

# ELEXON

**20 February 2025**

Bill Jones  
Department for Energy Security and Net Zero (DESNZ)  
55 Whitehall  
London  
SW1A 2HP

CC: Matt Bowen (DESNZ), Omer Ahmed (LCCC), Ellen McGrath (LCCC)

## **Elxon's responses to Consultation and Call for Evidence on Capacity Market Arrangements**

**Dear Bill,**

Thank you for the opportunity to respond to the consultation and call for evidence on improvements to the Capacity Market (CM). We submitted our formal responses using the online portal but wanted to share some overall observations with you, which we'd be happy to discuss further with you. Our response is based on over 25-years of experience in leading the operation of and playing a leadership role in facilitating changes to core market rules and systems to promote innovation, improve market access and deliver Net Zero.

We fully support the Government's plans to accelerate reform of CM arrangements ahead of longer-term reform through the Review of Electricity Market Arrangements (REMA). We recognise the strategic importance of the Capacity Market in providing security of supply and supporting the drive towards clean power. The ambition of the Clean Power 2030 Action Plan underscores the need to work at pace to facilitate improvements in the CM and the participation of consumer-led flexibility.

To complement this focused work on the CM, we believe it is necessary to ensure it is developed in step with other retail, wholesale and flexibility market policies. This will ensure efficient, whole-system solutions are developed that provide consistency in treatment, avoid unnecessary barriers to entry and provide clear opportunities to stack revenues.

Elxon's subsidiary, EMR Settlement Ltd, calculates, collects and distributes payments to Contract for Difference (CfD) generators and Capacity Market (CM) providers, on behalf of the Low Carbon Contracts Company (LCCC). These services are provided to LCCC through a contract and on a not-for-profit basis. EMR Settlement Ltd is also the Nuclear Regulated Asset Base Model Revenue Collection agent for LCCC. EMR Settlement offers unique insights and operational oversight of the Settlement and operations of the Capacity Market.

Our role as EMRS Ltd is supported by our long-standing experience as the Code Manager for the Balancing and Settlement Code (BSC) and access to common systems and Settlement Data. The BSC is one of the major industry codes that sits at the heart of the GB wholesale market arrangements and sets out the rules for electricity balancing and imbalance settlement, so that Great Britain's energy system operates effectively.

The following is a summary of key points covered in our online responses. We have also attached our specific responses as appendices to this letter.

- 1) **We welcome the progressive nature of the consultations to enhance assurance and accuracy within the Capacity Market.** We believe that the further refinement of the rules will have to be firmly rooted in cost-benefit analysis, particularly with regards to assurance of delivery for Demand Side Response metered assets, and supported by a clear, practical implementation route. This will ensure the growing range and difference between technology types are treated robustly but also proportionately.
- 2) **We agree that consumer-led flexibility will provide an increasingly important role in providing energy security where and when needed.** We strongly believe that transparent, accessible, properly incentivised and interoperable national and local flexibility markets are essential to drive investment and ultimately efficient wholesale market and balancing activity. As such, developments in Flexibility Markets should complement developments in the Capacity Market and vice versa. This is necessary to ensure opportunities to participate in different markets and the overall operations of the whole system are optimised.
- 3) **Reform should make pragmatic and proportionate improvements to the assurance of the Capacity Market.** We recognise the importance of amending the Capacity Market rules to enable increasing volumes of innovative flexible technology. We advocate for proportionate and practical assurance of these technologies in order to ensure its continued integrity of the Capacity Market as a mechanism for providing technology neutral capacity to the grid.
- 4) **In our view, it is important to recognise the distinction between asset types, their use and the security of capacity they provide.** Interoperability of data, and a single source of the truth should be considered to better allow transparent and assured governance on all technologies in the CM. Transparency of data and interoperability in data sharing will provide reliable information concerning clean power within the CM, and how the CM supports and can better support the drive to Clean Power 2030 and beyond.
- 5) **We advocate a closer look at the provision of assurance concerning intent to supply,** we view consistency and transparency of data provision by Capacity Providers to be paramount to this.
- 6) **We believe further development of the Capacity Market must be progressed in coordination with the development of related wholesale, retail and flexibility market arrangements.** As outlined in the Clean Power 2030 Action Plan and in REMA, our future power system will depend on participation of a wide range of supply and demand-side participants. Investment and market participation will depend on clear, consistent market arrangements. It is therefore necessary that policy on the CM is developed in-step with other policy areas. This will ensure consistent, whole-system arrangements that support market participation and innovation, and balance the efficient development of existing and creation of new processes and systems.

