



Department  
of Energy &  
Climate Change

# Electricity Market Reform

Summary of DECC Capacity Market  
stakeholder event - 23 January 2015

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# Executive summary

Following the publication of the results of the first Capacity Market (CM) auction on 2 January 2015, the Department of Energy and Climate Change (DECC) held a half-day workshop to gather “lessons learned” from organisations that had participated in the CM process, and other stakeholders. The workshop included a presentation by DECC on the outcomes of the first capacity auction, an update on policy changes to be implemented before the next capacity auction and a presentation by National Grid, the EMR delivery body, on their experience of implementing the CM. This was followed by table discussions where stakeholders were asked for their views on how different aspects of the CM process worked.

The following note records the views expressed by participants during the workshop. A list of the organisations represented at the workshop is attached in the Annex.

## Eligibility & Prequalification

- Community Energy Schemes disadvantaged – local load is “unfairly excluded” and they can only take account of export load.
- Difficult to prequalify proven DSR – virtually impossible to prequalify as proven DSR despite six years’ track record.
- Fifteen-year eligibility criteria not always clear during prequalification.
- Changes to the Capacity Market Rules after the prequalification window had opened were very unwelcome and made the process more onerous and less certain for participants. Moratorium on Rule changes for given period ahead of and during pre-qualification proposed.
- Templates changed when they has already been submitted and signed by Boards. A lengthy process therefore had to be repeated.
- The fact that prequalification ran during August presented practical difficulties for participants as it disrupted holiday plans and presented resourcing difficulties, particularly for some smaller companies.
- Participants expressed concerns over the volume and type of information requested, whether it was all necessary, and how to obtain it. For example some Rules changed during prequalification which meant files, including CSV files, had to be re-submitted making it resource intensive for participants
- Participants supported the idea of an automatic prepopulation of information if possible for future auction rounds, based on information provided in previous rounds.
- Issues with the definition of CEC created confusion with some participants believing it meant one thing and others believing it meant something else.
- Issue of using settlement periods for verification of historic performance - the BSC does not use them.
- It was felt there was sometimes a lack of consistency in the application of Rules, particularly around whether certain requirements were mandatory or not.
- Concerns were expressed over the failure to implement the prequalification IT system, and whether the system would be successfully implemented for the 2015 auction.
- It was suggested that the scope of the information published in the CM register should be reviewed, e.g. CM Register should not include full MPAN details.
- There was praise for the support given to participants by National Grid during prequalification. There was strong support for this level of support to continue in future.
- It was suggested that a four-year lead time is too long for some new build – connection agreements can be difficult to obtain and the CM Rules require project to either gain (and pay for) connection agreement early and it doesn’t get CM revenues if it completes early – or delay gaining a connection agreement and constructing later (but then faces the risk that it can’t get the agreement)
- Confusion about line loss factors – whether capacity could be calculated with / without line loss factors – leading to differences in how applicants calculated their capacity.

- Price Maker status process is convoluted – and timing does not allow time to respond to market changes (and hence different plant economics) just ahead of auction.

## Credit cover

- Participants thought that the five days was not long enough to post credit cover.
- Some participants did not like that there were increased costs for new build and unproven DSR whilst it was not required for refurbished plants (e.g. couldn't qualify as proven DSR which forced company to provide a bid bond which they considered was an unnecessary cost).

## Appeals

- Participants suggested that there needed to be information from Ofgem and National Grid on what were the reasons for appeals and the volume of appeals.
- It was suggested there should be more opportunity to clear up misunderstandings or correct errors during prequalification, without needing to raise an appeal.

## Auction

- There was praise for the mock auction.
- Participants thought that auction bidding rounds could be shortened and that allowing the auction to run for up to four days was excessive.
- Publication of provisional auction results was welcomed. Questions over whether round results should be published to make the process more transparent to those not directly involved.
- Need for more advice on what to do with the results in terms of sensitivity and publication.
- Auction process went well.
- Stakeholders unsure of long-term reaction to low price and although good for consumer in short-term, it may be disadvantageous long-term.
- Surprise that the supply curve was published with the auction results – it was suggested that this is confidential data as it is possible to work out pricing.
- CM Register should be tidied up and properly edited.

