

# Consultation

## Adjustments to the Electricity Market Reform Delivery Body Revenues

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We are consulting on our proposals to adjust revenue allowances for National Grid Electricity System Operator to fulfil its role as the Delivery Body for Electricity Market Reform. These revenue adjustments apply only to the period April 2016 to March 2021 and are based on the RIIO (Revenue = Incentives + Innovation + Outputs) price control model and relate to the efficient delivery of additional requirements requested of the Delivery Body.

This consultation uses the submitted information provided by National Grid Electricity System Operator to Ofgem in May 2019 to request additional revenues.

We would like views from people with an interest in the Capacity Market or Contract for Difference regimes. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. This consultation closes on **10 September 2019**.

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](http://Ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## Executive summary

### Overview

In August 2014 the Government appointed the National Grid Electricity System Operator (NGESO) as Electricity Market Reform (EMR) Delivery Body (DB). Ofgem is responsible for setting the revenue and incentives for this NGESO function as well as overseeing the delivery performance.

In line with the regulation of network companies, we are applying the principles of the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework to drive benefits for consumers in relation to EMR. Under this framework, the onus is on regulated companies to demonstrate the cost-efficiency and long-term value for money of their business plans through proposing funding, outputs (or deliverables) and, where appropriate, incentives.

Revenues provided to the DB currently cover the roles of delivering the Capacity Market (CM) and Contracts for Difference (CfDs) regimes. For the CM this includes processing applications, appeals and agreements as well as running the Auctions. For CfDs, this includes processing applications and appeals then running the Allocation Rounds. In order to achieve this role, a number of IT systems are either managed in house or licences paid for. We aim to ensure that the DB are sufficiently funded to deliver this crucial role for the GB energy system to a level of excellent performance.

In September 2015, we decided on funding for the DB for the period April 2016 to March 2021. However, we recognised that the EMR framework may evolve during this period, hence an Uncertainty Mechanism (UM) was introduced into NGESOs Licence in Special Condition 7D.10(b). This allows NGESO to submit an application for additional funding for specific activities required to manage this change. We accept that the CM in particular has evolved since April 2016 and consider this UM an opportunity to provide additional revenue for activities not included in the 2015 decision.

We received a submission from the NGESO on the 31 May 2019 and further requests for information were made over June 2019. In this submission, additional revenue of £17.1m was requested to cover the total difference between allowances of £33.7m and anticipated total spend of £50.8m over the period. Spend on IT systems was significantly increased by £17.86m, while Operational Expenditure (OPEX), primarily for resources, was reduced by £5.75m over the period. This document summarises the NGESO submission then sets out our assessment and proposals for revenue adjustment.

## Our Proposals

### Operational Expenditure (OPEX)

The DB has achieved effective delivery of the EMR framework, including CM Auctions and CfD Allocation rounds in the context of a high volume and pace of change. We recognise that the DB has driven process improvements in order to manage this change and minimise cost impacts.

Considering the level and pace of change in the EMR framework, particularly in the CM and despite reduction in the number of CfD Allocation Rounds, it is noted that the overall position on OPEX over the period appears to be a saving of £2.49m below allowances. It could be expected that a higher OPEX spend over the period would be required to maintain a high level of service. Resource levels may need to increase to manage challenges that are likely to

continue, such as facilitating the entry of new inexperienced applicants, delivering policy change and improving processes.

Due to the combined workforce and seasonal work profile, it does not appear to be possible to define specific cost increases where additional revenue can be justified or where revenue should be decreased due to reduced outputs. It appears that there is scope to increase spend on OPEX if it is identified that this would provide an improved service to EMR applicants.

### **Information Technology (IT) System Capital Expenditure (CAPEX)**

It was identified that the IT administration system (the 'Portal'), used to administer the framework, has required continuous development to maintain functionality and adapt to change. We recognise that a large amount of investment in the Portal by the DB is related to policy changes to the CM regime by Department for Business Energy & Industrial Strategy (BEIS), preceded by the Department for Energy and Climate Change (DECC) and Ofgem. A series of packages of rule and regime changes have been implemented in order to improve the efficiency of the CM for participants, provide value to consumers and ensure that the CM is meeting its objective of security of supply. These policy driven changes were cross checked against investments into the Portal such that costs could be justified. However, we have indicated with increasing concern the functionality of the Portal in our annual 'Report on the EMR Delivery Body's performance of its functions in relation to the Capacity Market' 2016, 2017 and 2018<sup>1</sup> as well as our recently published Five year Review Report<sup>2</sup>.

We assessed the efficiency of this Portal development through consultation with IT system developers familiar with the DB's administration Portal software configuration. Through this assessment, we identified that the cost of delivery appeared to be very high and an efficiency measure was applied.

Recognising the continuing critical feedback on the functionality and flexibility to change of the existing Portal, with appropriate funding in place, the DB has committed to deliver a replacement IT administration system by April 2021. We welcome this announcement.

We have stated our intention to collaborate with the NGENSO and BEIS on a joint work plan to deliver the required framework changes to improve the CM through our Five Year Review Report. We do not believe it would be value for money to allow additional revenue to initiate further changes to the existing Portal. We consider that the DB should prioritise the replacement IT administration system and delivering the step change in functionality and flexibility that is required.

The total cost to deliver the replacement system is uncertain, hence we have considered the appropriate method to manage this uncertain spend and the justification for a future UM to assess additional efficiently incurred costs. Under the scenario of a continuing EMR framework, this proposed UM would be recommended to be solely to manage the cost of the new system. However, we do recognise the current standstill period for the CM and await the decision of the European Commission on State Aid clearance. Significant urgent policy changes resulting from this decision or further external disruption to the operation of the EMR framework would be considered under this proposed future UM.

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<sup>1</sup> See 'Related publications' within Introduction

<sup>2</sup> [Ofgem Report on our Five Year Review Capacity Market Rules and Forward Work Plan](#)

## Conclusions

We propose to allow additional revenues of £9.36m for the DB to fulfil the role for the period April 2016 to March 2021 out of a total of £17.11m applied for.

- **Capex on the Portal:** Out of £8.00m requested, £7.36m applies to justifiable and efficient investment in the current IT administration system.
- **New IT administration system:** NGESO requested between £2m and £5m to develop a new IT administration system. We propose to allow £2m initially. We intend to include a future UM to allow the DB to claim additional costs where justified and efficient. We believe this allowance will enable the DB to develop a flexible, fit for purpose IT administration system.
- **Continuing build of the Portal:** NGESO requested £1.52m for costs associated with continuing to build the Portal after April 2016. This has already been funded prior to April 2016 through a previous revenue decision hence additional revenue is not proposed to be provided.
- **Core EMR role:** No additional allowances are proposed to be allowed to deliver the core EMR role including OPEX and CAPEX, for which the DB could overspend against allowed revenues up to March 2021. However, if future spend is managed efficiently in this Total Expenditure (TOTEX) consideration, the DB can outperform allowances over this total period and continue to make a base level of system improvements if essential. It is expected that any decisions to manage spend will not have a negative impact on performance and applicant service.

## Next steps

We welcome your views and responses. We've asked for your feedback in specific questions throughout this consultation. Please respond with as much context, detail and evidence as possible. If you wish your response to be confidential please mark it as such.

This consultation closes on 10 September 2019. We will review and consider responses to this consultation and decide upon an appropriate updated package of revenues for the DB up to 31 March 2021. In addition, we will consider and decide on a further UM to capture remaining uncertainty by that date.

We will publish a decision document by 30 September 2019 according to licence condition 7D.10.

Details for how to respond to this consultation can be found in the Introduction.

## 1. Introduction

### What are we consulting on?

#### Background

- 1.1. The National Grid Electricity System Operator (NGESO) undertakes the role of administering the Electricity Market Reform (EMR) policy initiatives. EMR aims to provide revenue for renewable technologies via the Contracts for Difference (CfD) framework, and sufficient generation via the Capacity Market (CM). This NGESO function is defined as the Delivery Body (DB).
- 1.2. Ofgem regulates these schemes to deliver secure decarbonisation at the lowest cost. A key aspect of this regulation is to set appropriate revenues for NGESO to deliver their EMR function efficiently and effectively. In January 2015, the DB submitted a Business Plan to outline costs associated with delivering EMR from April 2014 to March 2021. In September 2015, following consultation, we published our decision<sup>3</sup> on revenue, outputs and incentives for this period. This decision provided fixed revenue of £12.7m to cover costs up to March 2016 and £33.7m for the remainder of the period.
- 1.3. It was acknowledged that there was significant uncertainty in the role of the EMR DB when revenue was set in 2015. A number of areas were identified where additional cost may be required during the period April 2016 to March 2021. These included specific and high impact changes to the CM and CfD regimes as well as the delivery of an Information Technology (IT) system replacement. We had concerns around the provision of upfront sums to NGESO to fund scope changes that might not happen as this could provide windfall gains. To address this, we included an Uncertainty Mechanism (UM) to deal with costs that may arise from specific areas of change or DB outputs during the period but are uncertain at this time. Special Condition 7D of the NGESO's Licence sets out the arrangements and criteria for seeking an adjustment to allowances in May 2019 (under 7D.10).
- 1.4. Since 2015, the management and operation of the CM has seen extensive change due to changes in the number and type of participants as well as framework changes. The CM has evolved from a market of large projects from established energy market participants to a greater proportion of smaller projects to less established energy market participants, significantly changing the landscape of operation. Framework changes, to Regulations<sup>4</sup> and Rules<sup>5</sup>, have been implemented by Ofgem and the Department for Business, Energy & Industrial Strategy (BEIS) who were preceded by the Department for Energy & Climate Change (DECC). An annual rule change process has been conducted by Ofgem and packages of regime changes have been consulted on and implemented by DECC/BEIS. A supplementary CM Auction has been required to be held, however conversely a much reduced number of CfD Allocation Rounds have been held.
- 1.5. In 2019 the pace of change has continued with disruption caused by the suspension of the CM whilst a further investigation to provide State Aid clearance is undertaken by

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<sup>3</sup> [Decision on revenue, outputs and incentives for EMR Delivery Body](#)

<sup>4</sup> [The Electricity Capacity Regulations 2014; The Contracts for Difference \(Allocation\) Regulations 2014](#)

<sup>5</sup> [Capacity Market Rules; Contracts for Difference Allocation Framework](#)

the European Commission. In addition, BEIS and Ofgem have undertaken Five Year Reviews on the CM framework as planned.

