



By e-mail – RetailPriceRegulation@ofgem.gov.uk

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Dear Mr Salter-Church

Capacity market allowance in the default tariff cap

The Flexible Generation Group (FGG) represents the owners of and investors in small scale, flexible generation. These power stations are embedded in distribution networks and provide a variety of vital services to the system operator to help it deliver secure, economic supplies to electricity customers. We also participate in the Capacity Market (CM) and have made significant investment in new capacity on the back of CM agreements; we have delivered more new capacity than any other group of GB companies.

We are responding to your letter of 15 January with reference to the CM payments in the price cap because we believe it is vital to investor confidence that Ofgem is seen to back the Government's policy aim of reinstating the CM and making sure that the CM providers receive payments for having abided by the CM rules over this year. If the suppliers subject to the default tariff cap cannot collect the money there is a real risk that when the CM is reinstated they will not have the money and will not be able to pay. We are extremely concerned by the tone of Ofgem's document in that it seems to suggest that the reinstatement of the CM is not something that Ofgem, as a prudent regulator, is minded to plan for.

It is unclear to us what will make Ofgem have sufficient "confidence" in the reinstatement of the CM by the time the default cap for the second period needs to be set. It is our understanding from BEIS that the Commission will not have reached any decision by the time Ofgem needs to set a new cap. Ofgem is therefore clearly going to have to take its own view, but it would seem extremely strange for the regulator not to support the Government's policy and ensure all suppliers are ready for a reinstatement of the CM regime. To not allow the price capped suppliers to collect CM money would suggest that Ofgem also do not support either the reinstatement of the ESC, nor mod P378, as a sensible way for the suppliers to plan for reinstatement.

What may therefore have been more appropriate and helpful would have been for Ofgem to have commented on the different collection profiles which were proposed by BEIS in their consultation document on the CM (looking at reinstating the ESC's payment collections) vs the P378 BSC modification. FGG believes that the collection of funding for the CM by

suppliers is vital to bolster investor confidence, encouraging them to keep new build CMUs being built and to continue to support companies, such as our members, who are expected to maintain a “business as usual” policy without any immediate revenue or absolute certainty of revenue in the future. Also an abrupt collection of back payments could create financial issues for both the supply companies and their customers. Particularly for vulnerable, fuel poor customers or business users with energy intensive processes the back collection of CM funding payments over a short period will be likely to create a price shock.

We are very concerned that Ofgem would even consider not allowing the suppliers to collect the CM funding payments from customers, especially if customers are of a type that is likely to find dealing with any price shock more challenging. We therefore want to urge Ofgem to quickly announce that the suppliers are expected to go on collecting these funds and that they expect suppliers to shortly be making CM supplier levy analogous payments again, either via the ESC or as a result of a change to the BSC. In the meantime, Ofgem could state its expectation that suppliers should ring fence such money collected from customers on the off chance that the CM is not reinstated and this money has to be returned to their customers.

In summary, the more Government and Ofgem can work together to reassure capacity providers and investors in the market that the CM is expected to be reinstated, the better.

If you wish to discuss this further please do not hesitate to contact me.

Yours sincerely



Mark Draper
Chairman

cc: Charles Phillips – BEIS - Charles.Phillips@beis.gov.uk