The views expressed in this response are those of Elexon Limited, and do not seek to

represent those of the BSC Panel or Parties to the BSC.

We look forward to continuing to work with DESNZ, Ofgem and the energy industry to achieve our shared net-zero goals. We welcome the opportunity to further discuss our responses or any other aspect of our role in supporting the EMR arrangements. Please let me know if you would like us to organise a follow up meeting.

Yours sincerely,

Kathryn Gay  
EMRS, Head of Delivery

## Appendix 1 – Elexon’s response to ‘Capacity Market: proposals to modernise Rules and improve participation and delivery assurance of consumer-led flexibility’<sup>1</sup>

**Question 1: Do you agree with the proposed amendment to Rule 3.11 to introduce a Directors’ Declaration and Summary Statement to enable a Capacity Market Unit to change their Opt-out status when new operational information is available? Please provide reasons with your answer.**

Yes.

The drive toward net-zero seeks to reduce and then remove our reliance on unabated gas. This approach recognises the important role unabated gas plays in providing security of supply as we develop viable alternatives and transition to net zero. It is recognised that it will largely be the unabated Gas plants which are undergoing retrofitting to cleaner fuel types that could benefit from this rule change, and provide benefit to the overall clean power capacity secured in the CM.

In 2018, Ofgem removed the requirement for mandatory CMUs to provide an opt out letter annually. This has meant that those generators which are able to extend / meet the requirements of future auctions after a period, have effectively been barred from re-entering the market and providing the larger scale capacity required.

Government analysis suggest 35 GW of existing gas capacity could be maintained via life extension and refurbishment, and 9 GW of new capacity is already in the baseline under existing capacity market arrangements. In 2025, over 700MW of capacity was lost in the 2026 delivery year, due to a single power plant failing it’s second substantial completion milestone, forcing it to opt out. This is now capacity which may be delayed re-entry to the market under the current arrangements. The proposed change would allow this plant (and others in a similar situation) to demonstrate how their circumstances may have improved (or simply corrected) and allow them to re-enter, which improves available capacity in forthcoming auctions.

Whilst we recognise the role unabated gas can play in providing security of supply and facilitating the transition to net-zero, in past auctions we have noted the continued participation of existing unabated gas plant may have pushed down the clearing price of auctions. So much so that clearing prices have effectively priced out more expensive low carbon technologies. Providing unabated gas CMUs an opportunity to change their opt-out status could reduce the likelihood of alternative low-carbon technologies being awarded contracts.

**Question 2: Do you agree that the Directors’ Declaration to change Opt-out status should be treated as part of the Application to prequalify for the first Capacity Auction that the Unit would have been excluded for if no change of status was made? Please provide reasons with your answer.**

Yes.

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<sup>1</sup> <https://www.gov.uk/government/consultations/capacity-market-proposals-to-modernise-rules-and-improve-participation-and-delivery-assurance-of-consumer-led-flexibility>

Providing the declaration as part of the ordinary pre-qualification process would be an efficient approach and remove a barrier to re-entry. That is rather than considering declarations on an ad-hoc basis, considering them as part of the prequalification would take advantage of dedicated resources and would allow the declaration to be considered as part of a complete application package. Effective assurance throughout the application and auction process by NESO is assumed to still apply to ensure that the plant is ready and able to provide capacity.