- 1.6. In our decision letter of September 2015, Ofgem acknowledged that "It is difficult to specify exactly in advance what 'major changes in the scope of EMR' would be and what Ofgem would give written approval to". Consequently, this revenue UM, to be held in summer 2019/20, could be used as a 'light touch' review of additional costs incurred up to that point in respect of major changes in the scope of EMR not included in the current allowances. This UM was implemented through a licence change to Special Condition 7D.10 (b) of NGESOs Licence. According to this licence condition, a submission for additional revenue was received by the 31st May 2019 and an Ofgem Decision is required to be made by 30<sup>th</sup> September 2019 following consultation.
- 1.7. We outlined in our 2015 decision that we would expect each change to be sufficiently substantive so as to have been subject to discussion (and possibly consultation) with DECC/BEIS, Ofgem and industry stakeholders prior to implementation. The cost of these major changes (in aggregate) should be in excess of the existing de-minimis amount of £1.2m as included in Special Licence Condition 7D.7. Furthermore, any submission for additional revenue would be considered on a case-by-case basis.
- 1.8. Annual Regulatory Reporting has demonstrated that in financial years 2016/17, 2017/18 and 2018/19, NGESO has consistently exceeded their allowances in delivering EMR and have been informing Ofgem that they anticipate to continue to do so for the remainder of the period.

### **Objective and approach**

- 1.9. The objective of this review is to therefore provide additional revenue to the DB to address the change in regime and associated systems over the period April 2016 to March 2021. This will be achieved through considering all items of additional allowance requests as follows:
  - Must be justified as additional to the core role of the DB for which they are already funded
  - Will be considered on a case by case basis
  - Where relevant, the efficiency of the delivery of change will be considered
  - Industry feedback will be taken into account
- 1.10. The DB have been provided allowances for headcount to deliver the expected level of EMR operation and change. This core EMR role includes OPEX primarily on headcount, and IT CAPEX on the Portal. The principle of TOTEX to deliver the core role of the DB will be applied. Included within these existing allowances, it was anticipated that continuous improvement would be required to the Portal to ensure functionality and compliance with the sharing of confidential data (as set out in NGESOs Special Licence Condition 2N). Additionally, it was anticipated that some policy driven changes would occur to the CM and CfD regimes, hence requiring minor changes to the Portal. A distinction will be made between this core role of EMR delivery, and additional change required to be implemented by the DB for which further funding will be considered. Furthermore, the efficiency of spend incurred to deliver additional change will be considered.
- 1.11. As well as providing additional funding, this revenue adjustment assessment seeks to drive continuous improvement in the efficiency and performance of the DB. Industry feedback through our Five Year Review process has highlighted issues with the Portal and that improvements should be prioritised in areas of the EMR processes, particularly

relating to prequalification to the CM. The main areas of desired improvement relate to query management and the Portal user experience.

- 1.12. We have gradually increased our level of concern in our annual 'Report on the EMR Delivery Body's performance of its functions in relation to the Capacity Market' 2016, 2017 and 2018<sup>6</sup> on the functionality and complexity of the Portal. In 2018 we stated *"The CM Portal continues to lack the functionality required to facilitate the CM process as effectively as possible. We are concerned that the Delivery Body is not always using the Portal to meet the information sharing arrangements specified in the Capacity Market Rules. This must be addressed as a matter of priority."* Also *"Stakeholder feedback suggests that parts of the Portal's design unnecessarily increases complexity for CM participants. Furthermore, while NGET has taken a largely collaborative approach to facilitating proposed changes to the CM Rules and policy development, its IT system arrangements have slowed down implementation."*
- 1.13. In this consultation, we outline our assessment of NGENOs submission and distinguish between categories of spend. We also seek to put this spend into context with the known cost drivers. We then set out our proposals and reasoning based on this information and outline in the conclusion the resultant changes to NGENO revenue.
- 1.14. All cost values referred to in this consultation are in 2014/15 prices. This relates to the financial year of the original EMR DB Business Plan.

## Related Publications

### Revenue and Uncertainty Mechanism Provision

Previous revenue/ incentive consultation (April 2015):

<https://www.ofgem.gov.uk/publications-and-updates/consultation-initial-proposals-setting-revenue-outputs-and-incentives-national-grid-electricity-transmission-plc-s-roles-electricity-market-reform>

Decision on revenue and incentives (September 2015):

<https://www.ofgem.gov.uk/publications-and-updates/decision-revenue-outputs-and-incentives-nget-plc-s-roles-electricity-market-reform>

Consultation on licence change to include reopener clause (September 2015):

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-licence-modifications-nget-s-special-condition-7d>

Decision on licence change to include reopener clause (October 2015):

<https://www.ofgem.gov.uk/publications-and-updates/decisions-modifications-nget-s-special-licence-conditions-4a-4l-and-7d-nget-plc-s-roles-electricity-market-reform>

### Annual Performance Reports on the EMR Delivery Body in relation to the Capacity Market

2018: <https://www.ofgem.gov.uk/publications-and-updates/annual-report-delivery-body-s-performance-its-functions-relation-capacity-market>

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<sup>6</sup> See 'Related publications'

2017: <https://www.ofgem.gov.uk/publications-and-updates/report-emr-delivery-body-s-performance-its-functions-relation-capacity-market-1>

2016: <https://www.ofgem.gov.uk/publications-and-updates/report-emr-delivery-body-s-performance-its-functions-relation-capacity-market-0>

Ofgem's Five year Review Report (July 2019): <https://www.ofgem.gov.uk/publications-and-updates/report-our-five-year-review-capacity-market-rules-and-forward-work-plan>

## Consultation stages

1.15. This consultation closes on 10 September 2019. We will review and consider responses to this consultation and decide upon an appropriate updated package of revenues for the DB up to 31 March 2021. In addition, we will consider and decide on a further UM to capture remaining uncertainty by that date.

## How to respond

1.16. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.17. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.18. We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## Your response, data and confidentiality

1.19. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.20. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.21. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.22. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive.

We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## General feedback

1.23. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

## 2. Submission Assessment

### Section summary

This section sets out our assessment of the NGESO's submission for additional revenue and subsequent submissions following requests for further information. Also included is a breakdown of submitted costs into categories for which a judgement can be drawn based on the known basis for this cost increase.

### Questions

**Question 1:** Do you agree with consideration of TOTEX for the core role and exclusion from additional revenues?

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

**Question 3:** Do you have any opinion on the level of ESO spend on the current administration system (the 'Portal')? Please explain these views.

**Question 4:** Do you feel that there are any areas of additional revenue that have not been considered?

### Submission Overview

2.1. In the NGESO's submission, additional revenue of £17.1m was requested to cover the total difference between allowances of £33.7m and anticipated total spend £50.8m over the period April 2016 to March 2021. Table 1 outlines the year on year difference.

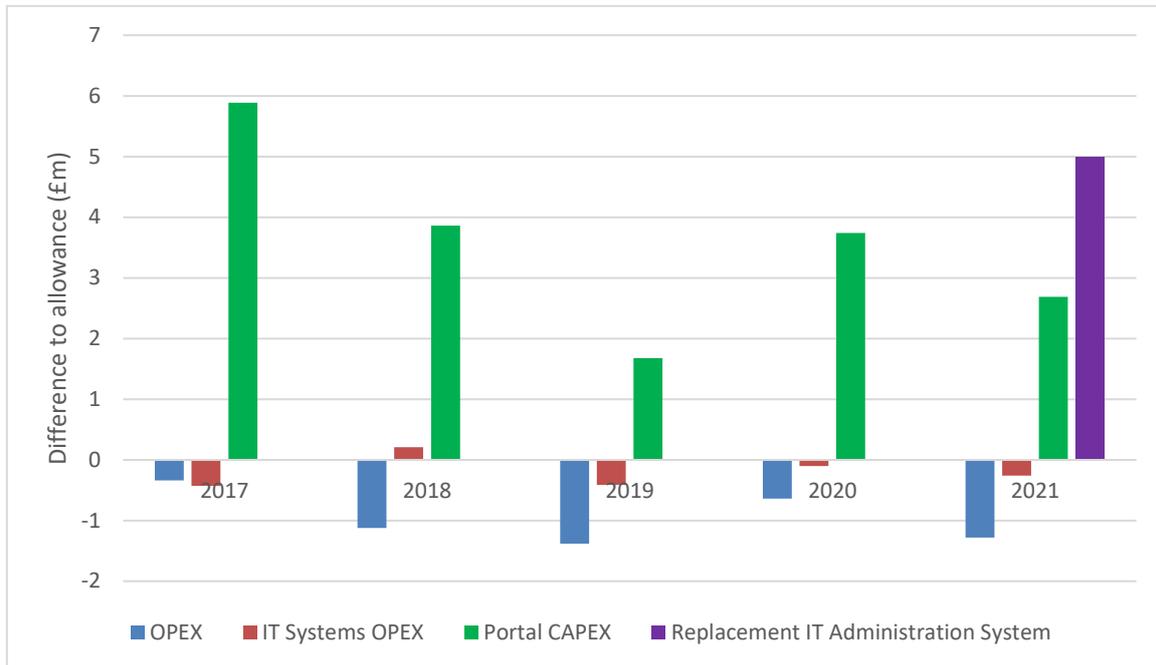
**Table 1- Annual comparison of Allowances to Costs for the Delivery of EMR**

£ms	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
<b>Allowances</b>	7.15	6.80	6.68	6.66	6.41	33.70
<b>Spend</b>	12.27	9.75	6.57	9.66	12.56	50.81
<b>Difference</b>	(5.12)	(2.95)	0.11	(3.00)	(6.15)	(17.11)

2.2. The DB has made clear since before the submission that this additional spend was primarily driven by requirements to develop and change the Portal that facilitates the administration of the CM and CfD regimes. All spend on this administration system is registered as CAPEX. The Portal is a bespoke application, including a web-based interface Portal and document repository, that has been developed to deliver all of the CM and CfD rules as well as secure data transfer to the EMR Delivery Partners.

