Department for
Business, Energy
& Industrial Strategy

Contracts for Difference and Capacity Market Scheme Update 2022

HC 975

December 2022

Contracts for Difference and Capacity Market Scheme Update 2022

Presented to Parliament pursuant to Section 5(4) of the Energy Act 2013

Ordered by the House of Commons to be printed on 19 December 2022

HC 975

This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at electricity.security@beis.gov.uk.

ISBN 978-1-5286-3833-3

E- Number E02838877 12/22

Printed on paper containing 40% recycled fibre content minimum

Printed in the UK by HH Associates Ltd on behalf of the Controller of His Majesty’s Stationery Office.

Contents

Executive summary

1. This is the ninth annual update outlining the progress that has been made on the policy mechanisms implemented under the Electricity Market Reform programme, which closed in 2015. The key mechanisms are the Contracts for Difference (CfD) scheme and the Capacity Market. Together they are designed to incentivise the investment required in the UK's energy infrastructure and to deliver low carbon and reliable energy supplies, while minimising costs to consumers.

2. This document sets out the headline achievements over the past 12 months in the following areas:

   - **The Contracts for Difference** scheme, enabling investment in low-carbon electricity generation;
   - **The Capacity Market**, ensuring sufficient electricity capacity to meet peak demand;
   - **The Electricity Demand Reduction pilot**, providing financial support to organisations to deliver electricity capacity savings at peak times.
   - **The Emissions Performance Standard**, ensuring new fossil fuel-fired electricity generation contributes to electricity security in a manner consistent with decarbonisation objectives.

Key progress since the 2021 update

Contracts for Difference

3. Allocation Round 4 (AR4), which concluded in July 2022, was the biggest and most successful allocation round ever, delivering a record of almost 11GW of new renewable generating capacity across a wide range of technologies. Building on the successes of previous allocation rounds, further reductions were secured in offshore wind strike prices, with the technology clearing at £37.35 per MWh, almost 70% lower since the first allocation round in 2015. The prices secured for solar PV and onshore wind were also significantly below those achieved in 2015, when these technologies were last eligible to compete for contracts for difference. The emerging technologies of floating offshore wind and tidal stream won contracts for the first time. The record capacity delivered by AR4 was nearly double that of Allocation Round 3 in 2019 and takes to almost 27GW the total capacity awarded CfD contracts since the scheme began in 2014.

4. In February 2022, Government announced that allocation rounds would be held annually, starting with Allocation Round 5 (AR5) in March 2023. Preparations for AR5 are well advanced, with several changes to the scheme confirmed, including measures to strengthen Supply Chain Plans and changes to accommodate the move to annual allocation rounds. Following a Call for Evidence early in 2022 on more significant changes to enhance the future impact of the Supply Chain Plan, Government confirmed in August that it intends to consult fully on proposed changes for Allocation Round 6 (AR6) and beyond in due course.

5. Details of core auction parameters for AR5, including the pot structure (i.e. the groupings in which technologies will compete for contracts), were published in December, along with draft allocation rules. For the first time, offshore wind will compete with other established technologies, including onshore wind and solar PV. Government also opened a

consultation in December on proposed changes to the CfD standard terms and conditions. These include amendments to prevent future CfD generators from delaying their contract start dates solely for commercial gain and to ensure that consumers are protected in the event of future spikes in wholesale electricity prices. Government will publish its decision in 2023.

6. Work has commenced to prepare for AR6, which is planned for March 2024. Government published a consultation in December 2022 inviting views on potential changes to the CfD scheme for future allocation rounds and providing policy updates on several issues. Decisions on any scheme changes for AR6 will be taken during 2023.

7. In May 2022, Government laid in Parliament the findings of the five-year review of the Energy Act 2013. At the same time, Government published an evaluation of the CfD scheme, which found that the scheme has met its objectives overall, especially in securing new low-carbon electricity capacity at reduced cost.

Capacity Market

8. The Government ran a consultation between 8 June 2022 and 22 June 2022 on proposed temporary Rules amendments to improve auction liquidity.[1] The consultation proposed two time-limited amendments to the Capacity Market Rules: postponing the introduction of the statutory requirement for independent verification of Fossil Fuel Emissions Declarations until the 2023 prequalification window, and temporarily allowing plants that have been mothballed to apply to pre-qualify for CM auctions in 2023 only.

9. A Government Response to the above consultation was published on 18 July 2022 setting out the changes to be taken forward.[2] The necessary changes to the Capacity Market Rules came into force on 18 July 2022.