**Question 3: Do you think that any additional information or supporting evidence should be provided in addition to the Directors' Declaration and Summary Statement to allow a Capacity Provider to change its Opt-out status and participate in CM auctions? Please detail these and provide reasons with your answer.**

Yes.

To provide adequate assurances supporting evidence that could be provided should be in line with that of a CMU meeting SCM, (in line with Rule 3.8). Considerations to new rules governing this, should be commensurate with new build rules covered in Chapter 6 of the CM Rules. i.e. existing process under CM Rules Chapter 6, should be clarified to ensure they hold true and fair under these circumstances.

**Question 4: Do you agree with the proposed amendment to Rule 7.5.1(ra)? Please provide reasons with your answer.**

Yes, we are supportive of the amendment to 7.5.1(ra) as this could mitigate unintended consequences and challenges as outlined in our answer to question 5.

**Question 5: Do you think that the proposed change to Rule 7.5.1(ra) will have any unintended consequences? If so, please provide details.**

Yes.

Requiring like for like GTC **and** capacity replacement does not require changes to CMU capacity calculations, as De-rating calculations would be consistent across the Components within each CMU. However, strict like for like replacement, limits the opportunities to replace components with equivalent capacity and thus provide flexibility to the CM.

As per our response to question 13 of the CM Call for evidence on Consumer Led Flexibility: CM rules state that where a component is switched out, it must be replaced with like for like capacity provision. As stated in the consultation, in line with rule 4.4.4 they may only be replaced with like for like GTC. This in effect means that for example, one domestic DSR may only be replaced with one domestic DSR – like for like. By implementing GTC restrictions on re-allocation, it could prevent CPs from ensuring an adequate mix of technology to ensure continued capacity which is the goal of the CM.

However, additional changes could be made with the mindset within the rules to secure capacity and gain the greatest benefit of mixed portfolios to do so. Mixed GTC portfolios may become a necessity in future to ensure capacity at the contract / CMU level.

Future mechanisms, such as the flexible metered asset register, may be able to assist

with simplifying the assurance needed for mixed asset CMUs, and De-rating methodology thereof. The CM could take advantage of this, in future, with strong consideration of the interoperability of data between the CM scheme and future asset register.

**Question 6: Do you agree with the proposal that the Delivery Body should not prequalify units when they become aware that the unit would not prequalify if the Application was considered afresh before the First Bidding Window? Please provide additional reasons for your answer.**

Yes

**Question 7: Do you think that this proposed clarification to Rule 4.4.3A will have any unintended consequences? If so, please provide details.**

No

**Question 8: Do you agree with the proposal to remove the Chapters and Rules set out in Table 1? If not, please provide details.**

Yes – these are no longer relevant.

As it currently stands, the reason for Chapter 11 was to smooth the transition of and progressively facilitate the delivery of DSR CMUs and smaller Non-CMRS Distribution CMUs during Delivery Years prior to the Delivery Year for the First Full Capacity Auction. As this is a historical transition it makes sense to remove this chapter as it is no longer relevant.

Elexon recommends that in the future transitional arrangements of DSR within the CM, be revisited alongside, paragraph 75 in Schedule 7. The transitional arrangements were there for the very first CM auction. Future transitional arrangements could be considered for future flexibility markets to smooth the transition of those and their interactions with the CM.

With regards to Supplementary Auctions (Rules 6.10.1 (ea) etc), these were only intended to be useful following the CM stand-still. In this regard these provisions are now redundant and may be removed. However, there may be a case for retaining and amending these provisions to provide additional capacity should it be required and where it is envisaged that a T-1 auction could be inadequate. This approach would require consideration of how these sections worked in conjunction with amendments to Rule 3.11.

**Question 9: Do you agree that the word “following” in 4.5ZA refers only to changes to Generating Technology Class in the 2017/18 auctions rather than to every auction since that point and that the rule is therefore obsolete? If not, please provide an explanation.**

Yes.

