

Michael Wagner, Deputy Director – Wholesale Markets  
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9<sup>th</sup> October, 2018

Dear Michael,

This review of the Capacity Market (CM) Rules and the broader Five Year Review of Electricity Market Reform (EMR) comes at a transformational time for the GB energy industry. Innovation and investment encouraged by the policy frameworks established under EMR have played a critical role in driving growth and decarbonisation. In May, Energy UK set out ten recommendations for reforms to the EMR package, including five for the CM, which we believe would help make both the CM and Contracts for Difference (CfD) regimes work in a more cohesive, effective way to the advantage of both industry and consumer alike. This document can be found [here](#). We also recently responded to the BEIS call for evidence on the Five Year Review of the Capacity Market which can be found [here](#).

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. Annually, the energy industry invests over £11bn, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

### **CM Rules Change Process**

The number of CM Rule changes submitted has increased year on year, often clustering around specific issues. In order to act more cohesively and prioritise issues for Ofgem to address, Energy UK members believe that it would be beneficial to have an expert panel or working group with self-governance and Ofgem acting as an *ex officio* Chair. The Delivery Partners could provide the secretariat function. Such a panel or working group would be able to efficiently and effectively collate views and prioritise issues as and when they arise, processing them faster than at present and mitigating the resource commitment from Ofgem and the Delivery Partners.

During the 2017/18 CM Rules change process the Delivery Body and EMR Settlements Body highlighted their difficulties responding to the pace of changes in the CM. It is clear that changes to the CM Rules have been hindered by the Delivery Partner's systems development programmes. It is important that a schedule of planned CM Rule reviews and system developments by the Delivery

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Partners is published regularly detailing at least an 18-month outlook. By taking account of legislative and technical constraints, it would provide all stakeholders with a clear picture of future developments and enhance the CM Rules change process.

Additionally, in recent years the closing of the CM Rule Change window has overlapped with prequalification when participants are focussed on the latter. By holding an additional CM Rule Change consultation period later in the year or by extending the window it would enable developers to more comprehensively and constructively feed into the process.

The complexity of the CM Rules and inconsistencies in their application have continued to cause difficulties for industry, acting as a barrier to entry for new market participants and a burden on existing developers. This Ofgem Five Year Review is a prime opportunity for rationalising the CM Rules. As is set out in our Vision Paper, Energy UK and our members have discussed the potential to establish a work programme beginning in early 2019 whereby members of our Capacity Market Working Group could work in conjunction with Ofgem to undertake a holistic review of the CM Rules. We believe that this could identify discrepancies, issues and challenges which act as a barrier to established and new-entrant developers alike. Doing so in Q1 and Q2 2019 would ensure that the CM Rules were fit for purpose ahead of the 2019 prequalification process.

Furthermore, we believe Ofgem should ensure that the CM Rules are published in a way that Capacity Providers are able to refer to and track their obligations for CMUs from the point in time the Capacity Agreements apply. We are concerned that over time, with more CM Rule changes expected, it will be increasingly difficult to adhere to these CM Rules.

### **2018/19 CM Rule Change Proposal Process**

Ofgem's open letter sets out its intention to focus on implementing changes which have already been consulted and decided upon, including amendments to ALFCO as well as implementation of Of12. In Ofgem's 2018 decision letter, it also committed to engage with stakeholders on 'changes to configuration' of Generating Units<sup>1</sup> as part of the Five Year Review to enable flexibility for Capacity Providers, while retaining delivery assurance. We still need clarity on what "change the configuration" means and ideally confirmation that changing the text and/or the number of BMU IDs is not considered to be a change to the configuration.

We also note that in its 2018 decision letter, it committed to deliver CP270 and CP271 but to delay implementation, so it is aligned with Of12 implementation. In addition, in its 2017 decision letter Ofgem stated in its response to CP233 that it is to consult on the CM Rules clarifying how auxiliary load should be calculated where it is not separately metered for each unit. Furthermore, Ofgem has committed to consult on detailed drafting for aspects of Of15 including capacity tests and penalty parameters to be applied for partial termination. We are keen to understand how Ofgem has developed its thinking and how it will interact with BEIS' work in the Five Year Review.

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<sup>1</sup> CP272, CP281 and CP306

Critical in the effective provision of a technologically neutral, level playing field in the CM is a robust secondary trading regime; the secondary trading market has not as yet been used to its full potential, but with intermittent renewables coming in following the BEIS Five Year Review it may have the opportunity to. Energy UK has already confirmed its support of Ofgem's work on ensuring the appropriateness of the secondary trading arrangements. We will be fully engaging with Ofgem's workshops and are undertaking our own which Ofgem has been invited to attend.

Energy UK's Capacity Market Working Group has acted as a *de facto* customer engagement forum for the Delivery Partners for a number of years. We have provided substantive feedback both formally and informally on a continual basis. We have hosted workshops ahead of, during and after the Delivery Body's prequalification and auction processes, enabling those members of ours who are customers of the Delivery Body to provide feedback. We have also provided detailed formal feedback on the recent Mock Stress Event. Considering the link between National Grid Delivery Body's provision of these services and its incentives, Ofgem is welcome to attend future workshops.

For more detail please refer to the responses submitted by our members. Should you have any questions regarding this response then please do not hesitate to get in touch via the details below.

I can confirm that this response may be published on the Ofgem website.

Yours sincerely

Joshua Atkins  
*Policy Manager - Power*