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Capacity Market Consultation Workshop

4 November 2013

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EMR Consultation on implementation proposals

- Published on 10 October 2013. Closes on 24 December 2013.
- Since the start of the EMR process, we have engaged closely with stakeholders:
  - Meetings with relevant trade associations, energy companies, consumer groups, investors and NGOs;
  - Key industry events;
  - EMR Expert Groups to discuss key aspects of the CM policy design;
  - Collaborative Development meetings.
- During the consultation period, we are holding a series of events/workshops in addition to our ongoing engagements.
- Today's workshop is the first of these events!

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Capacity Market: timeline

Energy Bill currently in the House of Lords.	Consultation on implementing legislation	Implementing legislation in force	Pre-qualification for first auction	Pre-qualification appeals	First auction	First delivery year starts
Royal Assent before end-2013	Oct – Dec 2013	July 2014	April – July 2014	Oct 2014	Nov 2014	Oct 2018

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Why we are here today

Today's Workshop is an opportunity:

- for YOU to gain a greater understanding of the scope and contents of the consultation;
- for US to hear your concerns and directly capture feedback.

We'll cover six key aspects of the CM design.

We aim to have an open, transparent and fruitful discussion.

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Amount of Capacity to Contract

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Summary

Sets out the amount of capacity to contract as well as the demand curve.

Provides guidance on the tradeoff between the cost to consumers and the reliability of the system.

Intended to provide certainty to investors.

Reliability Standard consulted on in EMR draft delivery plan. This is intended to guide the amount of capacity to contract.

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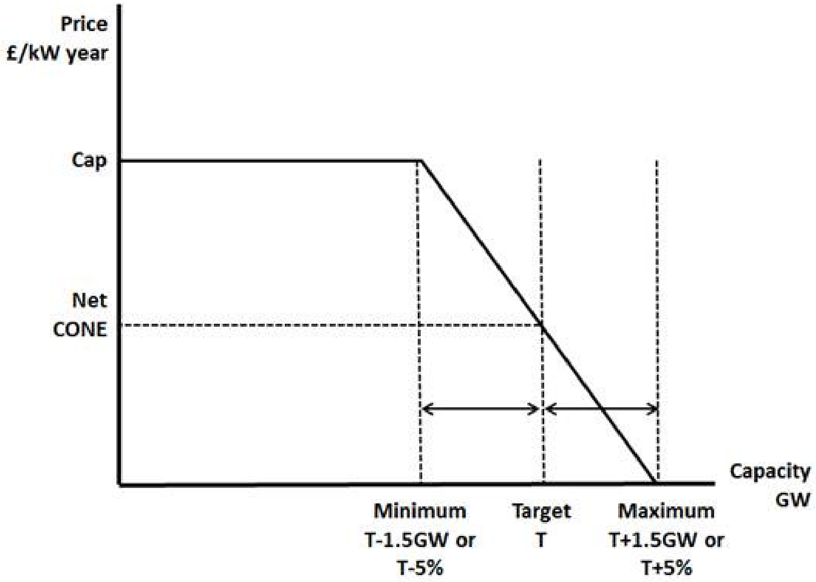
Demand Curve

Illustrative Demand Curve



Secretary of State will publish key auction parameters related to the demand curve prior to the auction:

Target Volume

Price Cap *(£44-75)*

Net CONE *(£29)*

Permissible range around the Target *(T +/- 1.5GW)*

Target Capacity

The intention is that this is as mechanistic a process as possible.

National Grid to provide an assessment to DECC of the amount of capacity required based on analysis of different possible scenarios.

Industry will feed into Grid's analysis through the Future Energy Scenarios work.

The current obligation on Ofgem to provide a Capacity Assessment will be removed in order to make the roles and responsibilities clear.

Panel of Technical Experts to review the assumptions, models and methodology used.

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Auction Price Cap

Price cap needs to balance consumer protection while ensuring maximum participation

Two options for the price cap:

1) 1.5 x Net CONE = £44/kW where Net CONE = Gross CONE – Scarcity rents

2) Administratively set at around £75/kW

Option 2 based on industry feedback that Net CONE was too low to incentivise new investment.

For subsequent auctions we propose that evidence from the initial capacity auctions will inform the estimate of Gross and Net CONE and the price cap.

Indexing

Capacity payments to be indexed to the Consumer Price Index from delivery year to the end of the contract

For T-1 and T-4 auctions, price parameters to be uprated in line with forecast inflation.

Questions

Number	Question
CM01	What are you views with the proposed delivery year (1 October to 30 September)?
CM02	What are your views with the proposed approach for setting the amount to contract in each Capacity Market auction is appropriate?
CM03	Do you think the proposed value for net-CONE (£29/kW per year) and the proposed auction price cap (1.5 * net-CONE) are appropriate for the first auction? If not, do you think that the proposal for a transitional price cap of around £75/kW is appropriate to allow for a wider range of projects to set the price in the first auction(s)?
CM04	Do you think that the price of new entrant bids in the auction should inform the net-CONE set in subsequent auctions?
CM05	What are your views on the proposed approach to indexing capacity payments and penalties?
CM06	Do you have any further comments on aspects of the design described in this sub-section?
CM07	Do you have any comments on Parts 2 and 3, and Chapters 1 and 2 in Part 4 of the regulations for implementing proposals for setting the amount of capacity to auction?

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Eligibility and Pre-Qualification

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Summary

i. Eligibility

ii. Pre-qualification criteria

iii. Concept of a Capacity Market Unit (CMU)

iv. Applicants and portfolios

v. Pre-qualification timeline for 2014

- Overarching objective of the pre-qualification stage is to remove any complications which could otherwise prevent the effective operation of a price based capacity auction

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Eligibility

Eligible ✓	Ineligible X
New and existing generation (inc. CHP) Demand response (inc. embedded generation) Electricity storage	Capacity receiving low carbon support (e.g. CfD, RO) Participants in UK's CCS commercialisation programme Interconnected non-GB capacity and interconnectors (for 2014 auction) Capacity below 2MW (may aggregate to qualify)

- Pre-qualification stage – confirms eligibility and bidding status of applicants
- All licenced generators must pre-qualify. Demand curve adjusted for such plant which states it will remain operational for the delivery year
- De-rating ranges will be set for each capacity type. Applicants may choose their level of risk by selecting their de-rating factor within the range
- Existing plants wishing to bid above a low threshold must provide justification

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Pre-qualification Criteria

Requirements vary depending on unit's status:

i. Existing generating unit
ii. Prospective generating unit
iii. Proven Customer Demand Response (CDR)
iv. Unproven CDR
v. Opt out

Requirement	Existing generating unit	Prospective generating unit	Proven CDR unit	Unproven CDR unit	Opting out
General administrative details (e.g. name, contact details & CMU identity)	X	X	X	X	X (abridged)
Solvency certificate[135]	X	X	X	X	
Legal status & portfolio structure	X	X	X	X	X
Classification of CMU	X	X	X	X	X
Low carbon exclusion status	X	X	X	X	
Ethical conduct declaration	X	X	X	X	X
De-rating factor & connection/CDR capacity	X	X	X	X	X (connection capacity only)
Connection/distribution agreement	X	X (includes distribution offers)			
Evidence of historic performance	X				
Grid Code compliance (or commitment to be compliant)	X	X (refurbishing units only)			
Planning consent (if relevant)		X			
Construction milestone plan		X			
Collateral/ bid bond		X (not for refurbishing units)		X	
Business model (e.g. type of CDR, relationship, procurement strategy)			X	X	
CDR test certificate or test information			X		
Commitment to undergo CDR test				X	
Operational status in delivery year & reasons for statement					X

Note: a refurbishing CMU is one which meets the criteria for **both** existing and prospective generating units

Concept of CMU; unit of participation in the CM

Generating CMUs

- 1/ CMRS* Transmission CMU
- 2/ CMRS* Distribution CMU
- 3/ Non CMRS* CMU
- 4/ Customer Demand Response CMU

DSR CMUs (3/ and 4/)