10. On 18 July 2022, the Government published a Summary of Responses to the 2021 Call for Evidence on Capacity Market, entitled "Improving delivery assurance and early action to align with net zero".[3] A follow-up consultation is intended for publication in the 2022/23 winter period.

Electricity Demand Reduction

11. There have been no notable developments in 2022 regarding the Electricity Demand Reduction pilot, so the position remains as stated in the 2021 report.[4]

12. In response to increased volatility and uncertainty in energy markets following Russia's illegal invasion of Ukraine, the National Grid Electricity System Operator has introduced a new Demand Flexibility Service for winter 2022/23. This service will allow consumers, as well as some industrial and commercial users (through suppliers/aggregators), to be

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081288/capacity_market_rules_amendments_to_improve_auction_liquidity.pdf

2 https://www.gov.uk/government/consultations/capacity-market-rules-amendments-to-improve-auction-liquidity/outcome/capacity-market-rules-amendments-to-improve-auction-liquidity-government-response

3 https://www.gov.uk/government/consultations/capacity-market-2021-call-for-evidence-on-early-action-to-align-with-net-zero

4 https://www.gov.uk/government/publications/contracts-for-difference-and-capacity-market-scheme-update-2021. For more information on the Electricity Demand Reduction pilot, see https://www.gov.uk/guidance/electricity-demand-reduction-pilot

incentivised for voluntarily flexing the time when they use their electricity, which will enable the ESO to access additional flexibility during peak winter days which is not currently accessible to the ESO in real time.[5]

13. The Government has also taken a range of measures to help households to reduce their energy consumption in order to reduce their bills. This includes launching a new £1 billion ECO+ (Energy Company Obligation) scheme to ensure hundreds of thousands more homes benefit from home insulation, and an £18 million to advise households on how to cut their energy use while keeping warm this winter.[6]

Emissions Performance Standard

14. There have been no notable developments in 2022 with regards to the Emissions Performance Standard (EPS), so the position remains as stated in the 2021 report.[7]

15. The government conducted a five-year review of the regulation in 2019 as required by the Energy Act 2013.The review was carried out by BEIS officials. A call for evidence exercise was used to ask questions on the performance of the EPS in achieving its objectives, whether its objectives were still appropriate and whether any issues had arisen in its operation. A total of twenty-seven responses were received. The government also reviewed plant built since implementation and obtained feedback from the Environment Agency.

16. The overwhelming majority of stakeholders indicated support for the EPS. The review found that the EPS has, to date, been successful as a regulatory backstop, reinforcing existing planning policy. No unintended consequences were identified through the review.

5 https://www.nationalgrideso.com/industry-information/balancing-services/demand-flexibility
6 https://www.gov.uk/government/news/government-joins-with-households-to-help-millions-reduce-their-energy-bills
7 https://www.gov.uk/government/publications/contracts-for-difference-and-capacity-market-scheme-update-2020

Contracts for Difference Scheme

Deliverable	Achieved	When
Allocation Round 4 (AR4)		
AR4 application window closes	✔	**January 2022**
The results of AR4 are announced, delivering nearly 11GW of new capacity, the most successful round to date	✔	**July 2022**
Allocation Round 5 (AR5)		
Government announces decision to move to annual CfD allocation rounds, starting in March 2023	✔	**February 2022**
Government publishes response to consultation on proposed amendments to Supply Chain Plans and CfD delivery for AR5	✔	**May 2022**
The Contracts for Difference (Allocation) and Electricity Market Reform (General) (Amendment) Regulations 2022 come into force for AR5	✔	**July 2022**
Supply Chain Plan guidance and questionnaire for AR5 published	✔	**August 2022**
Government publishes its response to the Call for Evidence on proposed amendments to future supply chain plan policy	✔	**August 2022**
Government publishes core parameters and draft Allocation Framework for AR5	✔	**December 2022**
Supply Chain Plan application window for AR5 opens	✔	**December 2022**
Allocation Round 6 (AR6)		
Government publishes a consultation on policy considerations for future rounds of the CfD scheme (Allocation Round 6 and later)	✔	**December 2022**

Introduction

17. The CfD scheme is the Government's main mechanism for supporting new low carbon electricity generation projects. Contracts are awarded in a series of competitive auctions, with the lowest price bids being successful, which drives efficiency and cost reduction. CfDs give greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices, while protecting consumers from paying for higher costs when electricity prices are high. CfD contracts are managed by the Low Carbon Contracts Company (LCCC), a government-owned company. Information on the CfD projects managed by the LCCC is published on their CfD Register[8].

