



Ofgem open letter - Capacity Market Default Tariff Cap
Response by ENGIE Power Limited

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About ENGIE

ENGIE is a leading energy and services company focused on three key activities: production and supply of energy, facilities management and regeneration. Our 17,000 employees combine these capabilities for the benefit of individuals, businesses and communities throughout the UK & Ireland.

We enable customers to embrace a lower carbon, more efficient and increasingly digital world. Our customers benefit from our energy efficient and smart building solutions, the provision of effective and innovative services, the transformation of neighbourhoods through regeneration projects, and the supply of reliable, flexible and renewable energy.

ENGIE improves lives through better living and working environments. We help to balance performance with responsibility, enabling progress in a harmonious way.

Globally, the ENGIE Group employs 150,000 people and achieved revenues of €65 billion in 2017.

Our Response

In considering the implications of the recent ECJ ruling in relation to the UK Capacity Market, the Open Letter highlights the complexities involved in attempting to accurately reflect policy costs in the price cap mechanism, potentially affecting the price cap arrangements at an early stage. We might anticipate future similar difficulties in the setting of the caps, hence it is important to ensure stability and simplicity where possible for the benefit of customers in particular and industry confidence more widely. Please see our main points below in response to Ofgem's open letter on the Capacity Market Default Tariff Cap.

- **Supplier payments**

We view the Government's recent statements on the collection of the CM levy as giving sufficient confidence that the CM charges should continue to be collected from suppliers until a decision is made by the EC on the State Aid issue relating to payments to CM generators. For example, in their current open consultation on the issue Government has stated that *"the Government is minded to re-start collection of the CM Supplier Charge*

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during the standstill period, subject to this consultation, for the purpose of enabling the making of eventual deferred payments to capacity providers. Pending the outcome of this consultation, suppliers may therefore feel it is sensible to continue to collect money from their customers to fund this charge”.

Government has provided further confidence by indicating its intention to provide a robust mechanism to collect the levy either in its current form (via amended Supplier Payment Regulations), or in an alternative form such as through the BSC 378 industry led modification, which is currently under consultation.

It is apparent however from the Open Letter that Ofgem itself does not currently have “sufficient confidence” in the continuation of supplier payments. It would therefore be valuable to understand what additional evidence or actions would be required for Ofgem to determine that the CM price cap allowance should continue. This has not been defined in the Open Letter and appears to be subjective.

In any case, it would cause less disruption if Ofgem continued to include the CM charge element under the second default tariff cap period until there was clear evidence that CM charges would not continue to be collected. Otherwise, in the event that the charge was not included in next cap periods, a reconciliation or catch-up process in future periods as proposed by Ofgem would be both confusing to customers and add unnecessary volatility to the CM levy allowance. Furthermore, in implementing such a catch-up process, classing the CM levy costs within the headroom calculation for any period; current or future, is not consistent with the methodology consulted on by Ofgem which recognises that the CM levy is a legitimate policy cost.

Also, the proposed approach is not consistent with the related CMA pre-payment meter cap methodology, which allows for the CM levy cost.

- **Unintended consequences**

Should the CM levy be deemed not allowed for period two, this introduces a potential for increased risk of mutualisation. This is because some energy suppliers may be incentivised not to price in the CM levy to domestic tariffs and hence not recover these costs from customers. Where there is a subsequent reconciliation of the costs there is a potential that some suppliers may not be able to meet the costs of the CM supplier levy and they may be unable to pay into the industry collection when this is re-instated as intended. Ultimately this may accelerate the market exit of some suppliers who have not, or who have not been able to, collect the levy from customers in the meantime. Where there is a shortfall in the amount collected via the supplier levy then mutualisation would occur, either via a shortfall in payments to CM participants or by increasing the cost to the remaining suppliers.

This additional mutualisation risk is unnecessary and could place an additional cost burden on suppliers and cross-subsidy between consumers.

I trust you will find this response helpful and if you have any questions please get in touch via email phil.broom@engie.com or call me on 0113 306 2104 or 07733 322 460.

Yours sincerely,

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