Planned Capex

>£250/kW	Term length up to 10 years
>£125/kW	Up to 3 years
<£125/kW	1 year

* CMRS – Central Meter Registration Service

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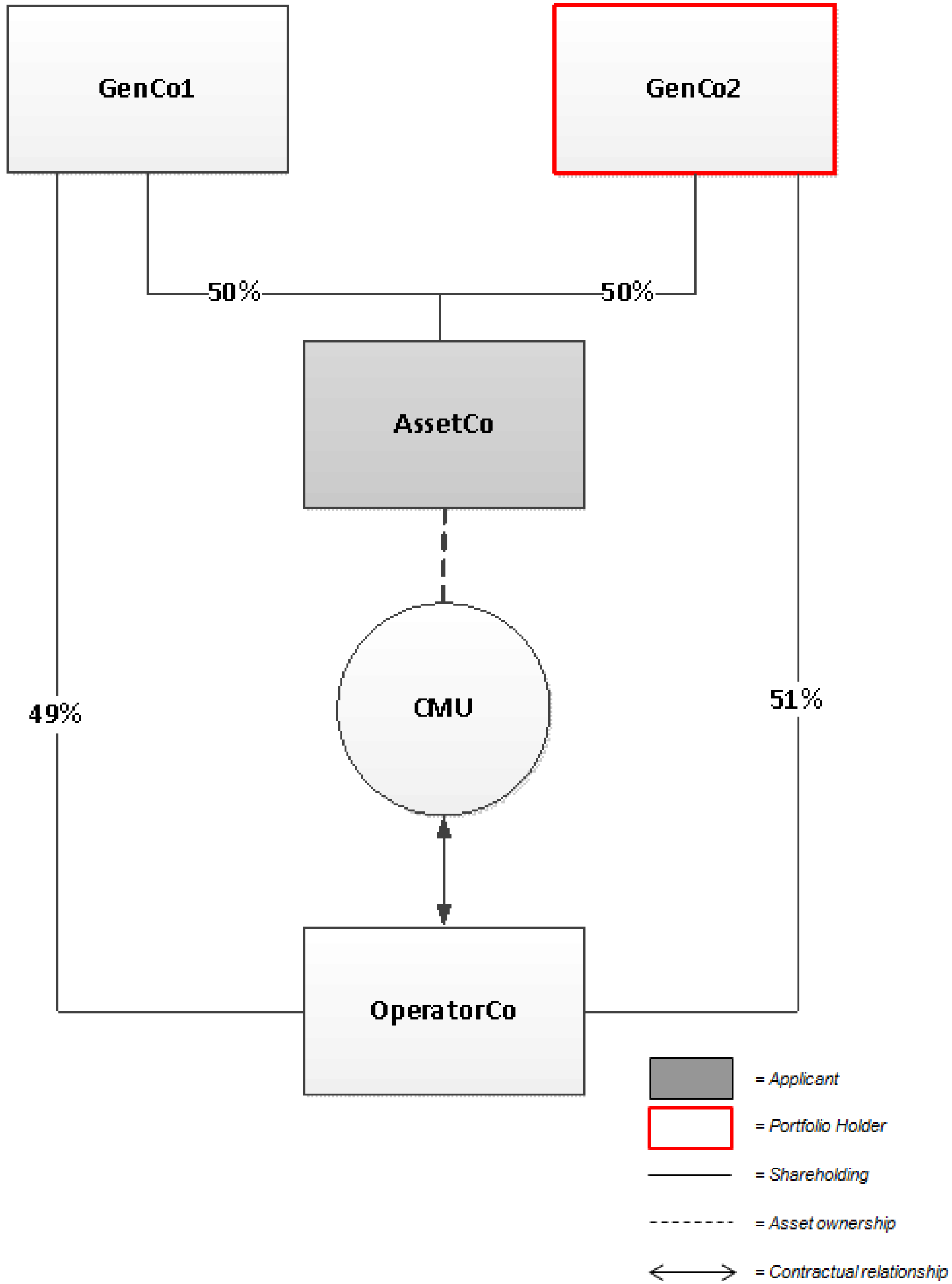
Applicant & Portfolio Holder

- Pre-qualification submissions are responsibility of **applicants**:
  - ❑ Legal owner with despatch control for generator units
  - ❑ CDR provider
- Identity of **Portfolio Holder** determined by hierarchical test based around control and decisive influence over the applicant
- Nomination of **Portfolio Adjustment Payer**



Pre-qualification timeline (2014)

- Mid July – Pre-qualification window opens (for two weeks)
- End July – Assessment of pre-qualification applications (six weeks)
- Early September – Pre-qualification results day
- Mid September – Posting & verification of credit support for conditionally pre-qualified units. Lodging of any appeals
- Late September – Publication of updated Auction Parameters and confirmation of conditionally pre-qualified units that have fully qualified
- Late October – 'Post appeals' publication, update of Auction Parameters and reconfirmation of T-4 volume to contract
- Early November – Notification of Price Maker decision to Delivery Body
- Mid November - Auction

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Questions

Number	Question
CM08	Do you think the proposed limitations on eligibility for participating in the Capacity Market are appropriate? For example, do they give rise to particular issues for any technology type?
CM10	What are your views on the approach to pre-qualification, including the submission criteria, time allowed for the process and the deadlines industry will be required to meet?
CM11	Are you aware of other ownership/legal structure arrangements that should be accommodated in the definition of applicants able to register for pre-qualification? If so please provide details.
CM12	• Do you think the proposed methodology for de-rating capacity, and the proposed range, is robust? • What are your views on the proposals for the auction to credit units at the fuel-type average availability level, rather than the unit's selected de-rating figure?
CM13	Do you think the level and type of collateral requirements for new build plants are appropriate?
CM14	Do you have any comments on the proposed process for dealing with pre-qualification disputes?

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Auction – Frequency and Format

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Summary

- This section covers how the auction works
  - Participation of new, existing and refurbishing plant
  - Mechanics of how the descending clock works
  - How the auction results are validated

- Objectives of the auction are:
  - Have clear and mechanistic rules
  - Allow competition and price discovery for value of capacity
  - Ensure sufficient mitigation of gaming risks
  - Balance need to reduce risk for new build with need for auction that is simple and fair to existing plant

Participation of new and existing plant

- Existing plant eligible to participate in CM but assumed to be price taker unless providing justification for needing to bid a higher level
  - Proposal to set threshold at 50% of Net CONE (i.e. £15/kW)
- Only new or refurbishing plant will be eligible for multi-year agreements
  - Status determined by level of capital expenditure incurred - £125/kW year for refurbishing plant and £250/kW for new
- Choice of agreement length seeks to balance reducing financing costs for new build with not locking consumers into potentially higher prices than necessary
  - Current proposal is for agreements of up to 10 years for new; 3 for refurbishment; and for offers to be assessed on price alone
  - We are inviting views on whether this is appropriate or whether to consider agreements of up to 25 years, and assessing on agreement length as well as price

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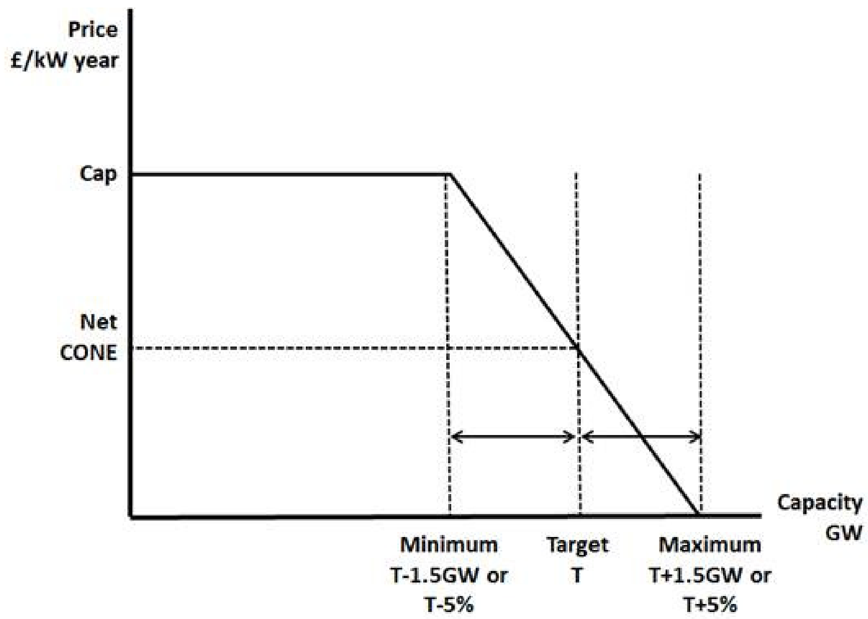
Auction Parameters