2.3. It was anticipated that the DB would be achieving a saving against allowances for staff based OPEX. This was affirmed in the received submission.

2.4. The difference between current revenue allowances and actual/ forecast spends across the period in each of these categories can be seen in Figure 1.



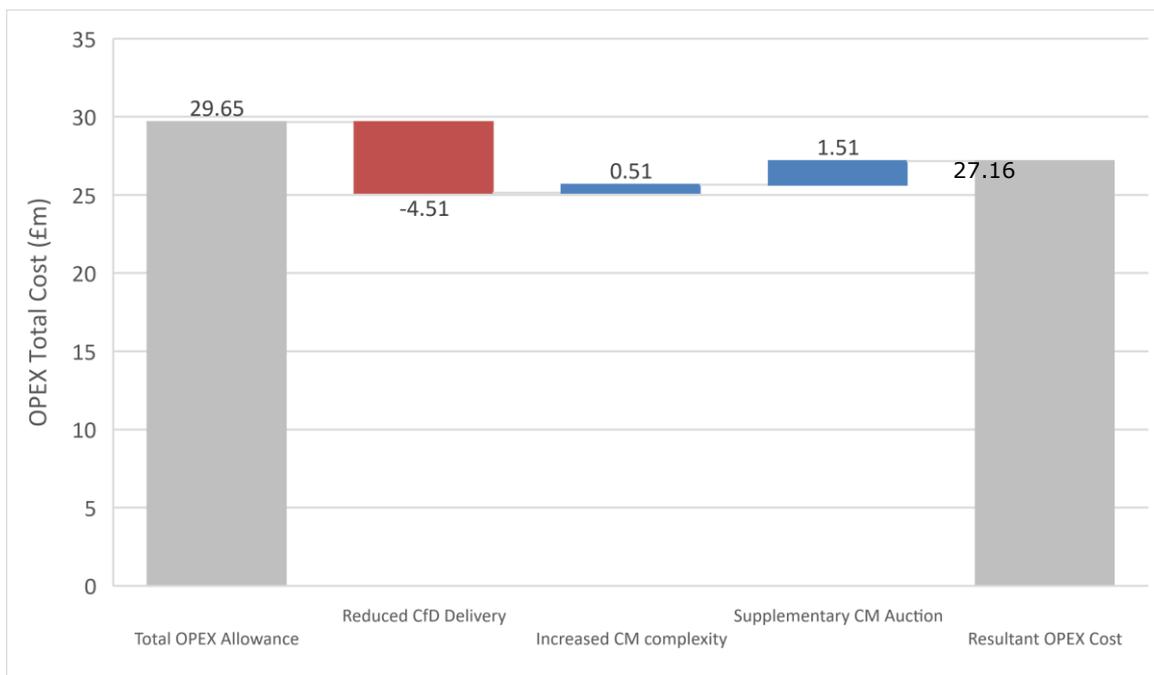
**Figure 1- Comparison of the cost of EMR Delivery to revenue allowances by high level category**

2.5. Over the period, CAPEX incurred and planned spend on the Portal exceeds allowances by £17.86m, OPEX is under allowances by £4.76m and IT systems OPEX (spent on software licences etc.) is under allowances by £0.99m. In addition, £2m to £5m (the maximum amount of £5m is shown in Figure 1) is forecast for a replacement administration system.

2.6. Each of these categories of spend were investigated in further detail to determine appropriate revenue adjustments.

## OPEX

2.7. Figure 1 demonstrates that in each financial year, overall OPEX has consistently been, and is forecast to continue to be below allowed revenues. Over the whole period April 2016 to March 2021, for OPEX and IT Systems OPEX, the DB received £29.65m to deliver the CM and CfD roles of EMR. The total forecast spend over this period currently stands at £27.16m. Figure 2 demonstrates this overall reduction by the change in each category of output.



**Figure 2- Adjustments to actual & forecast OPEX spend as a result of key changes to the DB role**

- 2.8. A supplementary 'early' CM auction was held in 2017/18. The DB informed Ofgem of the costs associated ahead of delivering the auction. NGESO has supplied the final costs to deliver at a total of £1.51m.
- 2.9. The number of CfD allocation rounds held, and expected to be held from 2016 to 2021 is much reduced compared to expectations when setting revenue allowances in 2015. CfD rounds were originally planned to be held every year, however were not held in 2016/17, 2018/19 and not expected to be held in 2020/21. Over the period, actual and forecast costs to deliver CfD allocation rounds are £5.40m less than expected in the DB's 2015 Business Plan and approximately £4.51m less than funded for.
- 2.10. The scale and complexity of delivering and facilitating the CM has risen annually and the DB has repeatedly highlighted this. There has been a dramatic increase in complexity in the CM regime as a result of a transition in the market and rules/regulation changes by Ofgem and BEIS to enable this transition.
- 2.11. In particular, there has been a large increase in the number of applicants and support required for those applicants from the DB. In 2015 when the Business Plan was submitted, there were 598 applications rising to 1661 in 2018. The size of the applicant unit is an indicator for the level of support required. Applicants with units above 100MW tend to be established energy market participants. Below 100MW there is a greater chance that participants may be less familiar with requirements and processes. In 2015, 80% of applicants were below 100MW, whilst by 2018 this had risen to 91%. Furthermore, the increased number of capacity agreements following each auction has increased demand on the DB in relation to CM Agreement management processes.
- 2.12. Figure 2 demonstrates that over the period from April 2016 to March 2021, it appears that there will be a slight overspend in delivering the CM of approximately £0.51m which could be as a result of increased complexity. The DB indicated in their

submission that they had minimised cost escalation while delivering the increase in number of applicants and the support required by driving process improvements.

### **Our view**

- 2.13. It would be expected that in the context of a high level and pace of change and complexity, a high level of service to applicants should be maintained. It is likely that challenges will continue to arise and need to be managed, such as facilitating the entry of new inexperienced applicants, delivering policy change and improving processes. The relatively small cost increase to deliver the CM in the context of significant complexity, coupled with stakeholder feedback, possibly indicates a resource level below requirements.
- 2.14. Considering the categories outlined above, the overall position on OPEX over the period appears to be a saving of £2.49m below allowances. Due to the combined workforce and seasonal work profile, it does not appear to be possible to define specific cost increases where additional revenue can be justified or where revenue should be decreased due to reduced outputs. It appears that there is scope to increase spend on OPEX if it is identified that this would provide an improved service to EMR applicants.
- 2.15. We considered OPEX in the whole of the core EMR role for which the DB have received TOTEX funding based on expectations in 2015. For future increases in spend, we expect that the DB should consider the relative benefit of OPEX compared to CAPEX.

## **IT System CAPEX**

- 2.16. Data was submitted by the DB to breakdown the £17.86m of IT Capex spend above allowances (£21.91m actual/ forecast spend vs £4.05m allowance). It was necessary to breakdown the IT Capex into broad categories which allowed a judgement on justification.
- 2.17. A large element of spend was identified by DB as being in order to complete building the Portal in 2016/17, for example the Agreement Management functionality. The Portal was intended to have been completed in 2015/16 but regime and rule changes by BEIS and Ofgem in late 2015 and early 2016 prevented this completion. Funding was provided for full build in the period up to March 2016 and therefore will not be provided again.
- 2.18. It is apparent that much of the investment in the Portal was in order to undertake general improvements or changes as would be expected under the core role of the DB for which they have been provided revenue. Examples include improving or automating processes to reduce required staff levels and ensuring data compliance and system security. Where the Portal changes were part of the core role for which revenue allowances have already been provided for, these were considered in the TOTEX category of spend and out of scope of this review.
- 2.19. We recognise that a large amount of investment in the Portal has been required to adapt to policy changes to the CM regime by BEIS/DECC and Ofgem. However, the functionality and usability of the Portal has consistently been challenged and we have outlined the need for resolution of issues as a matter of priority. Stakeholders have given us feedback that suggests that parts of the Portal's design unnecessarily increase complexity for CM participants and the inflexibility of the Portal to change has slowed down implementation of policy evolution.