## Communications & stakeholder engagement

- Participants suggested that some of the smaller bidders were uncertain about who to contact.
- The implementation workshops were considered useful, and should continue, but consideration should be given to providing separate workshops for new bidders who will have different requirements from those already familiar with the process.
- Most participants felt that the industry was ready for the auction.
- DECC's FAQs were useful but did not cover all topics, and did not always provide sufficient clarity.

- Online content about the CM should be rationalised – one website with all information, templates, forms, links, guidance, etc.
- Participants suggested that there had been a good number of policy development engagement sessions but perhaps they could be more of a role for the CM Expert Group, and the role of this body in decision-making should have been more transparent.
- It was suggested that there could be more use of webinars, and a regularly run introductory session to the CM involving all delivery partners.
- There was a suggestion that the roles and responsibilities between DECC, Ofgem and National Grid are not always clear to participants and that a short summary document was needed to clarify this.
- DECC needs to be present at National Grid implementation workshops.
- A consolidated version of the Capacity Market Rules is needed.

## Implementation

- It was very good to know that the auction date was set in stone. That gave a lot of certainty to industry. The clear timeframes were good to work with.
- There needs to be a published list of dates and not T-xx as this was confusing and not clear what new dates were if one thing slipped.
- It would be useful to set out dates for when the CM Register will be updated between now and delivery year.
- The milestones to delivery should be clearly set out and a timetable for what is published and when.
- A number of issues were only identified when the mechanism was in live running. DECC should consider ways to “stress test” the rules and processes before we get to this point: page turning was welcome but not sufficient on its own.

## Other issues

- It was suggested that confirming auction parameters for a December auction in the previous June or July was too late and would impact prequalification
- It was felt that more transparency was needed around the amount to procure in terms of consistency between the capacity to procure and National Grid’s procurement of SBR.
- It was suggested there should be a de-rating bracket by technology but also the ability for individual CMUs to de-rate per fuel type.
- The objectives of the CM need to be clear – the de-rating of different technologies imply a preference.
- Secondary trading is unclear, specifically what is happening on Chapter 9 of the rules and whether it is switched on or off.

## Next Steps

DECC is committed to establishing a stable and predictable cycle for running the CM auctions, reviewing and making incremental improvements. We aim to work with industry and interested parties to improve the process continuously whilst providing the certainty and clarity they require in advance of each auction. The views suggested below will inform and influence potential changes going forward.

DECC opened a consultation on limited range of changes to Regulations and Rules on 12 February 2015 and intends to make rule changes by March 2015. Ofgem opens their planned consultation of administrative and operational rules in April, with changes to the rules implemented ahead of prequalification for the 2015 auction.

Due to the parliamentary process required to make changes to regulations and the lead time to implement systems changes, we envisage a bi-annual cycle for more substantial amendments to regulations. For example regulatory proposals following the 2014 auction will generally be in force prior to the opening of prequalification for the 2016 auction. The views expressed at the stakeholder event will also feed into this process.



## Annex A – List of participants

Alstom  
Baringa Partners  
Camborne Capital Limited.  
Carlton Power  
Centrica  
Climate Change Capital  
CMS Cameron McKenna LLP  
CmY Consultants Ltd  
Combined Heat & Power Association  
Contract Energy Services Limited  
Deloitte  
Dong Energy  
Doosan Power Systems  
DRAX  
EDF  
EEF  
Eggborough Power Ltd  
Elexon  
Energy UK  
Enernoc  
Eon  
ESB  
Exeter University  
FCC Environment  
FGI Consulting  
FirstGen UK  
Flexitricity  
Gazprom Marketing & Trading Limited  
GDF SUEZ  
Green Frog Power  
IHS Energy  
J.P. Morgan,  
KiWi Power  
Lloyds Bank  
Lombard North Central PLC  
Low Carbon Contracts company  
Ir- snergy  
Morgan Stanley  
National Grid  
New Power  
Noble Europe  
Ofgem  
Open Energi  
Power Balancing Services

Pöyry Management Consulting  
Renewable Energy Association  
REstore  
RWE Generation (UK)  
Sahaviriya Steel Industries UK  
Sapient Global Markets  
Scottish Power  
Seabank Power Ltd  
Sembcorp Utilities (UK) Limited  
SIEMENS Power & Gas  
Smartest Energy  
Societe Generale  
UK Power Reserve  
Vitol Group  
Waters Wye Associates  
WWF UK

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