Secretary of State will publish key auction parameters prior to auction:

- **Target Volume**
- **Net CONE** *(£29)*
- **Price Cap** *(£44-75)*
- **Permissible range around the Target** *(T +/- 1.5GW)*
- **Price taker threshold** *(£15)*
- **Minimum participation in first round of auction** *(T+1.5GW)*



Auction Format

- Auction format is Pay-as-Clear with a Descending Clock
- First round is at the price cap:
  - Parties indicate they are willing to participate
  - Parties eligible for longer agreements indicate what length they prefer
- In each subsequent round, parties confirm continued willingness to offer capacity
  - Parties indicate an “exit price” when they leave auction
  - Price-takers may not exit until price has fallen below price taker threshold
  - Existing plant eligible for long term agreements may re-enter auction for one-year agreement
- Auction continues until Demand exceeds Supply
- Clearing price set at price of most expensive unit accepted
- Offers chosen based on price, but shorter agreements preferred in tiebreaker
- Where supply is “lumpy,” algorithm applied to establish efficient amount to buy

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Conclusions

- Auction process purely mechanistic
- Maximum auction length of a week (but should be done in a day if possible)
- Auction Monitor provides report that auction rules have been followed
- Results of auction confirmed in following process:
  - SO indicates to participants provisional result – i.e. clearing price and whether they were successful – within a day
  - SoS may choose to annul auction result within 7 business days from conclusion of auction if there are reasonable grounds to suspect an irregularity in the auction affecting the outcome.
  - SO publishes final results within 8 business days

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Questions on Auctions

Number	Question
CM17	What are your views on the proposal for price takers and price makers? What is the lowest price taker threshold that should enable the most existing plant to participate in the auction without needing to qualify as a price maker?

CM18	• Do you agree that that the relevant considerations to be taken into account when setting the capacity agreement length for new plant are the extent to which:
	  • long term capacity agreements can reduce financing costs;
	  • investors in new plant value capacity prices beyond the term of their capacity agreement;
	  • long term capacity agreements risk locking in volumes of capacity which is not needed;
	  • long term capacity agreements risk locking in high prices;
	  • long term capacity agreements impact the ability of existing plant on one year contracts to compete?
	• Are there other considerations which should or must be taken into account?

CM19	• What do you consider to be the appropriate maximum agreement lengths for new, refurbishing and existing capacity?
CM20	• Do you think financial thresholds are appropriate for distinguishing between new and refurbishing plants? • Do you think the proposed levels of the thresholds are appropriate? • Do you have any views on the type of refurbishments likely to require a longer term agreement? What scale of investment would these plants be making?
CM21	• Is a ‘price only’ (i.e. selected on price alone, irrespective of the length of agreement) or a dual auction comparing bids for around 10 and 25 years more appropriate? If the latter, how should the preference be established?

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Questions on Validating Auctions

Number	Question
CM24	• Under what circumstances would it be appropriate to cancel holding an auction or to reject its results?
CM25	• Should the Capacity Market create requirements for participants to bid fairly and to not engage in collusion or market manipulation? • Do you have any comments on the proposed definitions of collusion and market manipulation in the Capacity Market Rules? • Do you think that participants should have to sign up to a Certificate of Ethical Conduct in order to sign up to the auction? • Do you think there are any potential gaps in existing competition powers that need to be addressed to ensure that Ofgem can ensure competition in the Capacity Market?
CM26	• What are your views on which party should act as auction monitor and what should be the scope of their role?

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Delivery

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Summary

What this covers:

How delivery incentives are applied to capacity providers including:

- Key principles of the delivery incentives through a stress event
- How a stress event is defined
- How performance is measured
- How incentives are capped and the interactions with portfolios

What we are seeking to achieve

- A regime that incentivises capacity providers to deliver through stress events in the most co-ordinated manner, while appropriately mitigating the risks that such incentives introduce.

Key Principles

- The Capacity Market operates on the basis of a Delivered Energy model
  - All Capacity Providers must ensure that they deliver energy at least to the level of their capacity obligation through a stress event
- Capacity obligations through a stress event are affected or altered by
  - The Issue of a CM Warning Notification
  - The electrical demand through the stress event
  - The provision of balancing services to the system operator
- Deviations from a capacity obligation during a stress event triggers delivery incentives:

Real Time Capacity Obligation

Metered output **above** the real-time capacity obligation: CMU eligible for "**over-delivery payments**"

$$\left(\frac{\textbf{Revenue from Penalties}}{\textbf{Total Over–Delivery Volume}}\right)$$

Metered output **below** the real-time capacity obligation: CMU eligible for "penalty payments"

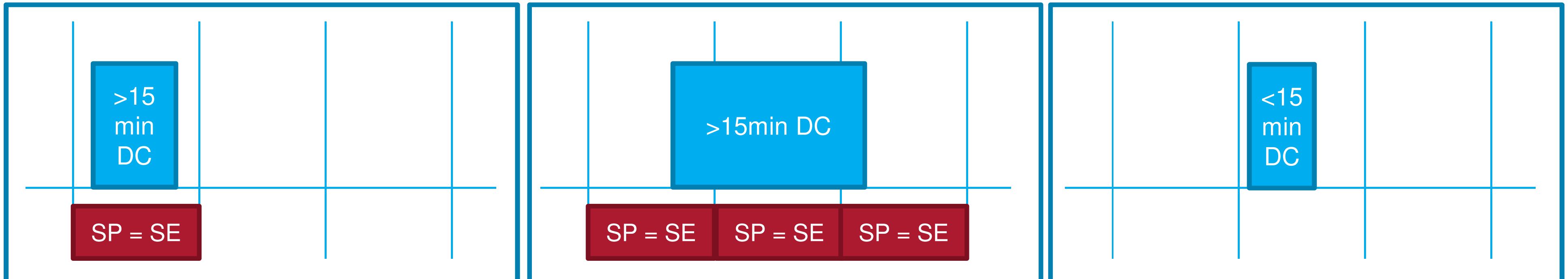
If impacted by cash-out:
Z*VOLL – Cash Out
If not:
Z*VOLL

- Penalty Payments are capped

What is a "Stress Event"

- A Stress event is:

  "a Settlement Period in which a System Operator Instigated Demand Control Event occurs where such event lasts at least 15 continuous minutes…"



Scenario 1: Demand Control in single settlement period

Scenario 2: Demand Control across multiple settlement periods

Scenario 3: Demand Control does not result in Stress Event

- 27 May 2008: Demand Control across 14 settlement periods
- 11 February 2012: Demand Control across 4 settlement periods

