agree with the proposal to amend the definition of Mandatory CMUs? Please provide evidence and clear reasoning for your answer.

We agree with the proposals to amend the definition of Mandatory CMUs so that CMUs which are considered 'excluded capacity' under Regulations 16, 17 and 18 are not Mandatory CMUs.

Q1b. Do you think our proposed drafting accurately reflects the policy intent we have outlined?

We consider that the proposed drafting accurately reflects the policy intent.

Q2. Do you think our proposed drafting accurately reflects the policy intent we have outlined?

We consider that the proposed drafting accurately reflects the policy intent to ensure that CMU Portfolios are demonstrating satisfactory performance on three separate days during the Winter of the relevant Delivery Year.

Q3: Do you agree with our preferred option for amending the LFCO formula? Please provide evidence and/or clear reasoning with your answer.

We consider that it is important to fix the LFCO formula to scale obligations correctly during the first Delivery Year of the Transitional Auction (TA), prior to the start of the TA delivery year.

Having reviewed the three potential LFCO formulas we consider that all these options better scale the obligations according to demand compared to the current formula. We would, therefore, support Ofgem's preferred option to scale obligations based on a historical average demand shape as proposed by Green Frog Power and note that the straight forward approach and increased certainty of the formula would be beneficial for participants.

We also note that Ofgem has identified that National Grid have concerns that the use of Involuntary Load Reduction (ILR) could potentially cause settlement issues. If this is indeed the case, it could cause problems for the operation of the Capacity Market from October 2017 onwards rather than merely being a transitional issue of low materiality for 2016/17. We believe that Ofgem should request National Grid to provide an explanation of these concerns so that it can be established whether further action is required.

Other issues

Members have raised concerns regarding some of the operational issues that are arising within the rules as parties roll out new build plants. One of the issues is around the ability of the parties to deliver the same obligated capacity, but via different technology choices, for example delivering from 2 units rather than 3 units. This is resulting in parties not meeting new build obligations in the most economically efficient manner. The relevant part of the rules is section 9 and we do not believe that the policy intent was ever to limit the way that the capacity was delivered. We would recommend Ofgem discuss with National Grid whether a small change could be made to allow for greater commercial flexibility.

Energy UK welcomes the opportunity to further discuss the points raised within this consultation with Ofgem. Should you require further information or clarity on the issues outlined in this paper please contact Kyle Martin on 020 7747 1834 or kyle.martin@energy-uk.org.uk.

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