- 2.20. Policy changes impacting the Portal have been significant due to this need to rapidly adapt the CM framework. Policy changes prior to 2015 would be captured in the previous revenue decision in September 2015, however it is recognised that those raised in 2015 would be implemented following this revenue decision so are considered in this review. The peak of policy changes to the CM regime came about in 2015/16 and have remained at a steady level since.
- 2.21. The Rules, along with the systems and processes to administer the CM have needed to change to manage a significant increase in the number and type of applicants. For example, the prequalification process has adapted from providing delivery assurance for large generation projects to a greater proportion of applications from small projects. The delivery assurance requirements are less appropriate for smaller project participants, however will likely require greater assistance in engaging with and applying for CM prequalification.
- 2.22. As a result, Ofgem has run a regular Rules change process for the CM and released these Rule changes in a series of packages. The changes we have made seek to improve the efficiency of the CM for participants and provide value to consumers. These packages of changes are summarised below and included in full in Appendix 2:
- **June 2015:** Simplification & clarification of a number of Rules associated with information and documentation submissions for prequalification and definitions around capacity. In addition, some changes were made to the rules including the minimum level for spare capacity; Capacity Market Units (CMUs) containing different or mixed generating technology classes; prospective CMUs notifying the DB of the issuance of a Final Operational Notice (FON); enabling past performance of a Demand Side Response (DSR) CMU to be calculated in respect of balancing service delivery periods; accounting for avoidance of line losses for DSR CMU and distribution-system CMUs; CM warning issuing in response to an OC6 Demand Control Event; DSR tests; taking account of CMUs on a private network.
  - **July 2016:** Rule changes to impact; emergency Manual Disconnections in the definition of System Stress Event, CM Warning and Involuntary Load Reduction; and small changes to the methodology for calculating connection capacity.
  - **November 2016:** Rule changes to impact; amendments to the definition of Mandatory CMU in the Rules; ensuring clarity in Rules that CMU Portfolios are demonstrating satisfactory performance; amending the Load Following Capacity Obligation formula.
  - **July 2017:** Rule changes to impact; demonstration of Satisfactory Performance Days; prequalification requirements; enabling interconnectors to become Price-Makers; facilitating the participation of dynamic frequency response providers; and implementing a new baseline for storage CMUs.
  - **July 2018:** Rule changes to impact; the prohibition on CMUs participating in a T-1 Auction where they had previously opted out as non-operational for that Delivery Year; enabling more providers to participate in the Secondary Trading Market; simplify completion of DSR testing; amendments to allow providers more flexibility when choosing their capacity.
  - **July 2019:** Rule changes to impact; document submissions in the prequalification process; DSR component reallocation; and other clarifications.

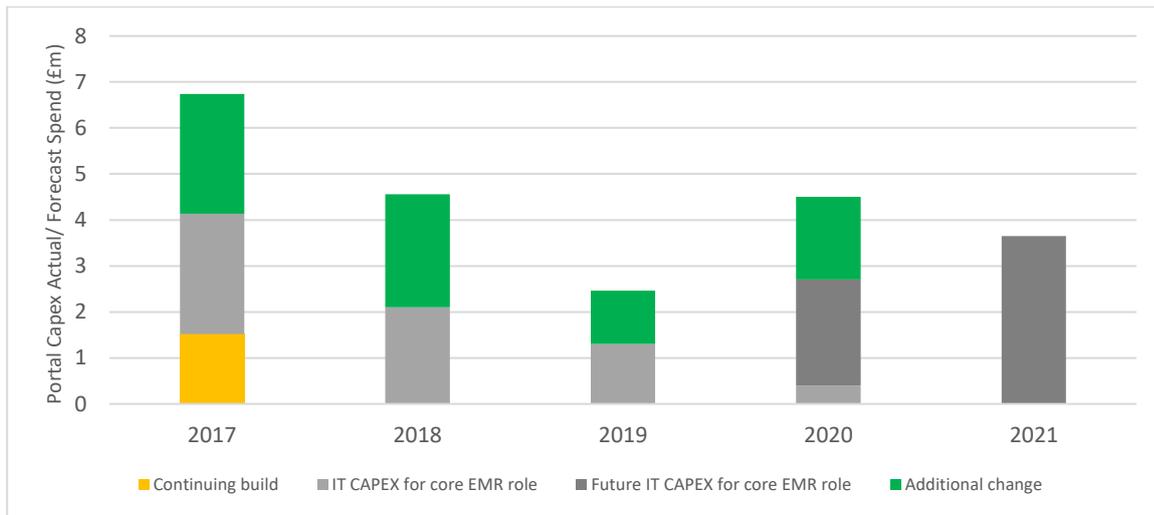
2.23. BEIS (preceded by DECC) have also continued to evolve the CM regime through a series of packages of changes to the Electricity Capacity Regulations 2014 and Rules. These have also sought to improve the participation and efficiency, as well as delivery of the Security of Supply objective. Some significant Regulation changes have been required to manage the impact of external factors. These packages of changes are summarised below:

- **2015 (1):** Enables electricity interconnectors to participate in the CM from 2015 onwards, and makes a number of minor and technical amendments to those Regulations; and amends the Regulations to set the settlement costs levy that funds the budget of the CM Settlement Body and to correct a minor drafting error.
- **2015 (2):** Substitutes a new definition of “relevant grant” and to extend the number of days from 5 to 15 to permit applicants a longer period in which to submit credit cover after receiving a conditional prequalification notice.
- **2016 (1):** Establishes an additional CM auction (the Supplementary Capacity Auction) for delivery in 2017/18; increases termination fees and credit cover payable under the CM scheme; make provision in relation to the transfer of CM obligations (secondary trading); and make a number of other amendments, including in relation to the second CM transitional auction.
- **2016 (2):** A number of technical changes to the Rules and Regulations to simplify and improve certain areas, in light of learning from previous auctions.
- **2017:** A number of changes to the Rules, amending the approach to de-rating storage to correct an over-valuation of the contribution to security of supply made by short duration batteries. Also introduced new rules around the demonstration of satisfactory performance days and some other minor amendments.
- **2019 (1):** A number of amendments to ensure the CM continued to operate following the European Commission’s opening decision on the full investigation into the CM for State Aid purposes in order to make the standstill period work and hold replacement auctions.
- **2019 (2):** Further changes to make the standstill period work and hold replacement auctions. Also allowing certain renewable technologies to participate in the CM; removing the historical floor from the interconnector de-rating methodology and making minor corrections and additions to the rules to make sure they are clear and operate as intended.

2.24. In addition to Ofgem and BEIS requests for change, in **2016** the Electricity Settlements Company (ESC), in response to a regulatory change, asked the DB to make substantial changes to the EMR ‘Settlement’ interface as part of the first Transitional Auction.

### **Our view**

2.25. Through identifying Portal investment that was required as a result of policy change implemented by the DB, it was possible to justify a total of £8m spend related to ‘Additional change’. Therefore, the breakdown of the £21.91m total spend on the existing Portal in each year of this Period is as shown in Figure 3.



**Figure 3- Portal Capex spend categorisation**

- 2.26. As the DB were funded for the complete build of the Portal prior to April 2016, we do not feel additional revenue allowances are justified.
- 2.27. We assessed the efficiency of system development spend by the DB by specialist IT system developers familiar with the Portal architecture and consulted the DB on the process and time taken to deliver the changes. We found that in considering the time taken to deliver alongside the cost of each itemised change, the average system development 'day rate' is approximately 8% higher than reasonable industry standards.
- 2.28. Information included in NGESOs submission has demonstrated that the value for money in developing the Portal could be improved, particularly in comparison to the delivery of a full replacement system. The existing Portal system was acknowledged in the 2015 Business Plan as being 'transitional' and was planned to be replaced in 2020.
- 2.29. Stakeholder feedback received during our Five Year Review consultation consistently referred to poor functionality and adaptability of the existing Portal. Furthermore, in the DBs 2015 Business Plan, the NGESO identified that this system was 'Transitional' and that it would need to be replaced in approximately 2020. We therefore welcome the commitment from the DB to replace the Portal by April 2021. The DB forecast an administration system replacement would cost between £2m and £5m. Compared to the cost of continuing to develop the Portal, and the opportunity for a step change in functionality, this appears to be a value for money investment.
- 2.30. In order to avoid high costs on system development that will only be implemented for one year, BEIS and Ofgem will seek to avoid additional changes to the Framework and Rules that would need to be implemented into the Portal. This will allow the DB to focus on delivering the replacement administration system as soon as possible.

## 3. Proposals

### Section summary

This section sets out our proposals for additional revenue based on the assessment and context in the previous section.

### Questions

**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?

**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?

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

- 3.1. Options for adjusting revenue allowances have been considered in the categories of spend outlined in the previous categorisation.

### OPEX

- 3.2. This light touch review does not seek to adjust TOTEX spend for the core EMR role and therefore we are not minded to reopen OPEX spend. However, it is noted that the DB is below spend against allowances but they have indicated they need to provide a greater level of service than anticipated. We would therefore encourage the DB utilising some of the £2.49m projected OPEX saving over the period to maintain service levels to EMR applicants.

### IT System CAPEX

- 3.3. The DB has requested additional revenue to cover the continuing build of the Portal in 2016/17. It is proposed that this should not be allowed as allowances were provided to build this system prior to April 2016.
- 3.4. The DB has requested additional revenue to cover items of IT CAPEX spend that are related to the core role of EMR such as system improvements for user experience and compliance assurance. It is proposed to provide no additional revenues for this category of spend as this is not distinctly above and beyond what was anticipated at the start of the period and for which funding has been provided. In the remaining period, the DB are expected to manage operational and IT spend associated with their

core role as originally intended in the 2015 revenue decision to achieve the most efficient outcome.