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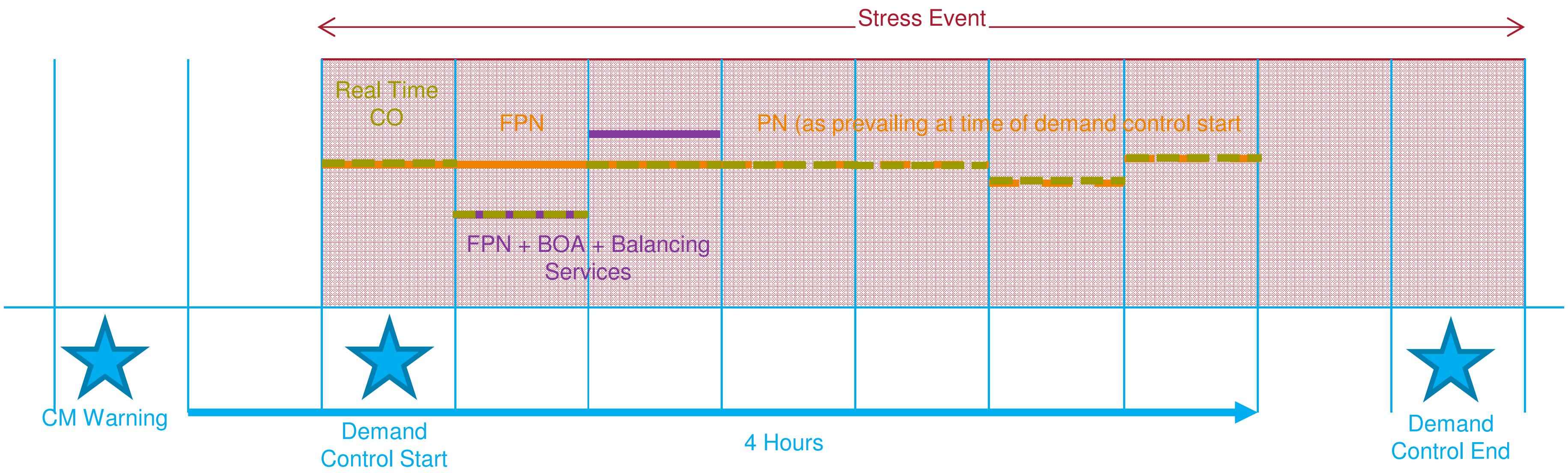
Adjusted Load Following Obligation

<u>Scenario 1: During Stress Event but **within** 4 hours of issue of CM warning</u>

FPN (PN) adjusted for System Operator Actions (Bids, Offers, Balancing Services Instructions etc) used as the Adjusted Load Following Obligation)



Exceptions

- No requirement to deliver where System Stress Event conditions are not met:
  - e.g. load shedding results from failures/deficiencies in the Transmission System or a Distribution network
  - e.g. volume of BOAs or emergency instructions to reduce output exceeds volume of load shed
- No requirement to deliver where stress conditions are met but electricity market has been suspended under Section G (contingencies) of the BSC
- No requirement to deliver where System Stress Event conditions are met but no CM warning is published
  - A CM Warning is issued by the System Operator according to a fixed and pre-defined method
  - It is similar to a "Notice of Insufficient System Margin" or "NISM" but with no discretion afforded to the System Operator when issuing it

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Adjusted Load Following Obligation

Scenario 2: During Stress Event but **after** 4 hours of issue of CM warning

Adjusted Load Following Capacity Obligation calculated as follows

Step 1: Adjust Auction Capacity Obligation to be "load following"

Capacity Obligation determined in the auction is based upon a peak electrical demand and assumptions on the output of non-CM plant.

Calculation therefore pro-rates the capacity obligation to reflect electrical demand at time of stress and the actual output of non-CM plant

Step 2: Adjust "Load Following Capacity Obligation" to account for delivery of balancing services or "sterilisation" of capacity by the same

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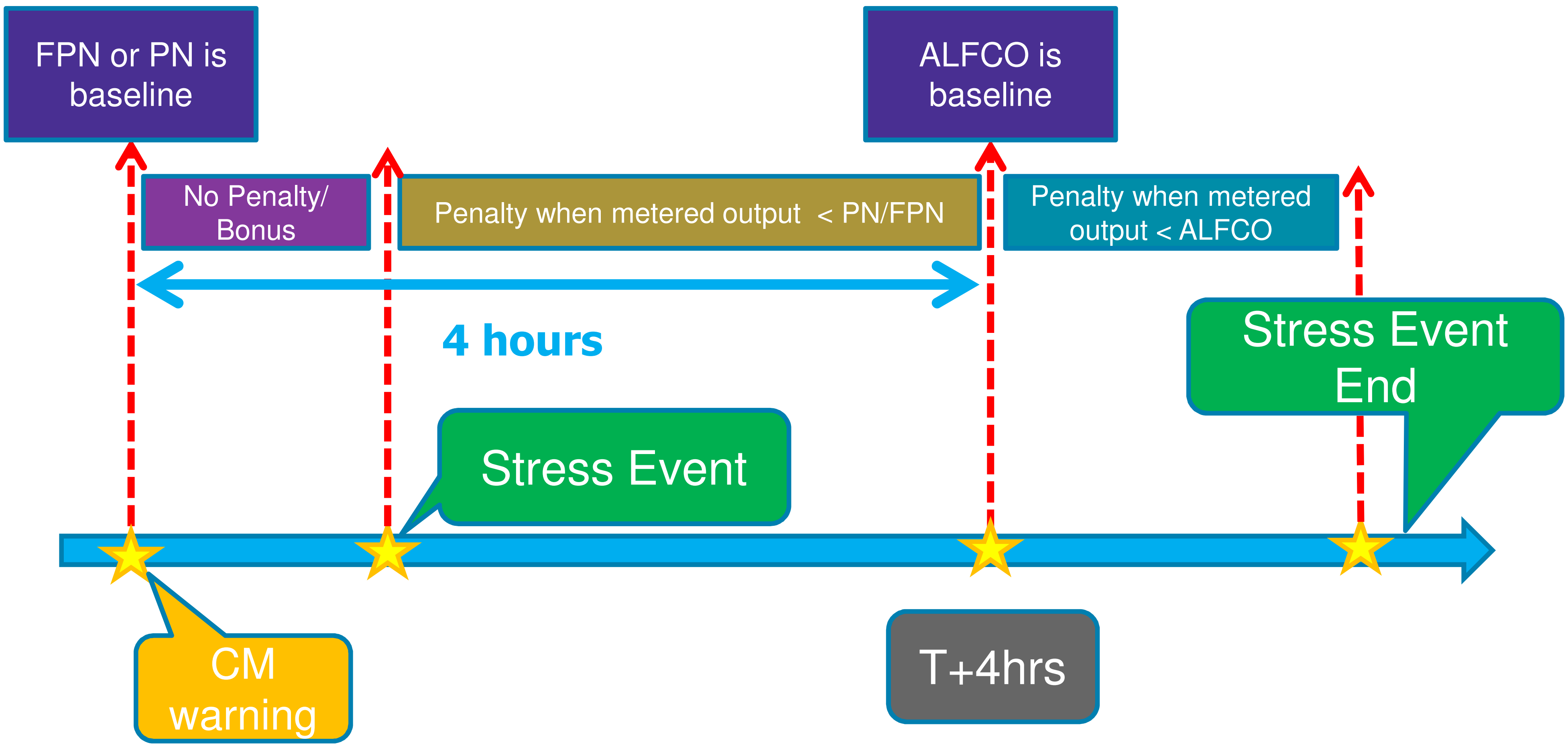
Putting it all together…



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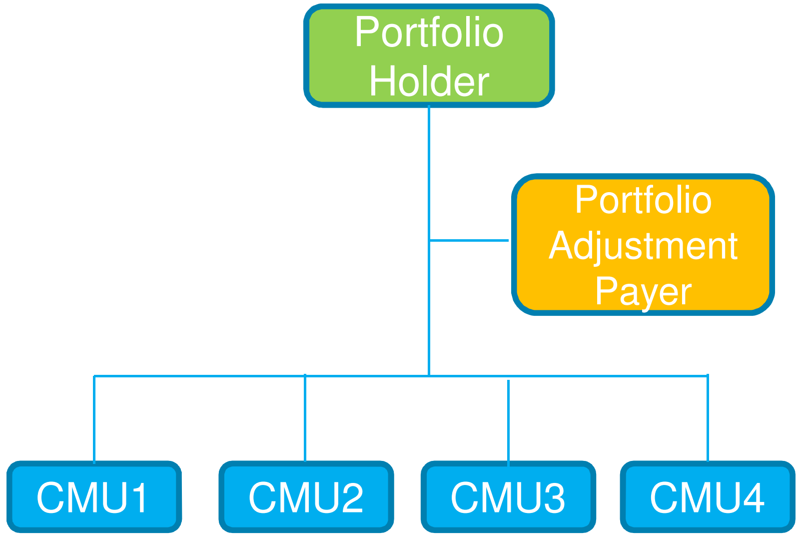
Delivery: Portfolios and Penalty Caps

