

12 August 2016

Dear colleague,

Consultation on further amendments to the Capacity Market Rules

The Electricity Settlements Company Ltd (ESC) was established by the Department of Energy and Climate Change to oversee settlement of the Capacity Market (CM), including metering systems assurance and the administration of credit cover. ESC plays therefore a central role in the delivery of the CM. Amendments to the CM Rules, invariably impact on ESC and we welcome this opportunity to respond to Ofgem's consultation of 21 July 2016.

As set out in its response of 27 May 2016 to Ofgem's consultation of 29 April 2016, ESC is committed to implementing CM policy as currently set out in the Rules and regulations. However, ESC's response of 27 May also made clear that ESC cannot commit to delivering any further changes which are not currently in regulations or the Rules if there were to be any impact on ESC.

While the proposed change relating to the Load Following Capacity Obligation (LFCO) formula would impact ESC, ESC has nevertheless undertaken an impact assessment to determine whether the change is deliverable for the start of the 2016/17 delivery year. Our assessment is that any change to ESC's systems cannot be delivered in the time available and therefore the proposed Rule pertaining to this change in its current form should not be pursued. Further detail on why ESC cannot deliver this change is outlined below.

1. As mentioned above, ESC's previous consultation response of 27 May 2016 to Ofgem explained that ESC cannot commit to delivering any further changes which are not currently in regulations or the Rules if there were to be any impact on ESC.
2. While the LFCO formula change proposal would apply to the 2016/17 delivery year only it nevertheless constitutes a change to the Rules and would have an impact on the design and delivery of the settlement system. Moreover, the relevant system changes would need to be in place for 1 October 2016, i.e. the start of the 2016/17 delivery year.
3. ESC, working with its system provider, EMR Settlements Ltd, is at this time undertaking User Acceptance Testing (UAT) for delivery of its third Release of complex system

functionality to support the Capacity Market settlements requirements which must be in place for the 2016/17 delivery year. This functionality is scheduled for release by the end of September 2016. It should be noted that because LFCO and ALFCO are a fundamental and pervasive part of the system design, in addition to time and effort being required to design the relevant functionality, a large percentage of the testing already carried out through UAT for the third Release (which has been in progress since 18 July 2016) would need to be retested. Given the stage of development and testing of this Release it is not possible to introduce additional changes to the design at this time without impacting the delivery date of this core functionality. Simply put, any additional system change at this time would result in ESC being unable to release the required settlements functionality in time for the start of the 2016/17 delivery year.

4. ESC therefore recommends that Ofgem explores alternatives to its preferred option which do not give rise to settlement system changes.
5. While ESC aims to accommodate changes to rules and regulations it should be recognised that: (i) any changes to ESC's settlement systems mostly have 'lead times' far exceeding six weeks (the period between the end of Ofgem's consultation and the start of the delivery year); (ii) ESC has system releases planned out to and including 2018/19; and (iii) ESC will, as a prudent company, only reflect changes to its systems which have been effected through the Rules and regulations and not on changes based on consultation proposals which may in fact be amended or even not pursued.
6. We will continue, and look forward to, working closely with Ofgem and government in respect of future consultations, and in supporting the required change programme for the Capacity Market, being mindful of some of the practical challenges which exist and have been outlined above.
7. Please note that I am copying this letter to Dan Monzani, Head of Security of Electricity Supply, BEIS, as a relevant party to the Capacity Market.

Regards

Nick Skates

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