

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

February 2024

Dear Olga Okoulova and Andrew Macdonell,

Ofgem Ten-Year Review of the Capacity Market Rules

Energy UK would firstly like to thank Ofgem for their flexibility for providing feedback. We welcome the opportunity to share some high-level input in response to the consultation on the Ten-Year Review of the Capacity Market Rules. As mentioned in our previous correspondence, in addition to this high-level response, Energy UK would be happy to facilitate further engagement between Ofgem and our members to discuss the Capacity Market Rules.

The Capacity Market (CM) is an important, well-established, and well-understood mechanism, which forms an integral part of the power market. Energy UK believes that the CM has worked well to incentivise investment in capacity to deliver security of supply.

The conditions in which the CM operates will only continue to change as the transition to Net Zero progresses and accelerates. The CM will need to be able to adapt and adjust to new technologies that can deliver security of supply, whilst also focussing on guaranteeing a security of supply standard.

Therefore, it is essential that the CM's regulatory framework and Rules Change process can be agile and responsive to a changing power system, work to remove administrative barriers and barriers to entry, enable competition to deliver the best outcome for consumers, and ultimately, ensure that the CM can deliver of security of supply.

As Energy UK highlighted in our response to the DESNZ Call for Evidence on the 10-Year Review of the CM¹, it is widely recognised that there are a number of ongoing and persistent challenges associated with the operation of the CM. However, we do feel that progress has been made and that operational processes have improved over the past few years.

Energy UK in particular welcomes the work done by the Capacity Market Advisory Group (CMAG) since it was set up and the involvement of CM delivery partners in the CMAG. Strong industry involvement in the development of Rules Change proposals is essential to ensure that these are fit for purpose, and that the CM can deliver security of supply in a cost-effective manner.

Whilst it has been a positive change for industry to be more involved and to have introduced expertise into the Rule Change process, the creation of the CMAG has not – as was hoped – accelerated the time taken for Rules changes to be implemented. Delays to implementing

¹ [Response to DESNZ consultation on the CM: Phase 2 proposals and 10-Year Review](#), (Energy UK, 2023)

Rules Changes have been impactful on the CM and market participants. We note that timely implementation from Ofgem and the Delivery Body is highly necessary as these present significant barriers to progress.

More generally, Energy UK feels that the CMAG has done well to identify priorities for how the operation of the CM should improve. The asks and recommendations of the CMAG should therefore continue to be a focus for improving the CM, including on secondary trading and the Independent Technical Expert (ITE) requirements. We note that Ofgem and DESNZ have announced a review of secondary trading and Rule 4.4.4 and we strongly encourage this work to be undertaken as soon as possible, as these have been industry priorities for several years already.

As well as pace, another area highlighted by members as requiring improvement is the complexity of the format in which the Rules are published. We note that this creates difficulty for anyone who is not an expert in understanding the Rules. Energy UK would welcome Ofgem simplifying and organising the Rules document to make it more accessible, in a similar way to how licence conditions are arranged.

Thank you for providing us with the opportunity to respond.

Yours sincerely,

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