- Penalty applied and capped at both the unit and the portfolio level
- Annual Penalty Cap [101-150% of auction clearing price x obligation]
- Soft Cumulative Cap provides continual incentives to deliver throughout year
- Both caps apply at the individual CMU and portfolio level
- <u>**Portfolio Adjustment Payer**</u> liable for difference between aggregated CMU caps and portfolio cap



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Questions

Number	Question
CM33	Do you agree that liability for penalties should be conditional on the issue of a Capacity Market warning? If so, is the proposed four-hour period appropriate?
CM34	Do you think the proposed penalties applicable for non-delivery both more than and less than four hours after a Capacity Market warning are appropriate?
CM35	Do you think that a penalty cap of between 101 – 150% of a unit's annual capacity payments achieves an appropriate balance of consumer value for money, delivery incentives and investability?
CM36	Do you agree with the proposal that penalty caps should be determined at the portfolio level? If so, do you agree with the approach for determining portfolio structure?
CM37	Do you think that the proposal to apply different penalty rates to units depending on their balancing mechanism status is appropriate and offers value for money to consumers?
CM38	Do you think that over delivery payments are an important design feature for providing efficient despatch incentives and facilitating secondary trading?
CM39	What are your views on the proposals for identifying and spot testing participants' ability to deliver when needed?
CM40	Do you think the proposed treatment of 'force majeure' events is appropriate and offers value for money to consumers?
CM41	Do you have any further comments on aspects of the design described in this sub-section?
CM42	Do you have any comments on Chapters 7, 9, 11, 13 and 14 of the Capacity Market Rules for implementing the proposed obligations and penalties?

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Payment

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Summary

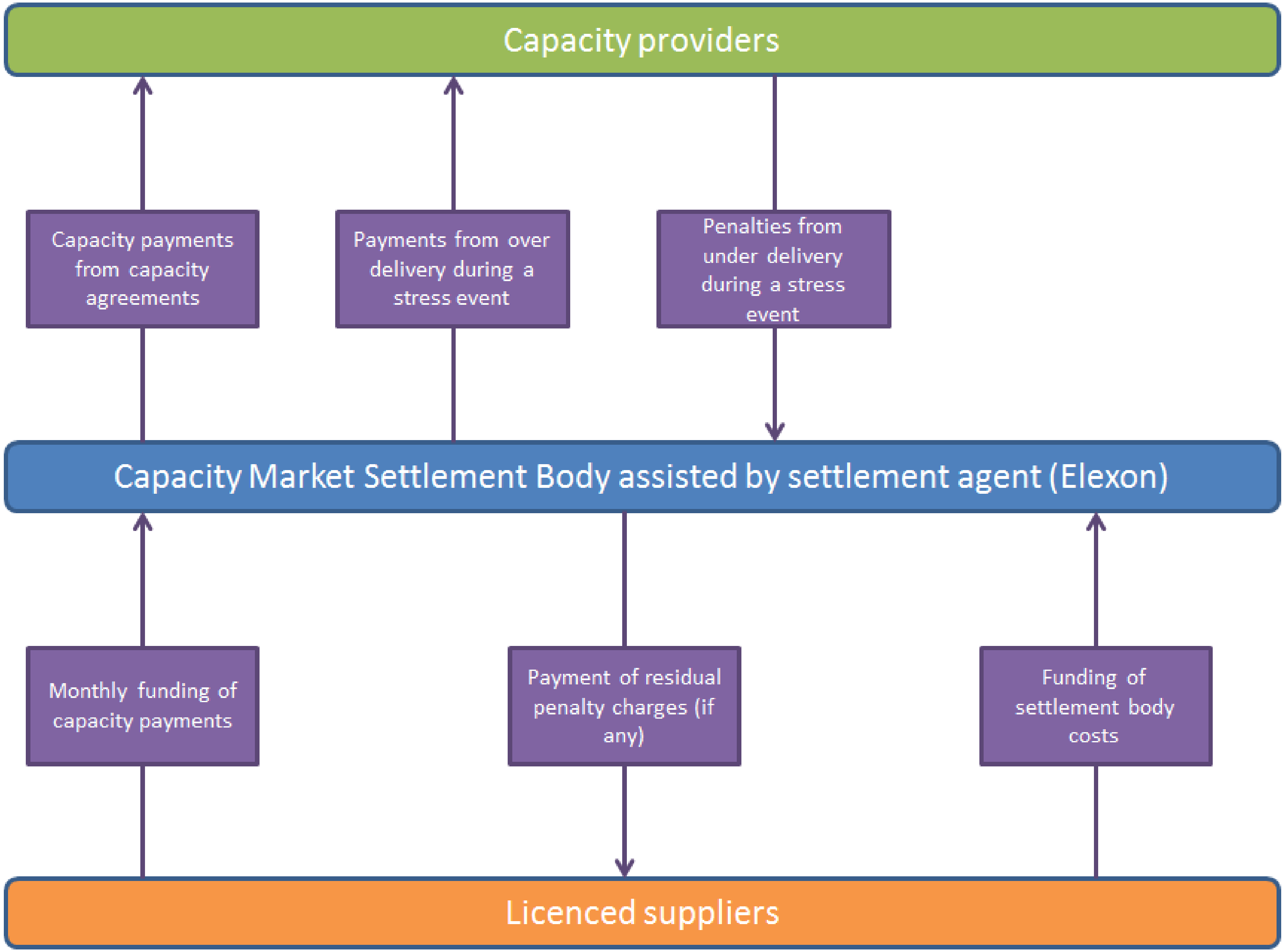
What this covers:

The process and timelines for collecting Capacity Market charges/penalties and making payments, and associated the Governance arrangements.

What we are seeking to achieve

- A payment model that builds on existing BSC processes where possible, but adapts these where necessary to support Capacity Market design & intent
- Certainty and security of payments to capacity providers whilst avoiding unnecessary/excessive credit requirements
- Balancing payments in with payments out and avoiding need for holding of centralised ‘buffer’ funds
- Encourage demand reduction by linking supplier charge to peak demand.

High-level Payment Flows



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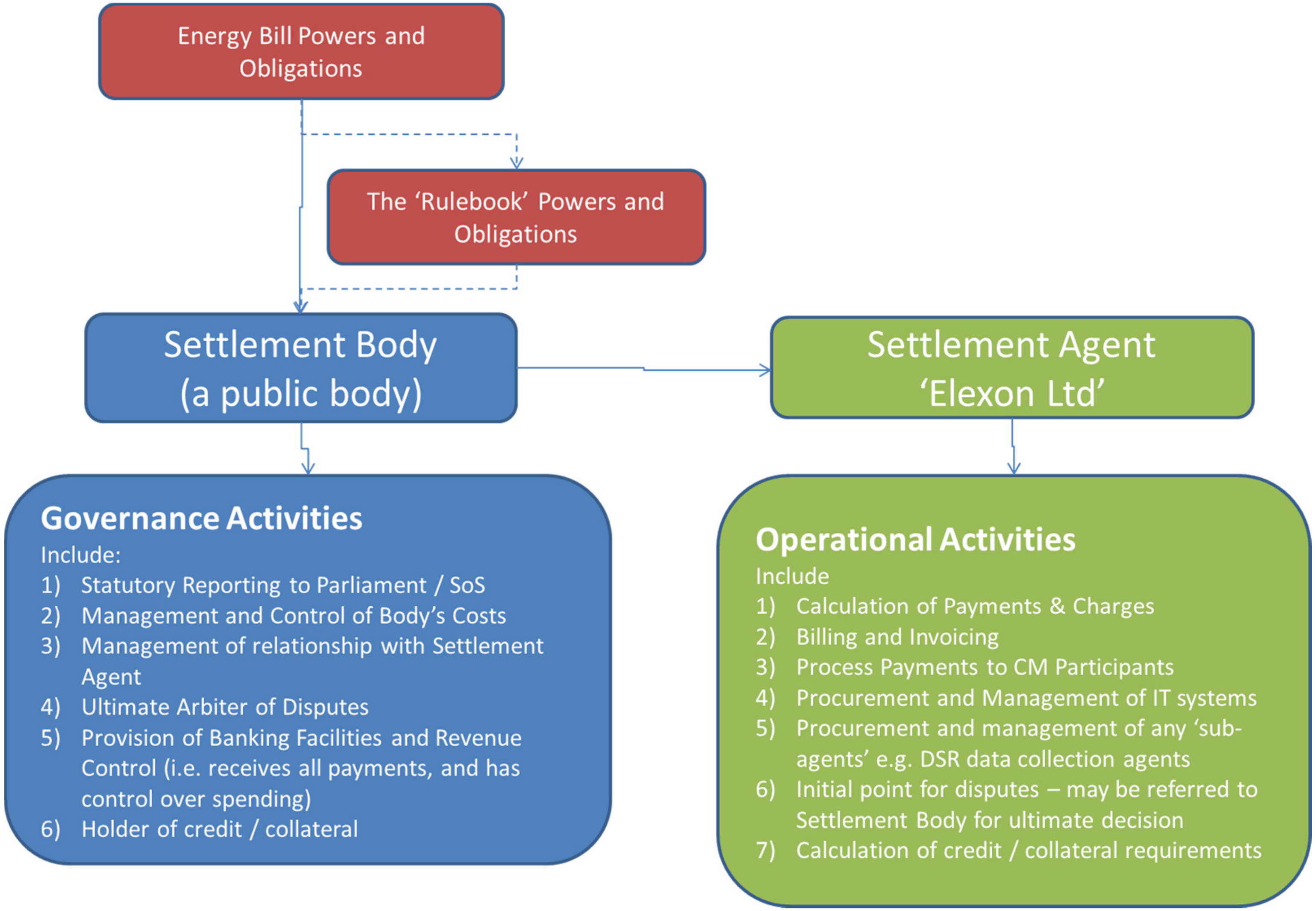
Settlement body & agent roles

