

Capacity Market Team
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Dear Capacity Market Team

Re: Statutory consultation on changes to the Capacity Market Rules 2014 pursuant to Regulation 79 of the Capacity Market Regulations 2014

Thank you for the opportunity to respond to your [consultation](#). This is a non-confidential response on behalf of the Centrica group of companies excluding Centrica Storage.

Our substantive comments on your proposed Capacity Market (CM) rule changes relate to Of15, Calculating Connection Capacity¹. We can see the case in principle for allowing generators to choose their Connection Capacity, provided that the chosen value is proven by metered volume. However we have some concerns with Of15 as currently proposed. We would make the following observations:

- We understand that Of15 (if taken forward) will not be implemented until prequalification for the 2018 CM auctions. We support this delay to implementation, particularly because we believe refinements to Of15 are needed (and ideally further consultation on the refined version and draft legal text).
- Of15 should apply prospectively. There should be no retrospective obligation on CMUs to demonstrate Connection Capacities allotted in Capacity Auctions that have already taken place, particularly when Ofgem is proposing new and material financial penalties for any “over-declaration” of Connection Capacity.
- We believe Ofgem’s proposal that generators can only prove their chosen Connection Capacity *after* a Capacity Market auction introduces unnecessary and unhelpful risk into the CM arrangements. There is no reason to prevent a generator evidencing its chosen Connection Capacity at the time of prequalification by reference to historically proven metered volume. This would remove the delta risk that Ofgem’s proposed *ex post* proving introduces and could be done easily by adapting provisions that already exist in Rule 3.6.1². Under an *ex post only* proving regime, generators would have to factor in the risk

¹ As set out in Annex F to your consultation

² Rule 3.6.1 places obligations on Existing Generating CMUs to demonstrate previous settlement period performance

that Ofgem's *ex post* window coincided with, say, mild ambient temperatures, which would lower achievable metered volumes and increase the likelihood of a delta between declared Connection Capacity and "proven" Connection Capacity. In order to mitigate the risk of £35/kW penalties on the delta between (97% of) declared Connection Capacity and "proven" Connection Capacity, generators may feel compelled to understate declared Connection Capacity at the prequalification stage. Ultimately this could add cost to consumers, as additional CMUs would need to be procured to meet CM demand in the event of widespread understatement. We also believe the auction merit order would be more susceptible to distortion, as bidders would inevitably make different judgements about the delta risk of Ofgem's *ex post only* proving regime. To some extent, these judgements would be subjective, potentially moving the auction result away from one based on objective, underlying cost advantage.

- We also believe consideration is needed of how and when Connection Capacity should be proven in respect of New Build CMUs, which will not have commissioned at the time of Ofgem's proposed *ex post* proving window (12 months before the March preceding t-1 auction prequalification). Applying the Connection Capacity proving test to Existing Generating CMUs only would get round the practical problems of proving New Build Connection Capacity but would give rise to discrimination issues. Work is therefore needed to find a practical, non-discriminatory solution that works for New Build and Existing CMUs.
- The proposal by Ofgem to introduce substantial penalties (£35/kW where proven Connection Capacity is below 97% of declared Connection Capacity) again adds significant risk to the CM arrangements. We question the proportionality of the proposed penalties (£35/kW) and low tolerance (3%) Ofgem proposes. Lower penalties and higher tolerance would maintain the required "truth telling" properties of the proving regime whilst removing the penal element of the current proposals.

In summary, we advocate further consideration by Ofgem of the issues with Of15 raised in this response. We believe further consultation, including publication of draft legal text, may be warranted before a final decision on reforms to Connection Capacity can be reached.

Please contact me if you would like to discuss.

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