

The Electricity Settlements Company (ESC) is responsible for financial transactions relating to the Capacity Market, including making capacity payments to capacity providers, controlling collateral and managing auction credit cover. It has responsibility for:

- Managing the collection, holding, monitoring and, where appropriate, refund of credit cover collected from auction applicants;
- Verifying the meter arrangements of those providers whose capacity agreement is conditional on the company approving their meter configuration;
- Delivering revisions to the Capacity Market settlement system to reflect policy and rule changes, ensuring continued correct processing of transactions; and
- Supporting ongoing Capacity Market consultations concerning potential changes to settlement activities and any other related regulations.

All settlement change activity is managed within The Low Carbon Contracts Company (LCCC) and ESC three-year budget which was approved our shareholder BEIS and laid in Parliament on 5 February 2018. We deliver ongoing change as it arises across the Capacity Market (CM) and Contracts for Difference (CFD) schemes in a manner which delivers value for money for consumers within this budgetary constraint. Our role includes advising Ofgem on potential changes which would add additional scheme or system complexity but not deliver an overall benefit to the scheme objectives.

We estimate that the total impact of LCCC and ESC operational costs on household electricity bills over the period (2018/19 to 2020/21) will be around £0.30 per year (at 2016 prices), which equates to around 0.1% of an average household electricity bill¹.

In 2017/18 our total settlements changes have included 23 changes to our CM system, for example changes to the Load Following Capacity Obligation (LFCO) calculation formula. In 2018/19, We have 40 further changes tracked in our CM pipeline and will work with EMRS our settlements provider to update systems, guidance and working practises resulting from these changes.

ESC has also submitted 12 change proposals for consideration by Ofgem in October 2017 based on scheme improvements identified by ESC which would, for example, make the applicants registration requirements to participate in a CM auction clearer in the CM Rules (CP301 and CP303). ESC's change proposals also aimed to address fraud prevention in the CM scheme through further information sharing (CP298) and site access for ESC within 24 hours (CP305) where a suspicion of fraud arises and requires further investigation.

Overall, approximately 38 further changes may in 2018/19 arise for ESC to implement from the current consultation if all minded to decisions are taken forward by Ofgem post consultation.

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/658493/LCCC_and_ESC_18.19_ops_costs_consultation_-_final.pdf