Note: Settlement Body is a Government-owned company which is a sister-company to the CfD counterparty body but legally separate



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Charges and payments

Charge/payment	Key points
Capacity Market supplier charge	Based on suppliers' forecast share of winter peak demand then reconciled. Secured with credit & then mutualised if not paid.
Capacity Provider payments	As above, there are robust backstops to ensure payment. Payments can be withheld in the event of unpaid penalties
Capacity Provider penalty charges	For under-performance against a provider's capacity obligations during a stress event. Unsecured. Pays for over-delivery.
Capacity provider over delivery payment	For over-performance against provider's capacity obligations during a stress event. Rate equal to penalty rate, & the amount distributed is limited by the amount collected in penalties
Penalty residual supplier amount	Where not zero, any penalties not paid out as over-delivery payments are paid back to licenced suppliers.
Settlement body costs	Charge to suppliers – consulted on and set out annually in advance - for settlement body (and agent's) costs.

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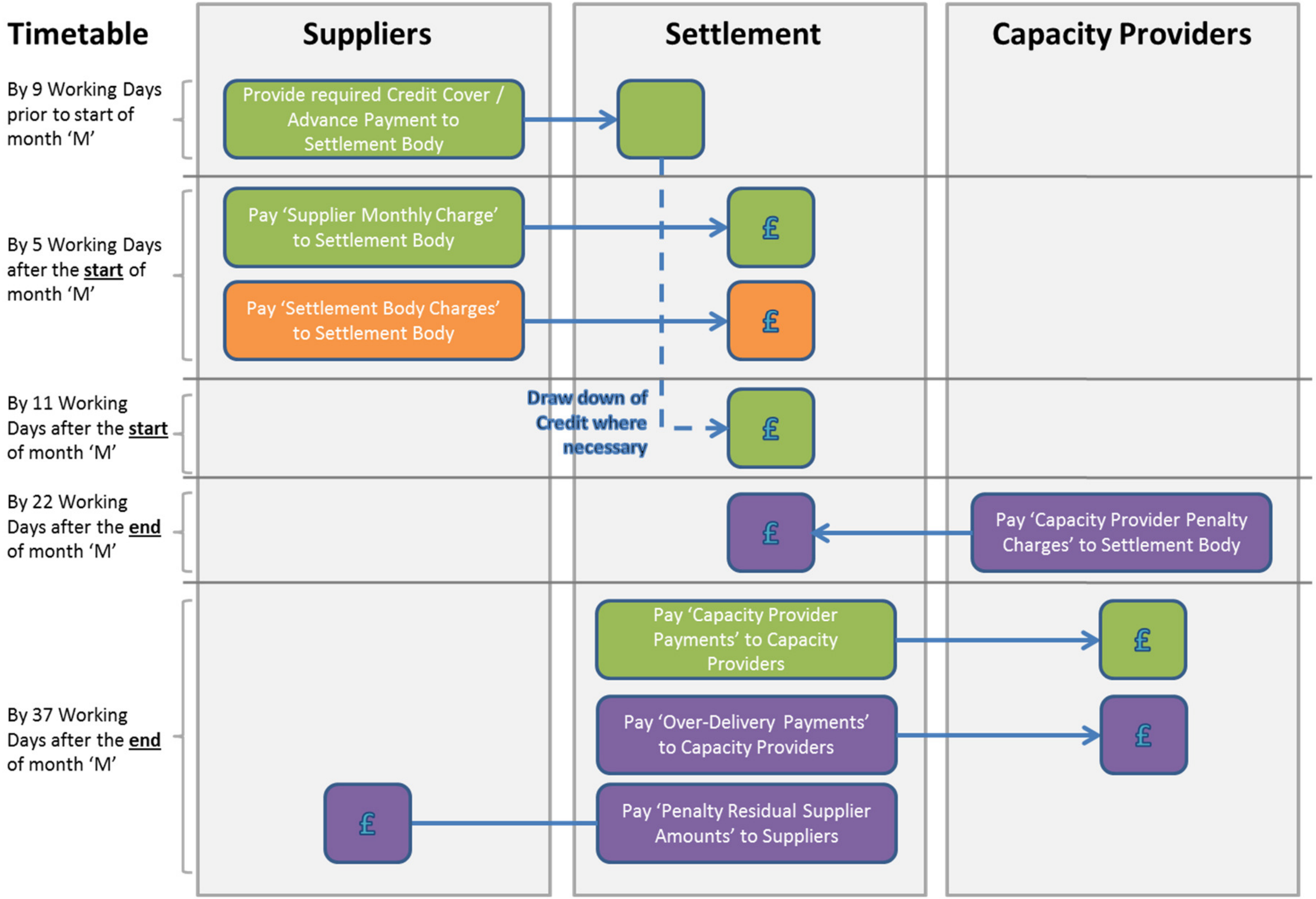
Settlement timetable



Reconciliation at least after 85, 155 and 293 working days

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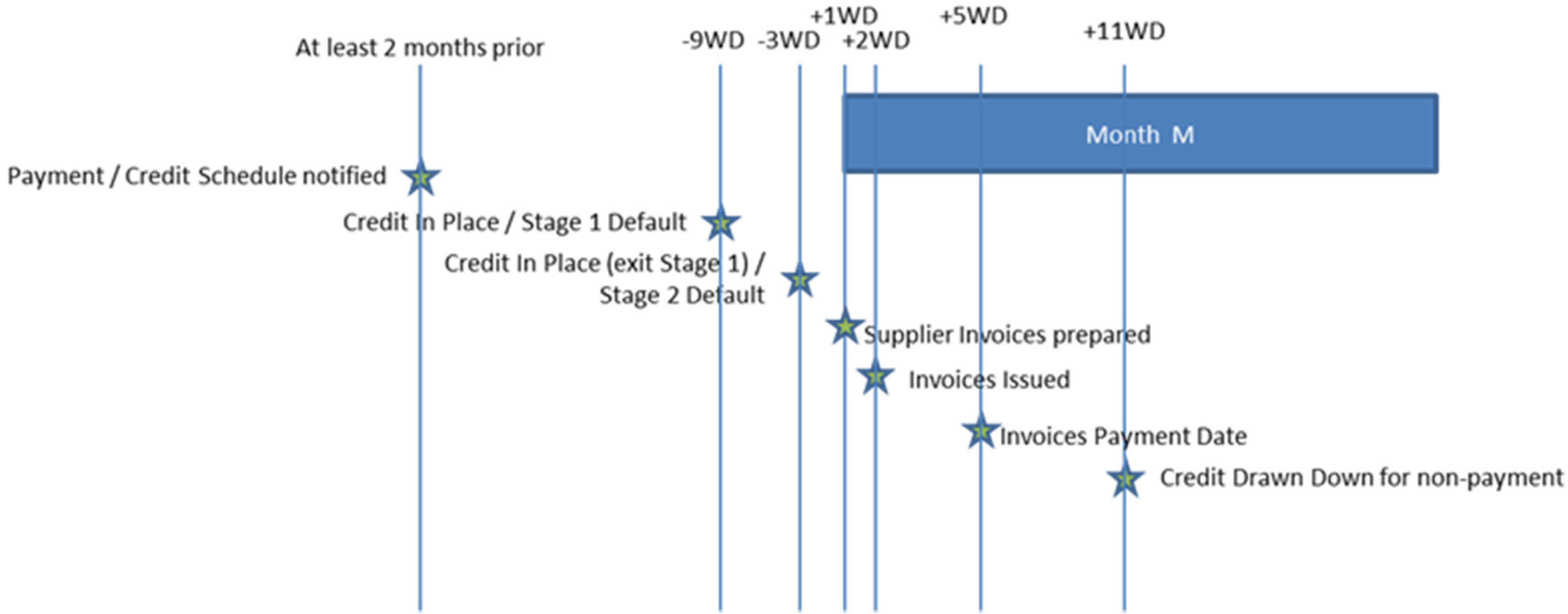
Supplier credit



