



Department
of Energy &
Climate Change

CM Gaming Study

Expert Group

11 September 2013

- Charles River Associates (CRA) were appointed to undertake review of gaming risk and consistency of CM design.
- CRA have extensive expertise of CM design from US markets, as well as of designing and running power auctions.
- CRA overall assessment was positive – but focused on residual gaming risks and potential mitigations:

“The proposed Capacity Market design is internally consistent, comparable to designs of other established Capacity Markets, and its design provides substantive mitigation against the principal gaming risks that can arise. However, no procurement process is immune from such risk and inevitably there will be areas where problems could arise.”



Key findings of the report:

Key findings of the final report were as follows:

- Strong incentives for existing plant to participate in the auction by taking full account of plant that opts out of the Capacity Market
- The penalty regime is strong which by itself would have the potential to incentivise games to benefit from over-delivery payments (which are the analogue of penalties). However, the risk of this is small as it should be covered by REMIT and detectable by the regulator.
- There does not appear to be any significant seams issues with CfDs or RO.
- A good monitoring and compliance framework is important to deter gaming.
- DSR is the area most vulnerable to gaming

Participation in the Mechanism



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Issue	CRA Recommendation	DECC Response
Encouraging Independents	1. Consult on how best to facilitate secondary trading	Agree
	2. Monitor development of hedging market and consider intervention if necessary	Agree
	3. Make practical participation requirements as unonerous as possible	Agree – will use the Collaborative Development process to do this.

Auction Design



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Issue	CRA Recommendation	DECC Response
Auction Rules	1. Run auction within a day	Agree – though retain potential to last a week if necessary
	2. Retain discretion to cancel auction on basis of wider range of criteria	Agree
	3. Assess whether price-maker rules should aim to prevent parties pricing too low	We will work with Ofgem to consider this further
	4. Plant opting out should be required to say why they are opting out.	Agree
	5. Consider higher Net CONE or price cap to allow for plants not assuming energy market rent.	We will consult on this parameter in October.
	6. Provide only non-binding estimates of T-1 procurement four years out	We will only commit to buying 50% of our estimate four years out.



Communication of Information

Issue	CRA Recommendation	DECC Response
Communication of Information	1. Auctioneer should conceal supply within bounds	Agree – round information shared about supply to nearest 1GW
	2. Auctioneer should vary size of price decrements	Agree – subject to further work on decrement algorithm
	3. Bidders must sign up to a communications protocol	Agree in principle – DECC to work with Ofgem to assess this further.
	4. Bidders should provide a bid bond they may forfeit if they breach the protocol	Bid bond imposes additional credit cost and unlikely to be effective given difficulty in enforcement. Can review in future if needed.
	5. SoS/Auction Monitor/Ofgem should have ability to exclude parties breaching protocol from auction	SoS will have ability to exclude parties that breach auction rules
	6. SO/Auctioneer should make answers to questions public, e.g. with FAQ site	Agree



DSR and Market Monitoring

Issue	CRA Recommendation	DECC Response
DSR	1. Requirement not to manipulate baseline	Agree
	2. Ex post monitoring	In absence of MM, give role of verification to either Elexon or SO.

Issue	CRA Recommendation	DECC Response
Auction Monitor/Trustee	1. Appoint auction trustee/monitor with particular roles	CRA's monitoring recommendations will be covered by a combination of Ofgem and an Auction Trustee

Issue	CRA Recommendation	DECC Response
Market Monitor	1. Appoint Market Monitor with particular roles	Ofgem or a consultant will provide a degree of market monitoring.

Questions



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- Are the responses to the recommendations appropriate?
- Are there additional gaming mitigation measures that should be considered?