Results of the Fourth CfD Allocation Round (AR4)

18. The CfD has delivered substantial new investment and significant cost reductions in several renewable technologies since the scheme was introduced in 2014. Allocation Round 4 (AR4)[9], which concluded in July 2022, was the biggest and most successful allocation round ever, delivering a record of almost 11GW of new renewable generating capacity, nearly double the capacity secured in the previous round alone.

19. Offshore wind accounted for almost 7GW of this new capacity, increasing by 35% the capacity of this technology that is currently in operation or under construction in Great Britain. This achievement represents a significant step towards meeting the government's increased ambition to have 50GW of offshore wind by 2030.

20. Substantial contributions were also secured from solar PV (2.2GW) and onshore wind (almost 0.9GW), which were both included in a CfD auction for the first time since 2015, with the majority of the 93 contract awards[10] going to these two technologies.

21. The fourth allocation round also saw the emerging technologies of tidal stream and floating offshore wind being awarded CfD contracts for the first time. Tidal stream returned a capacity of 41MW and floating offshore wind delivered 32MW. These achievements will help these industries to grow and strengthen Britain's home-grown renewables sector.

22. The competitive nature of the scheme has continued to place downward pressure on prices. AR4 secured further reductions in offshore wind strike prices, with the price per MWh of this technology coming in at £37.35 (in 2012 prices), almost 70% lower than in the first allocation round in 2015. The unit prices for solar PV and onshore wind were both around 45% lower than in the 2015 auction.

23. The results of AR4 mean that the CfD scheme has awarded contracts to nearly 27GW of new renewable capacity since 2014. The success achieved in the fourth allocation round helps to solidify the UK's role as a world-leader in renewable electricity, driving investment in new, future-proof industries, creating skilled jobs and helping reduce emissions across the country. AR4 also represents significant progress towards a future where Great Britain

8 https://www.lowcarboncontracts.uk/cfds
9 https://www.gov.uk/government/news/biggest-renewables-auction-accelerates-move-away-from-fossil-fuels
10 https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-4-results

is powered by cheaper, reliable, homegrown energy, delivering on ambitions laid out in the British Energy Security Strategy.

Preparations for the Fifth CfD Allocation Round (AR5)

24. On 9 February 2022, the Government announced[11] that the next CfD allocation round (Allocation Round 5 – AR5) will be brought forward to March 2023, and that future rounds will run annually, rather than every two years, helping to accelerate the deployment of renewable power in GB. An indicative timetable for AR5 was published on 14 October 2022[12] on the dedicated resource portal for CfD allocation rounds.

25. Following a consultation[13] held from February to March 2022, the Government decided to make several refinements to ensure the CfD scheme continues to be adaptable and forward looking, and to facilitate the change to annual allocation rounds. The main changes were:

    - Measures to strengthen the Supply Chain Plan (SCP) process, including:
        - the introduction of feedback sessions into the SCP assessment process to support clear communication on expectations and intentions between government and applicants,
        - the expansion of the Supply Chain Plan process to include Floating Offshore Wind applicants below the 300MW threshold,
        - shortening of the validity period of the Supply Chain Plan Statement of Approval from 12 to 9 months, and
        - the introduction of a new template for the Supply Chain Plan questionnaire which more clearly reflects government's expectations and facilitates a more consistent level of detail in applicants' submissions, designed to raise the standard of Supply Chain Plans;
    - Strengthening the Non-Delivery Disincentive (NDD) by excluding sites that do not meet delivery commitments from the next two applicable allocation rounds, instead of from the next applicable allocation round only. This refinement is to ensure that the NDD remains an effective deterrent against speculative bids or non-delivery in the context of annual allocation rounds;
    - Bringing CfD regulations into line with administrative changes made to calculate the budgetary impact of an allocation round from the earliest possible date on which CfD payments can be made to a project.

26. Several of these changes have been implemented through The Contracts for Difference (Allocation) and Electricity Market Reform (General) (Amendment) Regulations 2022[14], which came into force on 22 July 2022.

27. In order to be eligible to participate in a CfD allocation round, projects with a generation capacity of 300MW or more, and from AR5, all applicants for floating offshore wind projects,

11 https://questions-statements.parliament.uk/written-statements/detail/2022-02-09/hcws600
12 https://www.cfdallocationround.uk/publications/draft-allocation-round-5-timeline
13 https://www.gov.uk/government/consultations/contracts-for-difference-cfd-proposals-for-changes-to-supply-chain-plans-and-cfd-delivery
14 https://www.legislation.gov.uk/uksi/2022/842/contents/made

must have a Supply Chain Plan (SCP) approved by the Secretary of State for Business, Energy and Industrial Strategy. Applications will be assessed against the criteria in the Supply Chain Plan questionnaires and associated guidance published by BEIS on 9 August 2022[15]. Applicants whose SCPs satisfy the requirements will receive a Supply Chain Statement from the Secretary of State allowing them to fulfil this eligibility requirement for entry to the allocation round. The SCP application window for AR5 runs from 5-12 December 2022.

