

Changes to Capacity Market rules 2015; changes to Capacity Market rules 2016; Ofgem RPC rating: **validated**

Description of proposal

The Capacity Market is one of the Government's key mechanisms to ensure security of electricity supply. Participants in the scheme receive payments to take on 'capacity agreements'. These agreements require them to generate electricity, or reduce their demand for electricity, when required. The Capacity Market Rules set out how participation in the Market works.

This Opinion covers two sets of changes to the Capacity Market Rules, each of which has a small but non-zero EANDCB. Each covers a large number of amendments made in response to proposals from industry, as part of a regular consultation process. The 2015 set includes 37 individual changes and the 2016 set includes 28 individual changes.

Impacts of proposal

Currently 173 businesses are in scope of the 2015 set and 210 businesses are in scope of the 2016 set. Ofgem notes that the number of market participants may change in future years, but does not have sufficient information to support a trend analysis or predict the direction of change at this stage. The regulator does not describe the changes in detail, but argues that all of the proposals selected have costs and benefits which fall into two broad categories:

- familiarisation costs; and
- additional costs of compliance and offsetting business efficiency savings.

Ofgem also offers some examples of specific changes to illustrate these costs and benefits, such as requiring applicants to provide legal evidence of a right to use

affected land, or streamlining the application process by requiring applicants to provide fewer documents.

For the 2015 set, familiarisation costs total £6,625; Ofgem estimates annual compliance costs at £121,163 and efficiency benefits at £185,782.

For the 2016 set, familiarisation costs total £8,770; Ofgem estimates annual compliance costs at £94,715 and efficiency benefits at £389,329.

Quality of submission

The assessments are concise and clearly set out the broad thrust of the changes. They do not describe the individual measures or calculate costs and benefits in detail, but would benefit from a summary table setting out each change and the scale of costs and benefits.

The assessment assigns each measure to a high, medium, or low impact category for both costs and benefits, and uses a single unit cost to estimate each category, which is scaled by the number of applications affected by the change. This seems proportionate to the scale of the overall impact, but again, the IA would be much improved by a brief summary of the evidence underpinning the estimates applied to each category.

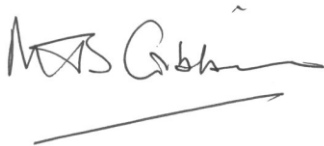
Departmental assessment

Classification	All Qualifying regulatory provisions
Equivalent annual net direct cost to business (EANDCB)	‑£0.1 million (2015); ‑£0.3 million (2016)
Business net present value	£0.3 million (2015); £1.39 million (2016)

RPC assessment

Opinion: EANDCB validation
 Origin: domestic
 RPC reference number: RPC17-DECC-OFGEM-3876 3877
 Date of implementation: see table

Classification	All Qualifying Regulatory Provisions
EANDCB – RPC validated ¹	-£0.1 million (2015); -£0.3 million (2016)
Business Impact Target (BIT) Score ¹	-£0.5 million (2015); -£1.5 million (2016)



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.