- 3.5. The DB has requested additional revenue to cover items of system spend associated with policy and externally driven changes. As our objective of this UM is to provide additional revenue to the DB where it is justified and demonstrated to be efficient, it is proposed to provide additional revenue to cover this category. Overall this category was £8m of potential additional allowances. This justifiable system investment covers changes up to and including Autumn 2019. It is proposed that given the high cost of change, no further policy driven changes should be delivered in the existing Portal. This will avoid continuing high levels of inefficient spend on an asset soon to be replaced. Future policy driven changes should be delivered in the replacement IT system due in April 2021.
- 3.6. For the total £8m spend on justifiable policy driven changes, it is proposed to apply an efficiency measure of 8% as described in Section 2.27. This represents an apparent inefficiency of delivery through the DB's system development contract and would result in a recommended reduction in allowances of £0.64m. The proposed total allowance for IT CAPEX on the existing Portal is therefore £7.36m.
- 3.7. Recognising the continuing poor functionality and inflexibility to change of the existing Portal and with appropriate funding in place, the DB has committed to deliver a replacement IT administration system by April 2021. It is proposed to allow additional revenue of £2m at this stage to cover the base cost of delivering this replacement system.
- 3.8. The total cost to deliver this system is uncertain, hence a future UM is proposed to be used to assess any additional efficiently incurred costs. We will outline any intention on a Licence Change alongside our decision on revenue adjustments in September 2019. Under a stable EMR framework, as the remaining area of uncertainty, this proposed UM would be recommended to be solely to manage the cost of the replacement IT system.
- 3.9. However, we do recognise the current CM standstill period and await the decision of the European Commission on State Aid clearance. Significant urgent policy changes resulting from this decision or further external disruption to the operation of the EMR framework will be considered under the proposed future UM.

## 4. Conclusion

### Questions

**Question 9:** Do you agree with the level of additional revenue provision in each category given the DB's requirement to manage change and why?

- 4.1. We have approached this revenue UM with the consideration of being able to justify each element of additional spend.
- 4.2. As a result of the proposals outlined in Section 3, the treatment of applied for additional revenue by the DB in order to deliver EMR is as follows:

**Table 2- Conclusion of additional revenue allowances for the DB**

Additional Funding Category	Total Requested	Amount allowed	Justification
Core EMR Role	£2.59m	£0.00m	This represents the Net position between reduced OPEX and increased core CAPEX over the period.  Specific cost increases where additional revenue can be justified or where revenue should be decreased due to reduced outputs cannot be defined.  Future investment in the Portal appears inefficient hence an opportunity remains for the DB to achieve savings.
Continuing to build the Portal	£1.52m	£0.00m	This has already been funded prior to April 2016 through a previous revenue decision.
Policy driven changes to Portal	£8.00m	£7.36m	These are justifiable externally driven changes to the Portal.  An efficiency measure has been applied to IT system development.
Replacement IT administration system	£5.00m	£2.00m	This applies to the base cost of a new administration system.  We propose to provide additional efficiently incurred revenue through a further UM
	<b>£17.11m</b>	<b>£9.36m</b>	

- 4.3. We are conscious that disallowed revenues that have already been spent by the DB represent a direct impact. However, through avoiding significant future IT CAPEX spend on the existing Portal and continuing to achieve some savings in OPEX, the DB can counteract these disallowances.

- 4.4. Therefore, the DB can outperform allowances over this total period if future spend is managed efficiently, however it is expected that any decisions to manage spend will not have a negative impact on performance and applicant service.
- 4.5. In summary, out of £17.11m additional revenue requested, £9.36m is proposed to be allowed. Additional costs to complete the delivery of the replacement administration system is proposed to be considered in a future UM. Significant urgent policy changes that impact pre-agreed DB costs will also be considered under the proposed future UM.

## Appendices

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## Appendix 1- Annual revenue adjustment

Table 3 represents the proposed additional revenue allowances annually over the period April 2016 to March 2021 and the impact on total EMR revenues in each year.

**Table 3- Annual additional and adjusted DB revenue**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>TOTAL</b>
Requested additional Revenue	5.12	2.95	-0.11	3.00	6.15	<b>17.11</b>
Proposals for allowed Additional Revenue	2.39	2.26	1.06	1.65	2.00	<b>9.36</b>
DB Revenue pre-adjustment	7.15	6.80	6.68	6.66	6.41	<b>33.70</b>
DB Revenue post-adjustment	9.88	7.49	5.51	8.01	10.56	<b>41.45</b>

## Appendix 2- Ofgem Rule Changes

Table 4 includes all rule changes undertaken by Ofgem from 2015 to 2019.

Date	Ref. No.	Summary of submitted proposal	Decision
19-Jun-15	B	This proposal would amend Rule 5.5.18(c) to create a minimum level for the announcement of spare capacity. Currently the auctioneer announces the spare capacity at the start of each Bidding Round, rounded to the nearest GW. This proposal would set a minimum amount of 1GW for a T-4 auction and 100MW for a T-1 auction.	Make Amendment
19-Jun-15	C	We identified three typographical errors within the Rules. Two are within Rules 6.10.1(e) and 8.3.1(a). Both are references to a non-existent Rule "3.7.3(b)(iii)". The third error is in Rule 7.4.5(j)(i) where the last word of the sub-paragraph is incorrect.	Make Amendment
19-Jun-15	CP01	This proposal from GDF Suez would amend the definition of Qualifying Capital Expenditure within Rules area 1.2 (Definitions). It seeks to remove the reference date of 1 May 2012 from when Qualifying Capital Expenditure is measured for Refurbishing CMUs. It would instead refer to a 3 year continuous period within the four years prior to commencement of the Delivery Year.	Partially Make Amendment
19-Jun-15	CP04	This proposal from RWE would amend Rule 3.4.5 (Statement as to Capacity) to enable the recognition within the Rules of CMUs containing generating units of different or mixed generating technology classes.	Make Amendment
19-Jun-15	CP06	This proposal from RWE seeks to amend the definition of Qualifying Capital Expenditure for Prospective Generating CMUs within Rules area 1.2 (Definitions). It would remove the fixed reference date of 1 May 2012 for the start of the period for eligible expenditure and replace it with wording which refers to the commencement of the Calendar Year that immediately precedes the year in which the Prequalification Window commences.	Partially Make Amendment
19-Jun-15	CP07	This proposal from RWE seeks to amend the definition of Qualifying Capital Expenditure for Prospective Generating CMUs within Rules area 1.2 (Definitions). For Refurbishing CMUs only, it would remove the fixed reference date of 1 May 2012 for the start of the period for eligible expenditure and replace it with wording which refers to the Auction Results Day to which the application relates.	Partially Make Amendment
19-Jun-15	CP10	This submission proposes to add a new paragraph to Rule 5.10 to the effect that the end of round results are made publically available to all market participants, not just participants taking part in the auction	Make Amendment
19-Jun-15	CP13	This submission proposes to amend Rule 8.5.3 to correct an error in the formula for the calculation of the Load Following Capacity Obligation (LFCO): there should be an additional set of brackets around the "min" function: $\Sigma(AACO_{ij} - SCO_{ij})$ . Where AACO <sub>ij</sub> is the Auction Acquired Capacity Obligation and SCO <sub>ij</sub> is the Suspended Capacity Obligation.	Make Amendment
19-Jun-15	CP15	This submission proposes to amend Rule 5.10 to the effect that the Delivery body must publish the high level round results to the market at the end of each round, and must notify the public in advance where these results will be published. The "High level round results" are proposed to include: (a) Round number, (b) Price Floor (£/kw), (c) Clearing Capacity at the Price Floor (MW), (d) Status: the round has cleared / not cleared and (e) Excess Capacity (rounded to 1,000MW).	Partially Make Amendment
19-Jun-15	CP17	This submission proposes to amend the definition of 'De-rated Capacity', so that the drafting of 'Physically generated net output' throughout the Rules is followed by 'in MWs to 3 decimal places', thereby giving a more accurate output figure.	Make Amendment
19-Jun-15	CP18	This submission proposes to amend Rule 5.6.7 (Duration Bid Amendments) by replacing the words "is lower than the highest price specified in the Duration Bid Amendment" with "is lower than or equal to the highest price specified in the Duration Bid Assessment". This is to address a situation where, as the clearing unit, the participant may secure an agreement of one year in length but for a post-refurbishment (i.e. increased) de-rated connection capacity.	Make Amendment
19-Jun-15	CP23	This proposal from Energy UK, would remove requirement for a Legal Opinion on the legal status of the applicant within Rule 3.4.2(a)(iii) and 3.4.2(b).	Make Amendment