28. In February 2022 the Government issued a Call for Evidence[16] seeking views and evidence on the potential for more significant changes to SCPs for Allocation Round 6 (AR6) and beyond that can enhance the impact of SCPs. A response was published in August 2022 confirming that, following this Call for Evidence, the government intends to consult fully on SCP changes for AR6 and beyond in due course.

29. In December 2022, the Government published the core parameters[17] for AR5 and a draft Allocation Framework, which describes the eligibility requirements and rules for the forthcoming round. The core parameters confirm the pot structure, delivery years and the administrative strike prices for each eligible technology. They have been published to help potential applicants plan their approach to AR5.

30. Projects will compete in two pots in AR5 compared to three pots in AR4. For the first time, offshore wind will compete in pot 1 against established technologies. This decision was informed by the need to maintain competition in the context of a smaller pipeline of projects with annual rounds, to ensure consumer value for money. The results of AR4 in July 2022 suggested that offshore wind is now price-competitive with other pot 1 technologies, including onshore wind and solar PV. Less established technologies, including floating offshore wind, tidal stream and wave, will continue to compete in pot 2. The budget for AR5, and any other auction parameters, such as caps on the capacity or budget of any technology, will be published in a statutory Budget Notice in early 2023, alongside the final Allocation Framework, shortly before the allocation round opens to applications.

31. The Government also published a short consultation[18] in December 2022 proposing several drafting changes to the CfD contract terms and conditions. The CfD scheme is designed to allow developers a degree of flexibility to determine the date on which they start generating under their contract terms and receiving CfD payments. The purpose of this flexibility is to provide confidence to generators and their investors that the CfD will be engaged even if there are any unexpected construction delays or any other unforeseen delays arise in the delivery of CfD projects, while protecting consumers from the impact of high electricity prices.

32. Recently however, Government has become aware that some generators are instead using this flexibility to delay their CfD start dates to maximise their income and avoid paying back into the scheme while power prices remain high, despite the generation site being operational. The proposed contract changes will prevent generators from delaying their CfD

15 https://www.gov.uk/government/publications/contracts-for-difference-cfd-allocation-round-5-supply-chain-plan-questionnaire-and-guidance

16 https://www.gov.uk/government/consultations/contracts-for-difference-cfd-call-for-evidence-on-proposed-amendments-to-supply-chain-plans

17 https://www.gov.uk/government/collections/contracts-for-difference-cfd-allocation-round-5

18 https://www.gov.uk/government/collections/contracts-for-difference-cfd-allocation-round-5

start dates solely for commercial gain for contracts awarded from AR5 onwards. This will ensure consumers are protected from further foregone CfD payments in the event of future spikes in wholesale electricity prices, as originally intended. In addition, a number of minor and technical drafting changes are proposed, including several which implement policy changes already taken by Government in earlier consultations. A Government response and final version of the CfD contract terms for AR5 will be published before the allocation round gets underway in 2023.

Preparations for future CfD Allocation Rounds

33. Government published a consultation[19] in December 2022 inviting views on potential scheme changes for Allocation Round 6 (AR6) and future rounds, as well as providing several policy updates. These include:

- A proposal to make electricity supplied by private wire to offshore oil and gas facilities ineligible for CfD payments;
- Requests for views to inform whether:
    - the definition of floating offshore wind should be amended to reflect the evolving nature of this new and emerging technology;
    - offshore wind farms connected to a multi-purpose interconnector should be eligible to apply for a CfD and how this could be enabled;
    - phasing policy should be retained for fixed-bottom offshore wind projects;
    - the allocation round appeals process should be changed for future allocation rounds post-AR6;
    - the CfD is an appropriate mechanism to support repowered projects and questions around how this could be facilitated
- Policy updates in relation to maintaining the balance between market exposure and investor certainty for CfD holders, the interaction between the CfD scheme and Capacity Mechanism on matters of eligibility and the potential consideration of whether other factors beyond price should be taken into account in contract awards.

