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10 September 2019.

Sent by email to: [EMR@ofgem.gov.uk](mailto:EMR@ofgem.gov.uk)

Dear Tom,

## **Adjustments to the Electricity Market Reform Delivery Body Revenues**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

It is important the Electricity Market Reform (EMR) initiatives, including the prequalification for the Capacity Market auction, operate efficiently. We support the Delivery Body (DB) being encouraged to provide good levels of service to EMR applicants. The DB should ensure it is efficiently resourced to support applicants, especially given Ofgem's assessment that it may be under-resourced and there is scope to increase expenditure if appropriate<sup>1</sup>.

In principle, we accept continuing to upgrade the existing Portal might not be value for money and we agree the DB should prioritise the replacement IT administration. However, additional revenue to initiate further changes to the existing Portal should be provided if the benefits to consumers outweigh the costs. Hence, we recommend:

- **A cost-benefit analysis of developing the existing Portal to facilitate each change to the Capacity Market Rules already agreed should be conducted.**

Also,

- **As a condition of baseline and further funding for the replacement IT system, the Delivery Body should be required to seek stakeholder input for its design.**

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<sup>1</sup> Consultation document paragraph 3.2.  
Page 1 of 5

**A cost-benefit analysis of developing the existing Portal to facilitate each change to the Capacity Market Rules already agreed should be conducted:**

In principle, we accept continuing to upgrade the existing Portal might not be value for money and we agree the DB should prioritise the replacement IT administration. However, additional revenue to initiate further changes to the existing Portal should be provided if the benefits to consumers outweigh the costs. The benefits of targeted system development to facilitate some changes to Capacity Market Rules already agreed could outweigh the associated costs. A cost-benefit analysis of developing the existing Portal to facilitate each change to the Capacity Market Rules already agreed should be conducted. This would enable Ofgem to assess whether providing additional funding could represent value for money for consumers.

As an example, Ofgem previously stated that allowing demand side response (DSR) component reallocation mechanism is beneficial to consumers<sup>2</sup>. In the 2018 Decision on amendments to the Capacity Market Rules, change Of12 was agreed but delayed and Ofgem set its expectation that DB systems would be able to facilitate DSR component reallocation in time for the 2019/20 Delivery Year<sup>3</sup>. Additionally, Ofgem stated:

*“In light of the review, we consider that it may be confusing and counterproductive to run a full Rules change process for 2018/19. Instead, we will focus on those changes which have already been consulted and decided on, such as Of12 and amendments to ALFCO”<sup>4</sup>*

Given the previous emphasis on implementing Of12 for the 2019/20 Delivery Year because of the associated consumer benefit, we a cost-benefit analysis is required to determine whether providing funding to upgrade the existing Portal to facilitate this change could represent value for money for consumers. Additionally, Ofgem should consider the potential impact on investor confidence of the further delay to changes that were signalled in 2017 for the 2019/20 Delivery Year.

We welcome the commitment from the DB to deliver a replacement IT administration system by April 2021. However, Ofgem should assess whether there are appropriate contingency measures in place if the replacement system is not delivered by April 2021, including how the implementation of Capacity Market rule changes will not be unduly delayed.

**As a condition of baseline and further funding for the replacement IT system, the Delivery Body should be required to seek stakeholder input for its design:**

We agree baseline funding should be provided for the replacement IT system, and that an uncertainty mechanism should be used to remunerate addition efficiently-incurred expenditure. It is essential stakeholders' requirements are incorporated into the design of the replacement system feedback that parts of the existing Portal's design unnecessarily increase complexity, and on the inflexibility to change. The DB should be required to seek and incorporate stakeholder

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<sup>2</sup> “Decision on amendments to the Capacity Market Rules 2014”; page 42:

[https://www.ofgem.gov.uk/system/files/docs/2018/07/decision\\_on\\_amendments\\_to\\_the\\_capacity\\_market\\_rules\\_2014\\_004.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/07/decision_on_amendments_to_the_capacity_market_rules_2014_004.pdf).

<sup>3</sup> “Decision on amendments to the Capacity Market Rules 2014”; page 42.

<sup>4</sup> “Decision on amendments to the Capacity Market Rules 2014”; page 3.

feedback into to the design of the replacement system, so that the expenditure increases efficiency of the EMR initiatives.

Answers to the consultation questions are attached. I hope you find these comments helpful. Please contact me if you would like to discuss any aspect of our response.

Yours sincerely,

Andy Manning  
Director - Network Regulation and Forecasting  
**Centrica Regulatory Affairs, UK & Ireland**

## **Answers to the consultation questions:**

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### **Question 2: Do you agree with Ofgem's assessment of spend on the administration system (the 'Portal')?**

We agree additional revenue allowances for building the Portal are not justified if the DB was funded for the complete build of the Portal prior to April 2016.

### **Question 5: Do you feel that there is a basis for increased spend on resource by the DB in order to maintain a high level of service to applicants and why?**

We agree with other stakeholders that the existing Portal renders some of the Capacity Market's processes administratively burdensome, time-intensive and unnecessarily complex. We look forward to the step change in the functionality that the replacement IT system is expected to bring. However, it should be recognised IT system improvements, in isolation, will not fully address stakeholders' concerns. The DB needs to be efficiently and appropriately resourced and its internal processes allow personnel are enabled to guide applicants through processes.

As this stage, the extent to which the DB would need to increase expenditure in this area to maintain a high level of service to applicants is unclear. Nevertheless, the DB should be expected to respond to encouragement to maintain service levels, especially given Ofgem's assessment that it may be under-resourced and there is scope to increase expenditure if appropriate.

### **Question 6: Do you agree that the priority should be achieving a step change in IT system functionality and change implemented in the current administration Portal should be minimised in order that this happens by April 2021?**

### **Question 7: Do you agree that the change implemented in the current administration Portal should be minimised to ensure value for money?**

In principle, we agree the priority should be achieving a step change in IT system functionality and change implemented in the current administration Portal should be minimised. However, additional revenue to initiate further changes to the existing Portal should be provided if the benefits to consumers outweigh the costs. The benefits of targeted system development to facilitate some changes to Capacity Market Rules already agreed could outweigh the associated costs. A cost-benefit analysis of developing the existing Portal to facilitate each change to the Capacity Market Rules already agreed should be conducted, which would enable Ofgem to assess whether any changes could represent value for money for consumers.

**Question 8: Do you agree with a future uncertainty mechanism to account for the uncertainty in developing a new IS administration system?**

We agree with a future uncertainty mechanism given the total cost to deliver the replacement system is uncertain. This should ensure the DB is remunerated for efficiently-incurred expenditure, and to avoid windfall losses or gains. As a condition of receiving baseline funding or applying for additional funding, the DB should be required to seek and incorporate stakeholder feedback into the design of the replacement system, so that the expenditure increases efficiency of the EMR initiatives.