

Capacity Market participants,
prospective participants and
other interested parties

Email: EMR_CMRules@ofgem.gov.uk
Date: 15th September 2016

Dear colleague

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules

Summary

- This letter invites you to send us proposals for changes to the Capacity Market (CM) Rules by **5pm on 11 November 2016**. Please reply to EMR_CMRules@ofgem.gov.uk.
- We intend to hold a stakeholder workshop relating to the CM Rules on 31 October 2016. Please email EMR_CMRules@ofgem.gov.uk by **14 October to register**.
- We would also welcome your comments, by 5pm on 11 November, on our amended guidelines on the process for changing the CM Rules. The amended guidelines are published alongside this open letter.
- We provide an update on proposals which were taken forward during previous consultations but have not yet been implemented, and we highlight one proposal made during prequalification this year which we will consider alongside the proposals we receive by 11 November.
- We will shortly be publishing our decision on the consultation on further amendments to the Capacity Market Rules.

Submitting CM rule change proposals

The Capacity Market is governed by the Electricity Capacity Regulations and the Capacity Market Rules. The Regulations permit us to amend, add to, revoke or substitute (change) any provision of the Rules. When changing the Rules, we must have regard to our principal objective and general duties¹, and the specific objectives set out in the Regulations². Our process for changing the Rules is detailed in our Guidance. As detailed below, a revised version of this Guidance has been published alongside this letter.

We welcome proposals for changes to the Rules submitted in accordance with our Guidance, published alongside this letter. We note that proposals may be submitted at any time throughout the year, however, to be considered as part of our 2017 consultation round, proposals must be submitted by **5pm, 11 November 2016**. As stated in our Guidance, any proposals received after this deadline will not be considered

¹ Ofgem's principal objective and general duties can be found at www.ofgem.gov.uk

² Regulation 78 sets out these objectives. Regulation 77(3)(a) states that the Authority must not make any provision in Capacity Market Rules which is inconsistent with the Regulations.

until the subsequent consultation round, unless we consider the issue is sufficiently urgent.

To propose a specific rule change, send the form available on our website to EMR_CMRules@ofgem.gov.uk. Please support the proposal with arguments and evidence as fully as possible – including detailed drafting of the changes to the Rules to implement your proposal, and any resultant changes elsewhere in the Rules. We will be unable to take forward proposals which are not sufficiently supported by evidence. In previous years we have rejected proposals where there was insufficient justification provided in the submission for making the proposed change, or where the proposed change was not clearly specified.

We will publish all proposals we receive on our website. Please indicate clearly if you wish any information within your proposal to remain confidential.

Changes to our Guidance on the CM Rules Change Process

In August 2014 we published our Guidance on the Change Process for the Capacity Market Rules. We noted that the Guidance would be reviewed and updated as required, and in previous publications³ we have said that we would review our current process to ensure it best meets the needs of participants whilst also allowing us to deliver our functions relating to the CM.

Following a review of our process we have published an amended Guidance document⁴. Our amended Guidance amends the timetable for receiving and consulting on proposed changes to the Rules.

Changes to the annual process timetable

The only substantive change to our Guidance and process relates to the deadline for submissions. We have moved our deadline for proposal submissions to before the December auctions where previously the deadline was after the auction. This is to allow us more time to consider consultation responses and also to allow participants and delivery partners more time to consider the impact of any Rule changes before the next round of prequalification opens. We have also issued this open letter earlier than in previous years, allowing eight weeks for preparing and submitting proposals.

We note that we have not received any proposals in previous rounds that have required an urgent change relating to the auctions and so we see no downside to moving the deadline before the auction process. Any urgent changes identified can still be raised and considered outside of our annual process if required, as stated in our Guidance. We have also made some minor changes to the text of the Guidance to ensure the content is accurate and up to date.

We welcome any views on our revised Guidance document by 11 November 2016.

³ Ofgem, *Open letter and consultation on changes to the Capacity Market Rules*, 19 November 2015, https://www.ofgem.gov.uk/sites/default/files/docs/20151109_cm_rules_changes_open_letter_nov_2015_final_2.pdf

⁴ Our revised guidelines can be found at: <https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules>

Update on current Rules change proposals

There are two proposals that we decided to take forward in previous decisions which have yet to be implemented within the Rules by amendment. We note these below and provide an update:

- DSR Component Reallocation – in our decision of 5 July 2016⁵, we decided to further consider those proposals relating to DSR component reallocation (CP124, 129, and 130). We proposed to take forward these proposals during consultation but ultimately decided to delay implementation following feedback from the Settlement Body. The Settlement Body told us that the new system features required for component reallocation could not be delivered until 2018. We remain committed to progressing these proposals, and to helping DSR providers maintain reliability via introducing this flexibility.
- Fast Frequency Response (FFR) – in our decision of 5 July 2016 we also decided to consider further proposals CP98 and CP148 relating to FFR. We think it is important to find a suitable resolution for this issue and will continue to work with stakeholders and EMR delivery partners to develop the Rules in a way that facilitates the participation of FFR and is consistent with the objectives of the CM. We welcome new proposals by 11 November.


We received one proposal (CP162) during August relating to the inclusion of Enhanced Frequency Response. We are considering this proposal alongside CP98 and CP148 noted above, and we intend to make a decision on the proposal at the time of publishing our decision on our summer 2017 consultation.

Next steps

We aim to publish the final version of the amended Rules in summer 2017, before the next prequalification round opens. However, the timings of our statutory consultation and publication of the amended Rules may be affected by possible revisions of the Rules and Regulations by BEIS arising from its planned consultations, as well as any subsequent BEIS reviews of the auctions and legislation. We will work with the EMR Delivery Body and the Settlement Body to ensure any impacts to their systems are considered thoroughly.

We are holding a stakeholder workshop on the **afternoon of 31 October 2016** at our Millbank office. Please email EMR_CMRules@ofgem.gov.uk by **14 October to register**. Spaces will be limited to one delegate per organisation.

Yours faithfully,



Philippa Pickford
Associate Partner
Wholesale Markets

⁵ Ofgem, *Decision on the statutory consultation on amendments to the Capacity Market Rules*, 5 July 2016, https://www.ofgem.gov.uk/system/files/docs/2016/07/decision_on_statutory_consultation_on_amendments_to_the_cm_rules_june_2016.pdf