Five-year review of the Energy Act 2013

34. The Energy Act 2013 requires the Government to undertake a five-year review of the policies introduced through Electricity Market Reform, including the Contracts for Difference (CfD) scheme. The findings of the five-year review were laid in Parliament on 12 May 2022.[20] Alongside the review, the Government published a three-phase evaluation of the CfD scheme,[21] the first phase of which was used as evidence in the review. The review found that the CfD scheme has met its objectives overall, highlighting its effectiveness at securing new low-carbon electricity capacity at reduced cost. The review found strong industry support for the scheme and evidence that the CfD's continuation is necessary to bring forward the development of large-scale generation required to meet net zero targets.

19 https://www.gov.uk/government/consultations/considerations-for-future-contracts-for-difference-cfd-rounds
20 https://www.gov.uk/government/publications/energy-act-2013-5-year-review
21 https://www.gov.uk/government/publications/evaluation-of-the-contracts-for-difference-scheme

Hinkley Point C

35. On 29 September 2016, the Government signed a Contract for Difference for Hinkley Point C[22], the first new nuclear plant in the UK for more than 20 years. The strike price is £92.50[23] per megawatt hour.

36. Hinkley Point C will provide 3.2 GW of secure, base load, low carbon electricity for at least 60 years, meeting around 7% of the UK's current energy needs and powering nearly six million homes. It will boost the local and national economy, providing 25,000 job opportunities and a target of 1,000 apprenticeships during construction and operation. A total of almost £4bn was originally forecast to go into the regional economy over the lifetime of the project. This was composed of approximately £1.5bn during construction and approximately £2.4bn during operations. In October 2021, the developer reported that 12,786 job opportunities had been created, 787 apprentices had been trained on the project and that £3.5bn had been spent in the South West region.

37. The project achieved its first major milestone in June 2019 – the construction of the common raft of the nuclear island for reactor one. In May 2020, the analogous milestone was completed for the second of the two reactors.

38. On 27 January 2021, the developer of Hinkley Point C announced that they expect the first reactor to start generating power in June 2026, with a risk that it will be delayed by a further 15 months. The second reactor is expected to start generating power 12 months after Reactor 1 with a further 9 months of risk. This risk of delay has been consistent since it was first reported in July 2017. The estimated capital cost is now £22bn to £23bn, which means an increase of £500m from the previous announcement made by the developer in September 2019. The realisation of the delay risk mentioned above would incur a potential additional cost in the order of £0.7bn. The investor highlighted that, under the terms of the Contract for Difference, there is no impact for UK consumers or taxpayers from the reported cost increase. At the time of writing, this represents the most recent formal update on cost and schedule for the project.

22 https://www.gov.uk/government/publications/hinkley-point-c-documents

23 In 2012 prices, assuming the Sizewell C project has not achieved a Final Investment Decision, otherwise the Strike Price is reduced by £3/MWh.

Capacity Market

Deliverable	Achieved	When
T-1 and T-4 auctions successfully secured capacity out to 2025/26	✓	**February 2022**
Government publishes consultation on rules amendments to improve auction liquidity for 2023 auctions	✓	**June 2022**
Changes made to Capacity Market Rules implementing changes resulting from the June 2022 consultation	✓	**July 2022**
Government publishes Summary of Responses to the 2021 Call for Evidence on Improving delivery assurance and early action to align with net zero	✓	**July 2022**
Prequalification for the 2023 T-1 and T-4 auctions	✓	**November 2022**

Introduction

39. The purpose of the Capacity Market is to ensure security of Great Britain's electricity supply at least cost to consumers, by providing all forms of capacity with the right incentives to be on the system and to deliver electricity when needed. The Capacity Market ensures there is sufficient reliable capacity available during periods of electricity system stress, for example during cold, still periods with high demand and low wind generation.

40. The Capacity Market works by allowing eligible capacity providers to bid into a competitive auction to provide capacity. Successful capacity providers are awarded a capacity agreement and receive steady payments to ensure enough capacity is in place to meet demand at times of system stress. These capacity payments incentivise the necessary investment to maintain and refurbish existing capacity, and to finance new capacity where necessary. Capacity providers face penalties if they fail to deliver capacity when requested during a system stress event.

41. The Capacity Market is technology neutral – it does not seek to procure allocated volumes of capacity from specific types of technology. All types of technology are able to participate – except for capacity providers in receipt of support from other specific policy measures – provided they can demonstrate sufficient technical performance to contribute to security of supply, and provided they comply with the Capacity Market's emissions limits[24].

