



**Consultation on further amendments to the Capacity Market Rules (the “Rules”) pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the “Regulations”)**

**Consultation by Ofgem**

**Response by E.ON SE Group**

**Consultation questions**

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

1. We agree with this proposal.

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

2. We agree that the proposed drafting reflects the policy intent.

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

3. We agree that the proposed drafting reflects the policy intent.

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

4. As Ofgem notes, its preferred option still does not deliver the policy intent of the LFCO formula (to scale obligations based on demand in a stress event as a proportion of peak demand in the delivery year).
5. We believe Ofgem’s second lead option, as proposed by National Grid, better meets the policy intent and is no more complex than the first option. It is not clear why Ofgem prefers the first option over the second.
6. In addition to more accurately reflecting the policy intent, the second lead option also has the benefit of being simpler to calculate and understand, and is a more effective enduring solution.
7. To accurately meet the policy intent, *Peak System Demand* in this formula would be based on the peak demand during the relevant delivery year. This will only be known at the end of the delivery year, therefore obligations could not be calculated until the end of the delivery year. Therefore using a forecast of *Peak System Demand*, as suggested by National Grid, is an appropriate compromise.
8. Ofgem intends to correct the formula for the 2016/17 delivery year only, noting that “*the LFCO formula is appropriate once there is a significant proportion of the total capacity participating in the delivery year.*” We disagree with this approach. The current LFCO formula excludes capacity



outside of the Capacity Market; this will continue to be an issue in the longer term, as the amount of capacity outside of the Capacity Market grows (for example low carbon capacity). The current LFCO formula would ignore this capacity, therefore obligations would still not accurately reflect the policy intent as we understand it (to scale obligations based on demand in a stress event as a proportion of peak demand).

9. To more accurately reflect the policy intent, we believe National Grid's proposal (the second lead option in Ofgem's consultation) should be adopted as a permanent change.

E.ON SE Group

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