19-Jun-15	CP25	This amendment from E.ON would change the definition of 'Qualifying Capital Expenditure' under Rule 1.2, removing the reference to 1 May 2012 and instead referencing the relevant 'Prequalification Window'.	Partially Make Amendment
19-Jun-15	CP28	This amendment to Rule 6.7.5 from E.ON would require that Prospective CMUs notify the Delivery Body of the issuance of a Final Operational Notice (FON) if they have not been issued with an Interim Operational Notice (ION). The proposal would also see the definition of 'Operational' under Rule 1.2 redrafted to allow for FONs to be accepted in place of IONs.	Make Amendment
19-Jun-15	CP29	This submission from E.ON proposes the review of the list of bodies, provided on the Certificate of Conduct (Exhibit C) to which an Applicant can disclose Capacity Market Confidential Information. Specifically it is proposed that Ofgem and the CMA should be included in the list provided on the Certificate of Conduct.	Make Amendment
19-Jun-15	CP30	This proposal from Green Frog Power Ltd, would amend Rule 3.4.3 (a) (i) to clarify that the description and location of the CMU should include a specific address, a site plan, and a satellite photo (e.g. Google Maps).	Make Amendment
19-Jun-15	CP34	This proposal from Green Frog Power Ltd, would amend the definition of Qualifying capital expenditure, with effect that for a multi-year agreement it should be undertaken no earlier than the 12 months prior to the prequalification window for the auction in which the CMU is seeking the multi-year agreement, rather than historical expenditure since May 2012 as currently provided for in the Rules.	Partially Make Amendment
19-Jun-15	CP38	This proposal from National Grid Electricity Transmission would revise the timescale for new build CMUs to submit their evidence of capital expenditure to six months after the commissioning takes place, rather than "prior to the start of the delivery year". Amend Rule 8.3.6(a). National Grid have suggested that implementation of this proposal is not urgently required before prequalification for the 2015 capacity auctions.	Make Amendment
19-Jun-15	CP41	This proposal from SSE seeks to amend the definition of Qualifying Capital Expenditure for Prospective Generating CMUs within Rules area 1.2 (Definitions); it also references Rule 3.7 (Additional Information for a New Build CMU). In the definition it would remove the fixed reference date of 1 May 2012 for the start of the period for eligible expenditure and replace it with wording which refers to a period of 77 (or other number of) months prior to the commencement of the first Delivery Year to which the Application relates.	Partially Make Amendment
19-Jun-15	CP44	This proposed amendment would redraft Rule 13.2 (DSR Test) to enable past performance of a Demand Side Response CMU to be calculated in respect of balancing service delivery periods rather than requiring calculations to be based on whole settlement periods. There is also a proposed Rule addition that defines a 'Balancing Service Delivery Period' so as to clarify the amendments stated above.	Make Amendment
19-Jun-15	CP47	This submission proposes that DSR CMU and distribution-system CMUs avoidance of line losses relative to non-distribution CMUs be better accounted for in the Rules.	Make Amendment
19-Jun-15	CP50	This amendment would change the definition of 'Qualifying Capital Expenditure' under Rule 1.2, removing the reference to 1 May 2012 and instead referencing the relevant T-4 Auction Prequalification Window.	Partially Make Amendment
19-Jun-15	CP57	This submission proposes to amend the definition of "Clearing Capacity" so that it reads "means a target capacity (in MW) for a Capacity Auction at a particular Clearing Price as determined by the demand curve", so as to align with the use of the term in the rest of the document.	Make Amendment
19-Jun-15	CP59	This proposal from National Grid seeks to amend Rule 8.4 (Triggering a Capacity Obligation and System Stress Events). Specifically, it calls for Rules 8.4.2 and 8.4.6 to be reviewed and amended such that a Capacity Market warning is issued in response to an OC6 Demand Control Event, rather than a SO Instigated Demand Control Event.	Make Amendment
19-Jun-15	CP60	This proposal from National Grid seeks to amend several aspects within Chapter 3 (Prequalification Information). The proposed changes would substitute the requirement for a description of a CMU with that for the CMU's address and/or grid reference(s); they would modify the Rules to state that the applicant for a Refurbishing CMU may be the despatch controller; they would clarify that the Rules relating to setting Connection Capacity which apply to existing generators also apply to pre-refurbishment elements of Refurbishing CMUs; they would also clarify the requirement to state the 24 month period which	Partially Make Amendment

		includes the settlement periods in which the CMU delivered its highest output.	
19-Jun-15	CP61	This proposal from National Grid seeks to amend Rule 3.6 (Additional Information for an Existing Generating CMU) such that where the Non-Central Meter Registration Service (CMRS) Generating CMU is made up of multiple components, the output of each component, for each settlement period, is identified in the supplier letter required by Rule 3.6.1(b).	Make Amendment
19-Jun-15	CP62	This proposal from National Grid seeks to amend Rules 3.4 (Conduct of the Applicant) and 3.12 (Declaration to be made when submitting an Application) to reduce the number of additional documents applicants are required to submit, and thus streamline the prequalification process.	Make Amendment
19-Jun-15	CP63	This proposal from National Grid seeks to amend Rule 13.2 to account for the provision of balancing services within Demand Side Response (DSR) tests	Make Amendment
19-Jun-15	CP64	This proposal from National Grid suggests that a methodology is developed to state how the "target Demand Side Response (DSR) volume" for DSR tests is calculated (no methodology proposed). An amendment to Rule 13.4.3(c) is proposed.	Make Amendment
19-Jun-15	CP65	This proposal from National Grid would require bidders in the Demand Side Response (DSR) transitional auctions to specify a default position on which capacity product they wish to acquire, which could be changed up to 30 minutes after the auction results have been announced. This would involve an amendment to Rule 11.3.3 (Awarding a Capacity Agreement).	Make Amendment
19-Jun-15	CP66	This proposal from National Grid would revoke certain provisions within Rules 3.4 (Information to be provided in all Applications) and 3.6 (Additional Information for an Existing Generating CMU). These changes would remove the requirements for applicants to: state whether they have a generation licence at the time of making the application and to provide details of their corporate form and legal status; they would also remove the requirement for applicants who are Grid Code parties and have not been operational in the 24 months prior to the prequalification window to declare that they are or will be compliant with the Grid Code.	Make Amendment
19-Jun-15	CP67	This proposal from National Grid would remove the requirements to provide metering information and bank details to the Delivery Body during prequalification. Instead it would replace this with requirements to provide such information direct to the Settlement Body after prequalification. Amendments to Rules 3.4.3(a)(i); 3.6.4; 3.9.4; 3.4.1(d) are proposed.	Make Amendment
19-Jun-15	CP68	This proposal from National Grid suggests correction of some typographical errors, including incorrect cross referencing, publication of Capacity Market register on results day, the term used in the formula for Load Following Capacity Obligations and use of "applicant" rather than person in one instance. Rules 3.8.2(b)(c); 7.4.3; 8.5.3 and 7.4.5(b) would be affected.	Partially Make Amendment
19-Jun-15	CP69	This proposal from National Grid suggests removal of option to use the capacity figure in the Distribution Connection Agreement to set the connection capacity. And removal of possibility that the connection capacity can be above the entry capacity. Amendments to Rules 3.5.2(b); 3.5.5 are proposed. National Grid have suggested that implementation of this proposal may be delayed until after the 2015 prequalification process.	Partially Make Amendment
19-Jun-15	CP73	This proposal from National Grid seeks to clarify whether a prequalification application should be considered if an opt-out decision has previously been submitted. Amendments to Rules 3.3.3 (b) and 4.2.3 are proposed. National Grid have suggested that implementation of this proposal may be delayed until after the 2015 prequalification process.	Partially Make Amendment
19-Jun-15	CP79	This proposal from National Grid would amend the definition of "Distribution Connection Agreement" to clarify that in cases where it is a private wire, there is not a connection to a licenced District Network Operator's network. Rules 3.6.3 and 3.7.3 would be amended. National Grid have suggested that implementation of this proposal may be delayed until after the 2015 prequalification process.	Make Amendment
19-Jun-15	CP80	This anonymous proposal would amend Rule 3.7.1 to the effect that documentary evidence of Planning Permission must be submitted in the prequalification process.	Make Amendment

19-Jun-15	CP81	This anonymous proposal would amend Rule 3.4.3 to add an additional requirement for all CMUs such that evidence (via lease, deed or contract) that the Applicant has the legal right to use the land upon which the CMU is located is provided to the Delivery Body during Prequalification.	Partially Make Amendment
19-Jun-15	CP83	This submission proposes to amend Rules 3.5 to clarify that: references to the Grid Connection Agreement, Distribution Connection Agreement or connection offer for a Generating Unit are to the agreement or offer in force at the date on which the Application is made; where the Distribution Connection Agreement or connection offer states a range of values for the registered capacity or inverter rating of a Generating Unit, the lowest value in that range should be taken in the Application; any references to Connection Entry Capacity, Registered Capacity or Inverter Rating are net of the Generating Unit's auxiliary load. These additions would also require amendments to Rules 3.6.3 and 3.7.3 clarifying that where a Distribution Connection Agreement specified a range of values for the registered capacity or inverter rating, the minimum and maximum values in that range are to be confirmed.	Make Amendment
19-Jun-15	CP84	This submission proposes to amend Rule 3.5.5 to allow applicants in respect of both existing and prospective generating CMUs to elect to utilise the TEC/CEC ratio methodology under Rule 3.5.5 to determine Connection Capacity.	Make Amendment
19-Jun-15	CP86	The proposal from DECC would amend Rules 3.6.1 and 3.6.2 to allow applicants to confirm settlement period data and Grid Code compliance for the 24 months prior to one month in advance of the prequalification window. Current arrangements present difficulties for Directors' signing off the accuracy of an application that relates to a period right up to the start of the prequalification window.	Make Amendment
19-Jun-15	CP90	This proposal would amend the definition of 'Non-CMRS Distribution CMU' so that it refers to '...Generating Unit of which exports electricity to a Distribution Network...' instead of '...Generating Unit of which supplies electricity to a Distribution Network'. This is to align the terminology with that used elsewhere in the Regulations and Rules, and better align with commonly used terminology, such as the Balancing and Settlement Code.	Make Amendment
19-Jun-15	CP91	This proposal seeks to amend the Rules to take account of CMUs on a private network, in particular for Demonstrating connection capacity for distribution-connected CMUs (Rule 3.5) and associated requirements related to Connection Arrangements (Rule 3.6.3 and Rule 3.7.3).	Make Amendment
05-Jul-16	Of1	This proposal would extend the definition of Defaulting CMU under Rule 1.2 to include a CMU that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, and participated in the auction, but was not awarded a capacity agreement.	Partially take forward
05-Jul-16	Of2	This proposal would amend the definition of Legal Right in Rule 1.2 to make it consistent with Rule 3.7.1. The current definition defines Legal Right only with regard to land upon which a relevant CMU "is situated". Rule 3.7.1 (a) allows the Legal Right to land upon which a CMU "is, or will be located".	Take forward
05-Jul-16	Of3	This proposal would amend Rule 3.3.3(b) to fix an issue where parties who voluntarily Opt-out of a T-4 auction but remain operational in the Delivery Year are excluded from participating in the corresponding T-1 auction.	Take forward
05-Jul-16	Of4	This proposal seeks to correct the formula in Rule 3.5.5 by removing the option to use station level CEC for apportioning TEC between different generating units.	Take forward
05-Jul-16	Of5	This proposal would amend Rules 3.6.1(b)(i)(bb) and 3.6.1(c)(iii) so that Non-CMRS Distribution CMUs which have not provided LLF values are still able to prequalify based on their non-adjusted historical output. It would also clarify what is required in a DNO letter.	Take forward
05-Jul-16	Of6	This proposal would amend Rule 3.7.1 so that, where planning permissions for New Build CMUs contain an explicit expiry date, that expiry date must not be within the period of the Capacity Agreement that the CMU is applying for.	Take forward
05-Jul-16	Of7	This proposal would amend Rule 3.7.2(c) and add Rule 8.3.6(aa) to prevent Prospective CMUs from citing the same capital expenditure in more than one multi-year capacity agreement.	Take forward
05-Jul-16	Of9	This proposal would include Emergency Manual Disconnections in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction (ILR). It would also take forward CP24	Take forward