24 https://www.gov.uk/government/publications/carbon-emissions-limits-in-the-capacity-market

Capacity Auctions

42. Capacity auctions are held one (T-1) and four (T- 4) years ahead of the delivery year when capacity must be provided, giving investors certainty over part of the future revenues they will receive. Existing generating capacity competes against new build, Demand Side Response (DSR) and interconnectors, with the auction procuring the mix of capacity which provides best value for consumers.

43. In early 2022, there was a T-1 auction for delivery in 2022/23 and a T- 4 auction for delivery in 2025/26.

44. Table 1 below lists the planned auctions for 2023.

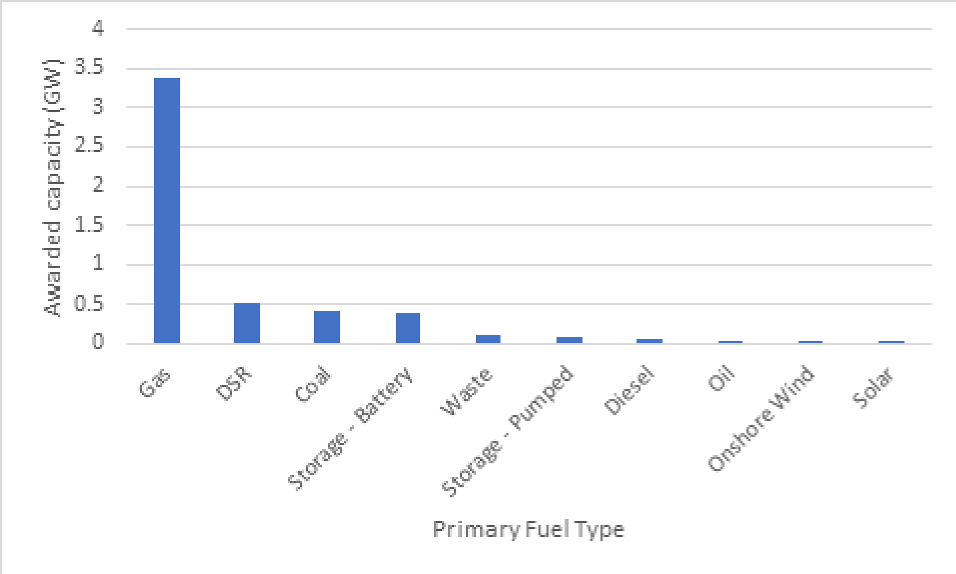
Table 1. List of capacity auctions to be held in 2023

Auction	Delivery year	Auction Date
Year-ahead Capacity Auction (T-1)	2023/24	14 February 2023
Four year-ahead Capacity Auction (T- 4)	2026/27	21 February 2023

T-1 Auction results for 2022/23

45. The T-1 auction for the 2022/23 delivery year concluded on 15 February 2022 and secured 5GW of capacity at a clearing price of £75/kW. All 5GW of de-rated capacity that entered the auction received capacity agreements for delivery. 62% of awarded capacity is from existing generation capacity, and 27% from new build generation capacity. The remaining capacity was awarded to unproven demand side response (DSR) (8%) and proven DSR (3%).

Figure 1. T-1 Auction results breakdown of Capacity Agreements awarded by fuel type (GW)

