

Low Carbon Contracts Company
Fleetbank House, 2-6 Salisbury Square, EC4Y 8JX
05 May 2017

By email: Targetedchargingreview@ofgem.gov.uk

Dear Judith,

Targeted Charging Review 2017

Low Carbon Contracts Company (LCCC) welcomes the opportunity to comment on Ofgem's Targeted Charging Review consultation of 13 March 2017. In doing so, we are seeking to ensure that analysis of the options includes consideration of any potential impacts on the schemes we deliver, namely the Contracts for Difference (CFD) scheme and Capacity Market scheme settlement (which LCCC administers on behalf of its sister company, Electricity Settlements Company (ESC)).

LCCC's primary role is to be the counterparty to CFDs with low carbon generators and to set the Supplier Obligation Levy that funds CFD payments. In addition, on behalf of ESC, we oversee settlement of the Capacity Market (CM), including metering systems assurance and the administration of credit cover. LCCC's guiding principle requires us to operate in a way that maintains investor confidence in the schemes and minimises costs to consumers. We have therefore responded with our views on potential investor impacts and also how, as a scheme administrator, we can best support Ofgem in delivering charging reforms that benefit the consumer.

Summary of key messages

- We welcome Ofgem taking a holistic review of charging arrangements and the 'minded to' position to undertake a Significant Code Review, as part of wider measures being developed by Ofgem to move GB to a system that is fit for a smart, flexible future.
- In seeking to develop a coherent methodology across both distribution and network charging arrangements, it will be important to consider the interactions with System Operation and levy charges to ensure consistent and coherent signals.
- It is also worth noting that the CM and CFD schemes will be increasingly relied upon for the delivery of new build generation with contracts/agreements that can span up to 35 years. It is therefore important to ensure that investors are aware of the direction of travel as early as possible and that existing and new contracts can accommodate the changes to charging arrangements, once implemented.

Whilst we have not responded to specific questions, some further thinking is attached in the Appendix to this letter. LCCC stands ready to assist Ofgem in looking at the interactions with

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the CFD and CM schemes and levies/charges to ensure that the outcomes Ofgem is seeking can be fully achieved.

I confirm that this response can be published on Ofgem's website.

Yours Sincerely,

Alex Coulton

CfD Policy and Strategy Manager

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Appendix – further comments

Purpose and Scope of review

- We agree that it is necessary to ensure that market arrangements are fit for purpose as we move towards a decarbonised power sector and the deployment of new innovative technologies.
- In terms of the objective of any reform, it is worth observing that the current results of the CM auctions are broadly consistent with the results of Imperial College system optimisation modelling, which clearly highlights the importance of peaking plant with low utilisation rates as a pillar of our future energy mix. We would look to Ofgem to determine whether or not any distortions that might exist are or could leading to economically suboptimal outcomes for consumers and to address any distortions that are disadvantaging consumers in a way that ultimately benefits consumers.

Impacts on CFD and Capacity Market

- We have a particular interest in this consultation because of our involvement in the CFD and CM which, for the foreseeable future, will be the drivers of all new-build generation at scale in the UK. These commitments can currently go up to 35yrs and therefore it is important that there is a level playing field during future allocation processes and that the impact of changes on the charging regime is considered on existing generators with 2015, 2016 and 2017 contracts/agreements.
- In our role we are required to manage the apportionment of network charges and scheme levy exemptions across private wire generators and consumers respectively. We are therefore interested in the solutions Ofgem is considering, however we view the dynamics of current network arrangements as requiring consideration of all charging arrangements, both at Transmission and Distribution level, to avoid unintended consequences and distortions.

Pace of reform

- Whilst we expect that a holistic review is likely to be more time consuming than a staggered approach, it would seem that there is a window of opportunity in the next couple of years in which a Significant Code Review could be undertaken without excessive adverse effect on the procurement of new-build generation and future energy mix.
- A piece meal approach to these reforms could risk increasing the duration of uncertainty around the outcome, which might well feed into the risk premium of new CM and CFD generators or result in stranded assets.
- For instance, managing multiple vintages of CFD agreements subject to differing variations of charging arrangements across multiple auctions is likely to increase the complexity of our role and increase risks.

We therefore stand ready to work with Ofgem on this to ensure that any changes can be effectively implemented consistently and at least cost across our whole portfolio and settlement systems.