



Department for
Business, Energy
& Industrial Strategy

**Department for Business, Energy &
Industrial Strategy**

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Our ref: Capacity Market consultation letter

26 September 2016

To whom it may concern,

Capacity Market: proposal to ensure fair competition in future capacity auctions relating to certain risk finance schemes

We are writing to you as you may be interested in an issue we are considering around fairness and competition in the Capacity Market ("CM") auctions. This will reduce the level of CM payments made in some cases. If you would like to know more, please see below and the further detail on our website: <https://www.gov.uk/government/collections/capacity-market-2016>

Background to the issue

The Capacity Market is designed to ensure sufficient investment in the overall level of reliable capacity needed to provide secure electricity supplies at the lowest cost to consumers.

To ensure fair competition, and value for money for consumers, a number of rules are put in place to make sure capacity providers don't get additional financial support from Government. However, as mentioned in our March 2016 CM consultation¹, there is the potential for CM projects to also benefit from investments under risk finance schemes which are tax advantaged². Risk finance schemes (specifically the Enterprise Investment Scheme ("EIS"), the Venture Capital Trusts ("VCT") and the Seed Enterprise Investment Scheme ("SEIS")) support certain enterprises that would otherwise struggle to have access to finance. Where investment through risk finance schemes funds new capacity that is also incentivised by securing a capacity agreement, this could put those projects at a competitive advantage.

The Government's proposal

In March 2016, the Government consulted on an exclusion from future CM auctions of projects that have used investment through risk finance schemes. In our response to this consultation³, however, we noted that an outright exclusion may create risks to auction liquidity. We therefore now propose to offset investment received through risk finance schemes and spent on

¹ <https://www.gov.uk/government/consultations/consultation-on-reforms-to-the-capacity-market-march-2016>

² As outlined in our March Capacity Market consultation (above)

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/521301/Govt_response_to_March_2016_consultation_FINAL.pdf

prospective capacity, from Capacity Market payments. This will ensure that those projects that have not had support through a risk finance scheme are able to compete fairly.

The detail of the Government's proposal to achieve this can be found on our website <https://www.gov.uk/government/collections/capacity-market-2016> as well as information on how to respond to the specific questions posed.

Yours faithfully,

Energy Security Team

Information on this consultation:

Proposal and questions: <https://www.gov.uk/government/collections/capacity-market-2016>

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Respond by: Midday 21 October 2016

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