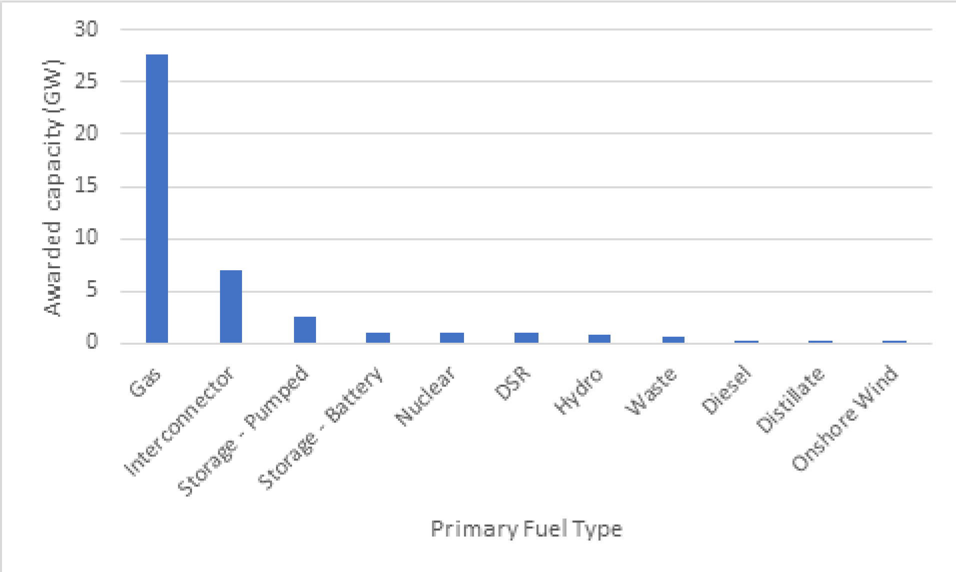


T- 4 Auction results for 2025/26

46. The T-4 auction for delivery in 2025/26 concluded on 22 February 2022 and secured 42.4GW of de-rated capacity at a clearing price of £30.59/kW per year.[25] A total of 48.6GW of de-rated capacity entered the auction, of which 87% received capacity agreements for delivery. 76% of awarded capacity is from existing generation capacity, 5% from new build generation capacity, 10% from existing interconnectors, and 7% from new build interconnectors. The remaining capacity was awarded to unproven DSR, proven DSR and refurbishing generation capacity.

[25] https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/T-4%20DY%2025 26%20Final%20Auction%20Results%20Report%20v1.0.pdf

Figure 2. T-4 Auction results breakdown of Capacity Agreements awarded by fuel type



Capacity Market Payments

47. Over the course of the year, The Electricity Settlements Company handled Capacity Payments totalling £856.3m. Capacity payments were made to 22.0GW of capacity for Delivery Year 2020/21 (£522.9m) and 48.4GW for Delivery Year 2021/22 (£333.4m).

Changes to the Capacity Market Rules

48. Ofgem ran a consultation between 26 November 2021 and 15 January 2022 seeking views on their minded-to position on three policy areas: Evergreen Prequalification, Capacity Market Register ("CMR") and Applicant Notices. In this consultation, Ofgem prioritised consulting on proposals which would directly impact the functionality of the new EMR Portal for the Prequalification process. This resulted in a decision on 25 February 2022, which provided a summary of the decision to progress with the implementation of all the proposals Ofgem consulted on and subsequent Rules amendments.[26]

49. The government consulted in June 2022 on two time-limited amendments to the Capacity Market Rules to improve auction liquidity.[27] A summary is provided below, and full details can be found in the consultation document. The following changes were implemented through time-limited amendments to the Rules in July 2022 which:

- Postponed the requirement for independent verification of Fossil Fuel Emissions Declarations until the 2023 Prequalification Window. This measure mitigates the risk of Applicants failing to prequalify for the 2023 Capacity Market auctions due to a potential inability to access emissions verification services.

26 https://www.ofgem.gov.uk/publications/decision-capacity-market-rule-amendments-evergreen-cmr-and-applicant-notice

27 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081288/capacity_market_rules_amendments_to_improve_auction_liquidity.pdf. The associated Rules changes can be found here: https://www.gov.uk/government/publications/capacity-market-rules

- Enabled certain plants which have been mothballed for more than 24 months to prequalify for auctions. This time-limited measure will help to remove barriers to prequalification for Capacity Market auctions for mothballed plant. The Government is now considering making a permanent change to the Rules to enable certain types of plant which have been mothballed for more than 24 months to prequalify for auctions, provided appropriate delivery assurance safeguards are in place.

50. The Government is also considering more immediate reforms to the Capacity Market to improve assurance that capacity will deliver when required and to better align the mechanism with net zero. A summary of responses to the 2021 Call for Evidence on these topics was published in July 2022, and a follow-up consultation is intended to be published in winter 2022/23.

Low Carbon Contracts Company (LCCC) and Electricity Settlements Company (ESC)

51. LCCC and ESC are responsible for helping Government to deliver key elements of the Capacity Market and CfD schemes, respectively.

52. LCCC, as counterparty to CfDs (including the Investment Contracts which have been transferred to LCCC[28]), enters into and manages long-term contracts with low carbon generators, managing difference payments for qualifying generation. The details of these projects are listed on the CfD Register, available on the LCCC website[29].

53. The ESC is responsible for all financial transactions relating to the Capacity Market, including managing capacity payments, credit cover, penalties, and volume reallocation.

54. Both the LCCC and ESC are companies limited by shares and wholly owned by the Secretary of State for BEIS. The companies became operational on 1 August 2014 and operate within two main frameworks: the Energy Act 2013 (and the relevant regulations made under the Act) and the corporate and company law frameworks.