<u>Forms of Credit:</u>
- Letter of collateral or bank guarantee from suitable bank
- Cash in ESCROW acc.

- Credit posted should be equal to 110% of the month's charge
- Draft regs require **100%** of collateral to be in place or supplier is suspended following stage 2 default and all of its outstanding charges mutualised

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Questions on calculating charges and payments

Number	Question
CM53	Do you have any comments on the charges being calculated for the purposes of Capacity Market settlement?
CM54	Given the Government's objective to link the costs of the Capacity Market with the drivers of those costs, and the desire to facilitate demand side participation in the Capacity Market, are you aware of an alternative to the peak charging methodology that might better meet those objectives?
CM55	Do you believe that any contribution from DSR CMUs should be excluded from suppliers' market share calculations, and if so what is the best method of doing this?
CM56	Do you have any comments on Chapters 5, 6 and 7 of the payment regulations covering calculating charges and payments?

Questions on data systems and data collections

Number	Question
CM57	Do you have any comments on the data to be collected for the purposes of Capacity Market settlement (including whether all appropriate data flows been captured accurately)?
CM58	Do you have any comments on Chapter 4 of the payment regulations on the provision of data?

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Questions on invoicing, banking and payments

Number	Question
CM59	Do you have any comments on the settlement timetable?
CM60	Do you have any views on the proposal to delay payment of penalties and over delivery payments pending the outcome of any disputes
CM61	Do you think sufficient time is allowed for payments to be made once invoiced, given the fact that a forecast of monthly costs will have been provided in advance of the delivery year as part of the credit cover process?
CM62	Do you have any comments on the differences between payment timings proposed within the Capacity Market and those proposed for CfDs?
CM63	Do you have any comments on Chapters 6 and 7 of the payment regulations regarding invoicing, banking and payment?
CM64	Do you have any comments on the size of credit cover being requested?
CM65	Do you agree with the form of credit cover being cash or a letter of collateral, if not what alternatives would you recommend?
CM66	Noting that suppliers' credit cover amounts are based upon suppliers' own demand forecasts do you feel additional checks or controls on such forecasts are required?
CM67	Do you feel the current credit cover default provisions are appropriate?
CM68	Do you have any comments on Chapters 5 and 8 of the payment regulations with regards collateral requirements?

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Questions on settlement disputes

Number	Question
CM69	Do you have any comments on the process for the review of Capacity Market settlement disputes? Should there be specific provision for enforcement of obligations on the settlement body?
CM70	Do you have any comments on Chapter 10 of the payment regulations on settlement dispute resolution?

Questions on reconciliation

Number	Question
CM71	Do you have any comments on the timing or the approach to reconciliation? Should this be more or less frequent?
CM72	Do you have any comments on Chapter 11 of the payment regulations on reconciliation?

Questions on governance

Number	Question
CM73	Do you have any comments on the proposed governance arrangements for the Capacity Market Settlement Body and settlement agent?
CM74	Do you have any comments on the methods through which the costs of the settlement body and its agent will be controlled and levied?
CM75	Do you have any further comments on any aspects of Capacity Market settlement not covered in your responses to previous questions?

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Trading

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Secondary Trading

Two types of trading envisaged:

Financial Trading

Between parties with obligations seeking to manage liabilities outside of times of peak when not all capacity is needed.

Physical Trading

Where a party cannot provide capacity – e.g. due to permanent closure or delay in construction – and a plant without an obligation can step in.

Financial trading left to parties to manage privately

Physical trading subject to rules

Most trading expected to be financial; physical trading only allowed/expected in exceptional circumstances

Financial Hedging

Hedging is important to allow parties to manage risk of penalties outside of peak

Load following obligation means providers required to deliver less outside of peak

If an event occurs outside of peak, providers delivering their derated capacity will be rewarded with overdelivery payments

Creates incentive for efficient hedging of risk:

- Party A takes maintenance in June; Party B expects to run
- LFO for June is 50%
- So Party A pays Party B a stable capacity payment; in exchange Party B pays out to Party A if an event occurs

SO continues to pay and collect penalties according to original obligations, but parties have privately managed risk of exposure at times when they are unavailable

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Physical Secondary Trading

Physical trading subject to rules:

- Trading can be from a year ahead of a delivery year and throughout a delivery year
- Parties taking on obligations must be qualified and unencumbered. Can be plant that was unsuccessful in auction or new build that commissioned early.
- Trading must be in multiples of calendar days, subject to de minimis thresholds
- Plant with capacity obligations acquired through an auction, opted out plant or retiring plant will <u>not be able</u> to take on additional obligations

Where physical trade occurs, SO pays and hold liable the party taking on the obligation.

Historic penalty liabilities will not transfer with physical trades – remain with the party that incurred the original penalty

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Questions on Secondary Trading

Number	Question
CM30	• Do you have any comments on the proposed provisions for secondary trading of capacity? Are there any better approaches? • Do you consider there are additional measures or design changes that the Government can take to facilitate a liquid hedging market around penalties for under-delivery?
CM32	Do you have any comments on Chapters 7 and 9 of the Capacity Market Rules for implementing proposals for secondary trading?