		from last year (which proposed including Automatic Low Frequency Demand Disconnections within the scope of ILR).	
05-Jul-16	CP99	This proposal would amend Rule 3.6.1(b) to make it easier for Non-CMRS Distribution CMUs to prove their physically generated output. In particular, it would enable these CMUs to provide evidence that they delivered a Metered Volume when discharging a balancing services obligation as an alternative to providing a letter from a supplier or former supplier.	Take forward
05-Jul-16	CP100	This proposal seeks to ensure that all CMUs are able to transfer the entire volume of their capacity obligation to another CMU. ADE believes that the existing wording of Rule 9.2.4 may limit the ability of DSR and embedded generation to do this.	Take forward
05-Jul-16	CP109	This proposal would amend the Rules so that applicants are only required to complete a Metering Assessment and provide metering related information (with the exception of MPANs) after a Capacity Auction, rather than during prequalification.	Take forward
05-Jul-16	CP112	This proposal seeks to amend the definition of Mandatory CMU in Rule 1.2 so that Generating Units which are in receipt of low carbon support are not included.	Take forward
05-Jul-16	CP113	This proposal would amend Schedule 6 part (I) to remove the requirement for Capacity Providers to provide meter calibration test data for Reactive Meters.	Take forward
05-Jul-16	CP114	This proposal seeks to simplify the Opt-out process by removing the requirement for an accompanying statement signed by two directors to say that they are able to correctly sign a Certificate of Conduct (Rule 3.12.5).	Take forward
05-Jul-16	CP115	This proposal suggests amending Rule 10.4.1 to clarify the Volume Reallocation process and ensure it reflects its policy intent.	Take forward
05-Jul-16	CP117	This proposal would make Rule 3.7.1(a) (which allows New Build CMUs to declare they will obtain all Relevant Planning Consents and have the Legal Right to land up to 17 Working Days prior to a Capacity Auction) applicable to all future Capacity Auctions, not just the first two Capacity Auctions.	Take forward
05-Jul-16	CP122	This proposal would clarify in the Rules that a six-figure grid ordnance survey reference means all eight digits of the alphanumeric code (two letters and six numbers).	Take forward
05-Jul-16	CP124	This proposal would allow the performance of portfolios of CMUs to be assessed on an aggregate basis during DSR Tests and Satisfactory Performance Days.	Take forward
05-Jul-16	CP126	This proposal would amend the Rules so that when a Refurbishing CMU's connection capacity is equal to its Pre-Refurbishment connection capacity, it does not have to be issued with a Final Operational Notification (FON) or an Interim Operational Notification (ION) for it to be classed as 'Operational'.	Take forward
05-Jul-16	CP131	This proposal would amend the Rules so that an Interconnector CMU's performance is measured using metered output rather than the Interconnector Scheduled Transfer (IST).	Partially take forward
05-Jul-16	CP136	This proposal would base the Connection Capacity of an Interconnector CMU on its Connection Entry Capacity (CEC) or, if different, its maximum technical capacity, as opposed to its Transmission Entry Capacity (TEC). It would also cap the De-rated Capacity for Interconnector CMUs at TEC to prevent them from failing to prequalify as a result of 3.6A.2.	Take forward
05-Jul-16	CP137	This proposal would change Rule 5.10 to specify that the Delivery Body should publish a provisional clearing price and volume by 8pm on the day a CM auction clears.	Take forward
05-Jul-16	CP139	This proposal would place an obligation on New Build CMUs and DSR CMUs to submit relevant documents when notifying the Delivery Body that it wishes to relocate one or more Generating Units or DSR components.	Take forward
05-Jul-16	CP144	This proposal would simplify the Capacity Market Register by removing certain requirements.	Partially take forward
05-Jul-16	CP149	This proposal would remove the requirement on applicants to submit De-rating Factors and Anticipated De-rated Capacity (Rules 3.4.5(c) and 3.4.5(d)). As the De-rating Factors are automatically calculated by the Delivery Body's portal, the proposer believes that the Rule imposes an unnecessary prequalification condition on applicants.	Take forward
05-Jul-16	CP150	This proposal would amend Rule 3.5.4 to clarify how the Average Highest Output of a Generating Unit should be determined when calculating connection capacity - that it should be converted to MW and stated to three decimal places.	Take forward

05-Jul-16	CP157	This proposal seeks to ensure that the Rules explicitly recognise the potential for Connection Capacity to be higher than the capacity stated in a Relevant Planning Consent, and would require participants to provide documentary evidence to explain and justify any difference in order to prequalify.	Take forward
05-Jul-16	CP161	This proposal seeks to add a definition of 'Officer' as an Authorised Signatory of the Applicant. This is to prevent Applicants that are not companies (such as partnerships) from failing to prequalify because they do not have directors to sign the relevant prequalification certificates.	Take forward
17-Nov-16	Of10	This proposal would amend the definition of Mandatory CMU under Rule 1.2 so that all types of capacity defined as 'excluded capacity' in the Regulations are excluded from the definition of Mandatory CMU.	Take forward
17-Nov-16	Of11	This proposal would add drafting within Rule 13.4.1B to ensure that CMU Portfolios are demonstrating satisfactory performance on three separate days during Winter of the relevant Delivery Year, as is required of individual CMUs under Rule 13.4.1.	Take forward
17-Nov-16	CP128	This proposal would amend the LFCO formula to ensure that obligations are scaled correctly in the event of Stress Event during the Delivery Years of the Transitional Arrangements.	Take forward if and when systems can be implemented.
Jun-17	CP162	This proposal from the Renewable Energy Systems Group seeks to include Enhanced Frequency Response (EFR) capacity in the list of 'Relevant Balancing Services' (listed under Schedule 4).	Take forward
Jun-17	CP167	This proposal seeks to clarify the value of RfR in the event that it is not published in an Electricity Capacity Report prior to the T-4 auction for the relevant delivery year.	Take forward
Jun-17	CP169	This proposal seeks to change the requirements to demonstrate Satisfactory Performance Days so that, if a CMU fails to deliver energy during System Stress Events in two or more months of a Delivery Year, in the Winter period only, the CMU is required to demonstrate satisfactory performance on six separate days.	Take forward
Jun-17	CP171	This proposal seeks to amend Rule 13.4.2 so that the Delivery Body must notify Capacity Providers within five working days if a satisfactory performance day has not been notified in accordance with the Rules.	Take forward
Jun-17	CP174	This proposal seeks to amend Rule 7.7.1 to clarify how factual inaccuracies on the Register may be amended - who may request, and with regard to what CMU. The proposal specifically seeks to allow the Register to be amended for Prequalified CMUs, and not only Capacity Committed CMUs.	Partially take forward
Jun-17	CP184	This proposal seeks to amend Schedule 4 so that EFR is listed as a 'Relevant Balancing Service'.	Take forward
Jun-17	CP190	This proposal seeks to amend Rule 3.7.1 to remove the option for Applicants to defer provision of Relevant Planning Consents.	Take forward
Jun-17	CP192	This proposal seeks to amend the Rules to clarify the requirements for acceptable prequalification submissions, specifically with regard to connection agreements.	Take forward
Jun-17	CP193	This proposal seeks to amend the format of the Exhibits to include an 'Application Year' to ensure Applicants are re-submitting Exhibits in each prequalification process. This would prevent Applicants having to enter the Tier 1 process to submit a new Exhibit.	Take forward
Jun-17	CP194	This proposal seeks to redefine the definition of RfR to ensure an up-to-date value is available for calculations in delivery years where T-1- or Early Auction-procured capacity is included. The current definition was drafted to account for T-4 auctions only.	Take forward
Jun-17	CP195	This proposal seeks to amend the Rules to allow New Build and Refurbishing Interconnector CMUs to bid into the auction as Price-Makers, aligning the Rules for Interconnector CMUs with Generating CMUs.	Take forward
Jun-17	CP201	This proposal seeks to amend Rule 7.7.3 so that the Delivery Body must provide the reason(s) for why a request to update the Register in accordance with Rule 7.7.1 has been refused.	Partially take forward
Jun-17	CP213	This proposal seeks to amend Rule 7.4 so that the Generating Technology Class of a CMU is listed on the Capacity Market Register.	Take forward

