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for energy consumers

Capacity Market participants,  
prospective participants and  
other interested parties

Email: [EMR\\_CMRules@ofgem.gov.uk](mailto:EMR_CMRules@ofgem.gov.uk)

Date: 11 September 2018

Dear Colleague,

## **Open letter on the Five Year Review of the Capacity Market Rules and NGET's incentives**

### **Summary**

- This letter invites you to send us views and evidence on whether the Capacity Market Rules ("the Rules") meet their objectives and whether there are less burdensome ways of ensuring they continue to do so. Please submit your response by **5pm on 9 October 2018**.
- We will hold a stakeholder workshop on 16 November 2018. Please register via our [EventBrite page](#) by 1 November.
- We also believe that it would be confusing and counterproductive to run a full Rules change process for 2018/19 in light of the review. As a result, we will limit the process to previously delayed proposals and urgent new proposals, and they will be assessed as part of the Review. We will implement proposals taken forward in previous Rule change processes, consider proposals that we postponed until the Review, and any urgent change proposals. We will also review our process for making changes to the Rules.

### **Submitting views and evidence for Ofgem's Review of the CM Rules**

Regulation 82 of the Electricity Capacity Regulations<sup>1</sup> and Rule 15.2 of the CM Rules require us to carry out a review of the Rules by 1 August 2019. This review is intended to assess whether the Rules continue to meet their objectives, whether the objectives remain appropriate, and whether those objectives could be met with less burden. Our review is in parallel with and complementary to BEIS' Five Year Review<sup>2</sup> which will take into account the conclusions of our review<sup>3</sup>.

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<sup>1</sup> The Electricity Capacity Regulations 2014

<sup>2</sup> BEIS' Call for Evidence for its Five Year Review was published on 8 August 2018:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/732546/CM\\_Review\\_call\\_for\\_evidence\\_final\\_4.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732546/CM_Review_call_for_evidence_final_4.pdf)

<sup>3</sup> As per Regulation 82

As BEIS' Review may consider significant changes to the Capacity Market framework and to policy, it is not appropriate for us to make substantial changes to the Rules during this process. However, we have identified several priority areas for improvement in the Rules. We intend to examine these priority areas and develop a future programme of work where we identify that change would be beneficial:

- Our annual Rules change process as set out in our guidance<sup>4</sup>. We believe there could be a more efficient way to assess and implement changes to the Rules while also giving industry greater responsibility in assessing the value of amendments.
- Whether the objectives of the Rules could be achieved with less burden on participants. This will include simplification of the Rules and reduction of regulatory burden from requirements in the Rules.
- The appropriateness of the secondary trading arrangements to ensure that participants have the right incentives and opportunities to engage in the secondary trading market. We intend to do this in conjunction with industry associations. Please indicate your interest for participating in this work at an early stage.
- The appropriateness of NGET's incentives for exercising its functions in delivering the Capacity Market to ensure that they remain fit for purpose. We believe it would be desirable to review NGET's incentives on dispute resolution, DSR prequalification, demand forecasting, and customer and stakeholder satisfaction for 2019/20.

We are inviting responses to consider whether the Rules meet their objectives, whether those objectives remain appropriate, and whether those objectives could be met with less burden, and on the above priority areas. Responses should be submitted by **5pm on 9 October 2018** by email to [EMR\\_CMRules@ofgem.gov.uk](mailto:EMR_CMRules@ofgem.gov.uk). Please support your response with arguments and evidence as fully as possible.

### **Urgent Rules change proposals**

In light of the review, we also believe that it would be confusing and counterproductive to run a full Rules change process for 2018/19. We will instead focus on implementing those changes which have already been consulted and decided on, such as Of12 and amendments to ALFCO. We will also consider urgent proposals as part of this Review and these can be submitted for consideration using the template available on our website<sup>5</sup> and sent to [EMR\\_CMRules@ofgem.gov.uk](mailto:EMR_CMRules@ofgem.gov.uk).

Change proposals will be assessed on the basis of the urgency criteria set out in our guidance<sup>6</sup>. When submitting a Rule change proposal, please submit drafting of the necessary amendments, an assessment of consequential changes elsewhere, and a detailed assessment of the benefit of the change. We will be unable to take forward changes that are insufficiently supported by evidence or where the amendment is inadequately specified.

We will publish all responses on our website. Please indicate clearly if you wish any information to remain confidential.

### **Interactions with BEIS' Review**

In addition to our priority areas for the review of the Rules listed above, we consider several areas covered in BEIS' review to be a priority for Ofgem. We are particularly interested in the eligibility of renewables, connection capacity, the penalty regime, and

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<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules>

<sup>5</sup>

[https://www.ofgem.gov.uk/system/files/docs/2016/11/proposal\\_for\\_a\\_capacity\\_market\\_rules\\_change\\_edit\\_enabled\\_0\\_0\\_0.docx](https://www.ofgem.gov.uk/system/files/docs/2016/11/proposal_for_a_capacity_market_rules_change_edit_enabled_0_0_0.docx)

<sup>6</sup>

[https://www.ofgem.gov.uk/system/files/docs/2016/09/revised\\_guidelines\\_for\\_the\\_capacity\\_market\\_rules\\_150916.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/09/revised_guidelines_for_the_capacity_market_rules_150916.pdf)

testing arrangements and satisfactory performance. We intend to engage with BEIS on these issues. We will also work with BEIS and delivery partners on governance issues including the alignment between the Regulations and the Rules to ensure that the governance framework of the CM continues to be fit for purpose in the future.

### **Next steps**

We will consult on our future programme of work, a new process for administering Rules changes, and on urgent and priority amendments to the Rules during winter. We aim to conclude our Five Year Review in the first half of 2019 so that it can inform Government's Five Year Review. Where we identify priority or urgent changes, we intend to lay these amendments to the Rules ahead of the 2019 Prequalification Window.

We are holding a stakeholder workshop on 16 November 2018. The workshop will give stakeholders the opportunity to engage with other parties and have a forum to present their views prior to our consultation. Please register on our [EventBrite page](#) by 1 November.

Yours faithfully,

**Michael Wagner**  
**Deputy Director, Wholesale Markets**

**11 September 2018**