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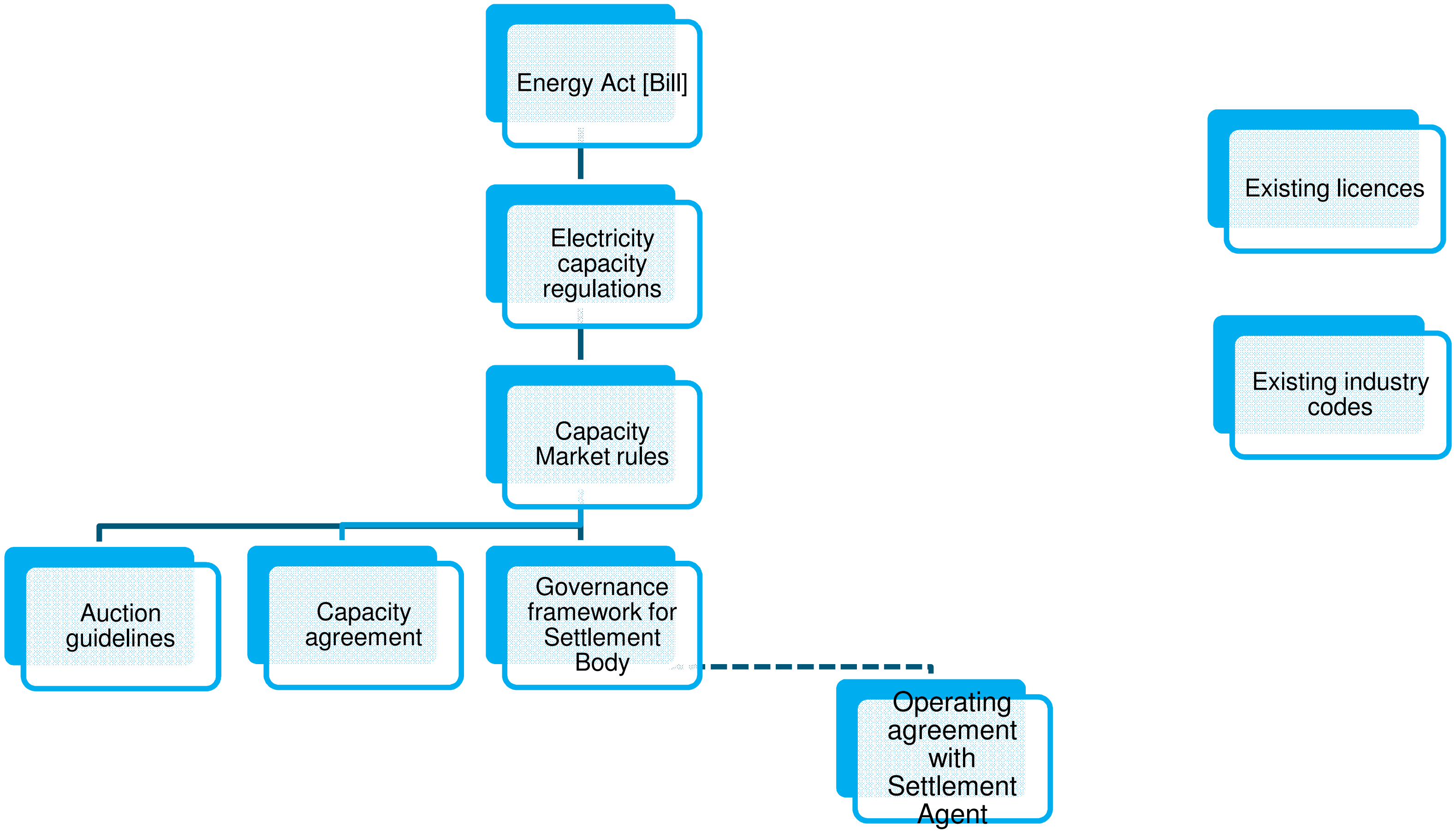
Governance

CM Legal Architecture



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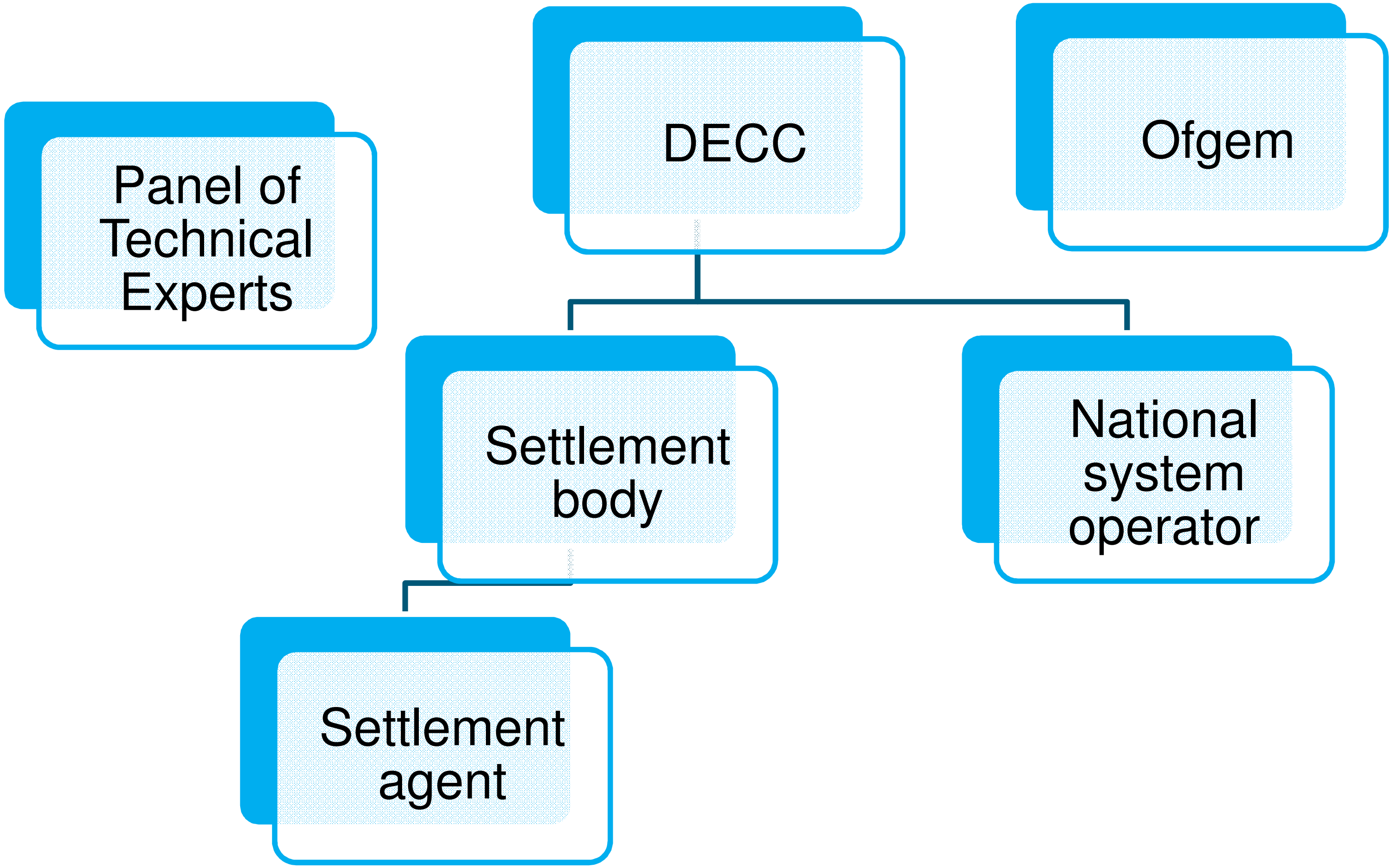
CM Institutional Architecture



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Regulations & Rules

Electricity Capacity Regs

Overseen & updated by SofS

Includes key aspects of Capacity Market:

- Amount of capacity to be included in a capacity auction
- Appointing Settlement Body
- Payment and settlement

Specific provisions must be in regulations (e.g. payment & settlement)

Specific requirements on SofS to consult before making / amending regulations

Capacity Market Rules

Technical document first made by SofS, then overseen & updated by Ofgem

Includes technical aspects, covering processes for how the Capacity Market will operate, e.g.:

- Rules and procedures for a capacity auction
- Penalty regime
- Testing regime

Guidelines (e.g. auction guidelines) will sit underneath rules

Ofgem must consult in advance of any changes & consider changes proposed by a third party

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Existing Licences & Industry Codes

Work currently ongoing to:

- Identify consequential amendments needed to existing licences (Ofgem currently leading – expected in Q1 2014)
- Identify consequential amendments needed to existing industry codes (National Grid with Elexon leading – expected in Q1 2014)

This involves:

- Listing licences / codes that need amending
- Proposing wording changes
- Consulting on proposed amendments not individually but through DECC's consultation

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Timeline

October 2013	Capacity Market Consultation published
24th Dec 2013	Close of Consultation
End 2013	Energy Bill receives Royal Assent
Spring 2014:	Govt response & secondary legislation laid in Parliament
July 2014	Secondary legislation comes into force

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Questions

Number	Question
CM76	Do you have any comments on the proposed institutional and governance arrangements for the Capacity Market? In particular that Ofgem will be responsible for amending the Capacity Market Rules, and the process for changing the rules and regulations.
CM77	Do you think it would be preferable for the Electricity Capacity Regulations to set objectives for the Capacity Market Rules? Such objectives may allow Ofgem to more easily assess the merits of a proposed change to the rules. If so what do you think these objectives should be?