Jun-17	CP215	This proposal seeks to amend the Rules to permit the aggregation of Prospective CMUs with one or more Units and legal owners to apply through a Dispatch Controller.	Take forward
Jun-17	CP222	This proposal would amend Schedule 4 of the Rules to include definitions for the terms of Declared Availability and Contracted Output for the FCDM service and to amend the existing definitions of those terms for the STOR service to account for sites where the CMU and STOR elements (components) are not equal.	Partially take forward
Jun-17	CP223	This proposal seeks to amend the Rules to simplify the metering arrangements by reducing the dependence of small generators and DSR participants on Suppliers and Meter Operator Agents.	Partially take forward
Jun-17	CP231	This proposal seeks to amend the Joint DSR Test drafting so that, similarly to the standard DSR Test, where a CMU Portfolio demonstrates a proportion of their nominated DSR de-rated capacity the Proven DSR Capacity is reduced to match the proven volume, rather than requiring a new Joint DSR Test to prove 100% of nominated capacity as is currently required.	Take forward
Jun-17	CP234	This proposal seeks to amend the Rules to allow DSR CMUs that are Balancing Mechanism Units to use their existing BSC compliant metering, rather than being forced to use Bespoke Metering.	Take forward
Jun-17	CP236	This proposal seeks to amend the Rules to ensure Prospective CMUs cannot delay their Metering Test having met their Minimum Completion Milestone or Substantial Completion Milestone and receive Capacity Payments whilst potentially operating with non-compliant metering. The proposed amendments also clarify the timetable for Metering Assessments and Metering Test Certificate submissions for Prospective CMUs.	Partially take forward
Jun-17	CP237	This proposal seeks to amend the Rules so that the value of 'AACO' used in the LFCO calculation considers how the value of Auction-acquired Capacity Obligations may have changed in the period between the relevant auction and delivery year. For example, when a New Build CMU meets its Substantial Completion Milestone but can deliver only a proportion of its initial de-rated capacity. The proposal suggests introducing a new term to describe the adjusted AACO value to be used in the LFCO formula.	Take forward
Jun-17	Of14	This proposal builds on CP162 which we propose to take forward. This proposal would make a series of amendments to the Rules in order to allow frequency response providers, of whatever technology class, to participate in the Capacity Market in accordance with legislation and the objectives guiding the CM Rules change process. Overall, the proposal will involve changes to Chapters 3, 8, 13 and Schedules 2, 3, and 4.	Partially take forward
05-Jul-18	CP244	This proposal seeks to amend the requirement for New (Joint) DSR Tests to avoid unnecessary tests of components unaffected by metering changes.	Partially take forward
05-Jul-18	CP247	This proposal would extend Secondary Trading Eligibility by adding acceptable transferees.	Take Forward
05-Jul-18	CP252	This proposal seeks to rationalise the number of certificates and declarations required to be submitted with a Prequalification application where the applicant is not the Legal Owner.	Partially take forward
05-Jul-18	CP253	This proposal seeks amendments to Rule 3.6.1 on previous Settlement Period performance for Existing Generating CMUs.	Partially take forward
05-Jul-18	CP256	This proposal would require each generating unit covered by the LCP BREF and that intends to bid for a Capacity Agreement to hold a permit stating that it will comply with the best available techniques.	Partially take forward
05-Jul-18	CP270	This proposal would require the Capacity Market Register to include information on the connection capacity, de-rated capacity and technology type for each component making up each generating CMU.	Take Forward (delayed implementation)
05-Jul-18	CP271	This proposal would require the Capacity Market Register to include information on the nature of the DSR provided, including a distinction between DSR capacity units that are and that are not supported by an on-site generating unit.	Take Forward (delayed implementation)
05-Jul-18	CP273	This proposal would amend the excess capacity volume for T-1 Auctions (currently set at 100MW) to mirror the levels for T-4 (1GW).	Take Forward
05-Jul-18	CP275	This proposal seeks to amend the punctuation of Rule 3.3.3(a) in order to clarify its meaning and its applicability	Take Forward
05-Jul-18	CP276	This proposal seeks to clarify the process of providing DSR Alternative Delivery Period data to NGET for the purposes of demonstrating a DSR CMU's capacity volume for Prequalification as a Proven DSR CMU.	Take Forward

05-Jul-18	CP279	This proposal seeks to clarify the definition of QMEij in Rule 8.5.2.	Take Forward (delayed implementation)
05-Jul-18	CP280	This proposal seeks to clarify the requirement for additional Satisfactory Performance Days.	Take Forward
05-Jul-18	CP285	This proposal seeks to rationalise the number of certificates and declarations required to be submitted with a Prequalification application.	Partially Take Forward
05-Jul-18	CP288	This proposal seeks to clarify the requirement to provide a VAT number at Prequalification.	Take Forward
05-Jul-18	CP289	This proposal seeks to clarify the Rules relating to a Capacity Obligation where a CMU includes more than one BMU/generating unit.	Take Forward (delayed implementation)
05-Jul-18	CP290	This proposal seeks to amend the Rules used to determine the output (Eij) of a Generating CMU in a System Stress Event.	Take Forward (delayed implementation)
05-Jul-18	CP293	This proposal seeks to remove the prohibition on Existing CMUs which opted out of the T-4 Auction from the T-1 Auction for the relevant Delivery Year.	Take Forward
05-Jul-18	CP300	This proposal seeks to amend the timescales to implement the metering test rectification plan to account for more complex issues.	Partially Take Forward
05-Jul-18	CP301	This proposal seeks to update Schedule 6 to assist Capacity Providers to complete the Metering Test process.	Take Forward
05-Jul-18	CP302	This proposal seeks to update the metering standards specified in Schedule 7.	Take Forward
05-Jul-18	CP304	This proposal seeks to clarify the Metering requirements for a CMU that is a subset of a BM Unit.	Take Forward
05-Jul-18	CP305	This proposal seeks to oblige Capacity Providers to permit ESC to visit generator offices and sites and provide information.	Partially Take Forward
05-Jul-18	CP307	This proposal seeks to clarify the requirement to submit a VAT number at Prequalification.	Take Forward
05-Jul-18	CP312	This proposal would normalise the schedule for construction reports.	Partially Take Forward
05-Jul-18	CP319	This proposal would amend Rule 3.4.1(g) to permit applicants to enter 'not applicable' on their application if they are not yet VAT registered.	Take Forward
05-Jul-18	CP320	This proposal would record the issue of a Meter Test Certificate for all CMUs, rather than just DSR.	Take Forward
05-Jul-18	CP321	This proposal would amend NGET's obligation to update the BETA value ( $\beta$ ) on the Capacity Market register 5 days after a System Stress Event.	Take Forward
05-Jul-18	CP323	This proposal would amend Rule 8.4.2(a) so that 'system' tagged Demand Control Instructions do not trigger a Capacity Market Notice.	Take Forward
05-Jul-18	CP325	This proposal would amend the schedule of construction plan submission and change the requirement to provide an ITE report to only if there has been a material change to progress.	Partially Take Forward
05-Jul-18	CP329	This proposal would ensure that a reduction in TEC caused solely by the failure of the System Operator to deliver a connection does not incur a Termination Fee.	Take Forward
05-Jul-18	CP330	This proposal would amend Rule 8.3.1 should to clarify that it also relates to the submission of letters from Private Network owners deferred under Rule 3.7.3(c).	Take Forward
05-Jul-18	CP334	This proposal would allow New Build CMUS to use a letter from a Private Network owner to Prequalify for a T-1 Auction.	Take Forward
05-Jul-18	CP338	This proposal would allow Capacity Providers of Distribution connected CMUs to aggregate CMRS CMUs as part of a CMU Portfolio for the purposes of Satisfactory Performance Days.	Take Forward
05-Jul-18	CP343	This proposal would allow recently commissioned, non-contracted, Existing CMUs to register for Secondary Trading once the plant has proven its ability to deliver capacity.	Take Forward
05-Jul-18	CP347	This proposal would allow an applicant to nominate a Connection Capacity equal to or less than the Average Highest Output of the Existing Generating CMU.	Partially Take Forward
05-Jul-18	CP348	This proposal would add an additional methodology to determine the Connection capacity of a CMU.	Partially Take Forward
05-Jul-18	OF12	DSR Component reallocation	Take Forward (delayed implementation)
05-Jul-18	OF13	Changes to the storage baseline formula	Take Forward

## Appendix 3- Abbreviation definitions

In order of appearance:

RIIO: Revenue, Incentives, Outputs

NGESO: National Grid Electricity System Operator

EMR: Electricity Market Reform

CfDs: Contract for Difference

CM: Capacity Market

DB: Delivery Body

IT: Information Technology

UM: Uncertainty Mechanism

BEIS: Department for Business Energy & Industrial Strategy

DECC: Department for Energy & Climate Change

OPEX: Operational Expenditure

CAPEX: Capital Expenditure

ESC: Electricity Settlements Company

## Appendix 4 – Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

### 1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### 3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

### 5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

### 6. Your personal data will not be sent overseas

### 7. Your personal data will not be used for any automated decision making.

### 8. Your personal data will be stored in a secure government IT system.

**9. More information** For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".