

Energy Security Team,
Department for Business,
Energy and Industrial Strategy
3rd Floor, 1 Victoria Street,
London, SW1H 0ET
28th February 2020

Dear Energy Security Team,

LCCC/ESC Response to BEIS's consultation on Capacity Market Future Improvements

The Low Carbon Contracts Company (LCCC) and The Electricity Settlements Company (ESC) are private companies wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). They perform central functions in the operation of the Contracts for Difference (CfD) and Capacity Market (CM) schemes. LCCC carries out the functions of its sister company ESC, via a cost-sharing arrangement. We welcome the opportunity to respond to this consultation.

ESC recognises the importance of the Smart Flexibility agenda in delivering a decarbonised power sector at least cost. It is critical that policy and regulatory reform is undertaken in a manner that is consistent with this long-term requirement of the overall energy system. We therefore welcome the proposals put forward in this consultation which begin to address some of the needs of the Smart Flexibility Agenda through focusing on how demand side response (DSR) and storage technologies can be better enabled through the CM scheme. ESC also recognises that it may be required to manage increased complexity in the CM scheme as it evolves to accommodate more flexibility and alignment with other market arrangements.

We wish to highlight below our key messages on the proposals in the consultation:

- ESC supports the proposals for the inclusion of behind-the-meter-generation and the componentisation of costs for unproven DSR to support the CAPEX validation process. We also recommend that the use of an assurance framework such as ISAE 3000 is considered to facilitate the validation of the components that make up the Unproven DSR CMU. This framework is currently used for the Renewables Obligation scheme with respect to sustainability reporting.
- We also support the proposed increase in credit cover for Unproven DSR bidding for a multi-year agreement (MYA). We believe will help to ensure correct bidding behaviours if MYAs are offered to Unproven DSR.
- ESC supports the policy clarification and additional checks proposed for DSR to exclude standalone batteries from entering the CM under a DSR de-rating, since only Permitted Onsite Storage units should be allowed to enter the CM under a DSR de-rating.
- We believe there is a need for policy intent to be clarified on the treatment of Relevant Expenditure and Relevant Benefit for new build DSR components after the Prequalification stage to ensure that Capacity Providers keep their declarations up-to-date.
- We support the proposal to restrict a MYA DSR from Secondary Trading until it is proven.

- We welcome the proposal to reduce the minimum capacity threshold to participate in the CM from 2MW to 1MW to enable alignment of the CM scheme with other market arrangements such as the forthcoming Trans European Replacement Reserves Exchange.
- ESC agrees with the proposed reporting and verification mechanism. This brings the CM into line with other schemes (such as the CfD) with similar reporting requirements.
- We believe the proposals outlined for Unproven DSR recruiting only components that comply with the emissions limits in the consultation are appropriate.
- ESC supports the proposals for minimising the risk of fraud and error in the CM scheme. These proposals will further enable ESC to discharge its duties as the CM scheme administrator and to further ensure that the most effective use is made of consumer's money through quicker identification of fraud and error in the CM scheme.

Yours sincerely,

Omer Ahmad
Policy and Regulation Manager
Low Carbon Contracts Company
Electricity Settlements Company