55. In the past year, there have been a number of highlights across the CfD and Capacity Market schemes. These include:
    - 431MW of new low carbon capacity became operational in 2021/22 and started to receive CfD payments.
    - Two CfDs became operational in 2021/22, commissioning 0.4GW. Bringing the total operational CfD capacity to around 6.0GW.
    - Managing 69 CfDs with an estimated fair value of £97.6bn, including Hinkley Point C.
    - Additionally, AR4 98 new contracts following the 4th CFD allocation round earlier this year.
    - Continued success in making data more accessible – a total of 12 data sets added to the LCCC Data Portal.
    - Advising BEIS on the design of the Industrial Carbon Capture and Storage Contract as well as the Low Carbon Hydrogen business models.
    - Supporting BEIS on the CM call for evidence, the move to Annual CfD auctions and AR5.
    - Advising BEIS on the legal set-up and implementation requirements for managing a RAB-based payment scheme for new nuclear.
    - Streamlining the CM's Satisfactory Performance Day process.
    - Increasing data analysis to enable operational efficiencies and improve the visibility of performance in the Capacity Market.
    - Mandating the set-up of aggregation rules before the start of the CM Delivery Year.

28 Investment contracts, which have been transferred to LCCC, are treated by virtue of regulation 2(4) of the Contracts for Difference (Electricity Supplier Obligations) Regulations 2014 as CfDs for various purposes. Any reference to a CfD in this document is to be treated as including any such Investment Contracts.

29 https://www.lowcarboncontracts.uk/cfds

- Advised BEIS and Ofgem on policy, regulation and rule change using ESC's growing analytical capability to improve the efficient operation of the CM and achievement of its policy objectives
- Working closely with colleagues in Ofgem on CM rule changes and submitted a response to their winter 2021 consultation on the Capacity Market Advisory Group (CMAG).
- Engaging with Capacity Providers through ESC Webinars and at Delivery Partner events, with a new CM timeline created to help participants understand end–to-end CM actions and dependencies.

National Grid Electricity System Operator

56. National Grid Electricity System Operator (ESO) runs the electricity system in Great Britain. National Grid ESO has also continued to play a fundamental role in aiding the Capacity Market and Contracts for Difference schemes through its role as the Electricity Market Reform Delivery Body (DB). The DB provides support to market participants and constantly looks at how to improve its ability to undertake its role.

57. The DB has delivered key activities in preparation for the CfD Allocation Round 4 which opened in December 2021, including:

   - Working collaboratively with BEIS to assess the implications and deliverability of proposed scheme amendments.
   - Successfully meeting the Government's ambition of delivery of up to double the capacity of renewable electricity compared with the amount of capacity secured in the previous allocation rounds, with a capacity of almost 11GW from a wider range of renewable technologies.
   - Supporting the rules drafting process for the Allocation Framework and implementing these rules into the auction system and business processes in advance of the round opening.
   - Maintaining a customer relationship management tool, with approximately 86% of all queries received from customers being resolved within 5 working days.
   - Working closely with all Delivery Partners to create an updated customer micro-site for Allocation Round 4 that is more effective and easier for applicants to navigate.
   - Introducing a co-creation approach to producing customer guidance on the CfD application, allocation and auction processes.
   - Creating an enhanced suite of guidance materials for applicants, inclusive of auction scenario video tutorials and webinars, to support applicants in understanding the process as well as key policy changes for Allocation Round 4.
   - Carrying out a Customer Satisfaction Survey post-AR4, with an increased satisfaction score of 8.1/10.

58. For the CM, the DB implemented key activities in relation to the auctions and agreement management, including:

   - Working closely with BEIS to draft and consult on new Capacity Market rules for 2022 delivery and implementing these rules into systems and processes to ensure a smooth transition for customer.;
   - Maintaining a customer relationship management tool, with over 90% of all queries received from customers being resolved within 5 working days.
   - Working with Ofgem to update the relevant Balancing Services within the Capacity Market rules and taking on the ownership for publishing and reviewing related Guidelines.
   - Introducing a new co-creation process to improve customer guidance on Capacity Market related processes and introducing more personalised customer engagement on upcoming Agreement Management milestones. The DB has

worked closely with customers to ensure messages are clear and easier to navigate, supported where appropriate with “how to” videos and podcasts.

- Continuing to enhance modelling in line with Panel of Technical Experts recommendations to deliver the Electricity Capacity Report (ECR) 2022.
- Working on the delivery of a new IT Portal to administer the Capacity Market prequalification, auction and agreement management processes, with the first implementation planned in 2023. The DB are working directly with customers via dedicated user groups engaged in the design and testing of the new system.

E02838877
978-1-5286-3833-3