**Question 10: Do you think the proposed changes will have any unintended consequences or alter other Rules not mentioned in the consultation? If so,**

**please provide details.**

No.

**Question 11: Are there any other additional redundant Rules or Chapters that you believe the government should also consider removing due to them no longer being applicable?**

No.

**Question 12: Do you agree with the proposal to correct the incorrect reference to Rule 3.15.6(b) in Exhibit ZA?**

Yes

**Question 13: Do you think the proposed correction to Exhibit ZA will have any unintended consequences or alter other Rules not mentioned in the Consultation? If so, please provide details.**

No.

**Question 14: Are there any other Rules which you think contain drafting errors that you believe the government should also consider addressing by way of Rules amendments?**

N/A.

Where drafting errors may or have arisen, the Elexon facilitated Capacity Market Advisory Group is able to review and suggest amendments, as it has for CP373.

**Question 15: Do you agree with the proposed temporary rule change to operational requirements for Existing Generating CMUs which are mothballed? Does this proposal create any unintended consequences?**

No and Yes(!).

Whilst in agreement overall, this should be reviewed in line with the amendments suggested for CMUs which have undertaken an opt-out, see question 1 – to ensure that policy is applied fairly and consistently.

Whilst we support the proposal to extend the temporary rule we recommended that this rule be ultimately made permanent.. Removing the time bounding of the Prequalification window to which it currently pertains, to ensure this rule may continue to apply with the same level of assurance. This will better provide certainty to potential market participants.

It is noted, that by removing the specific constraints to which prequalification window this rule applies could be open to gaming, with mothballed plants, prequalifying without actual intent to provide capacity, or readiness to do so. Therefore, in order to provide assurance, consistent provision of metered data (capacity) should be provided to provide the assurance required.

Potential for gaming may be mitigated by implementing a tightening of rules in reference to consistent provision of capacity (Rules 13.4 et. al), in conjunction with amendment to Rule 3.11 - liquidity can be maintained, create greater flexibility and install appropriate levels of assurance.

**Question 16: Do you agree with the proposed amendments to the Rules (including Rule 3.9.3 and 3.10.1) to require similar Demand Side Response Capacity Market Unit components to be collated into a single business model or plan at Application?**

Yes

**Question 17: Are there any unintended consequences from the proposed amendments?**

Yes

We agree with the rule amendments; this removes some of the disproportionate administrative burden on DSR CPs.

In order to remain consistent with the premise of this rule change, which is to reduce administrative burden for CPs with large volumes of components under a single CMU, further simplification of the assurance process required at component level for DSRs. Without further simplification, the issue of administrative burden remains.

Current rules do not differentiate between large capacity I&C components and Domestic / genuine turn-down DSR, the rules assume they are all treated the same. Which is in line with the technology agnostic policy of the CM but is not practical in real terms. The level of assurance and type of assurance process required for different technology and customer types must be both proportional and practical for the capacity provided by these components.

Where collating under a single business model or plan, consistency of policy and rules should be considered. There will be no benefit to this, if assurance of the capacity provided is not also reflective of the administrative burden the rule change aims to address.

Delivery Partners and CPs currently spend a disproportionate amount of time and effort assuring the metering of large volumes of small capacity assets, this change only goes part way to address this:

Data by ESC and EMR Settlement:

- A single asset data requests takes 15min (avg).
- The data is about 0.5MB per asset (avg).
- Between Jan 2024 to October 2024, EMRS have sent ~200MB of data to NESO for 163 requests.
- Over <10 month period 400 assets requiring 15 minutes per asset to test totals to 100 hours of work.
- Over 600MW lost from T-4 2024 Unproven DSR CMUs being terminated in December 2024 for failing to provide a DSR Test Certificate.

Each individual asset (where EV) provides approximately 7KW. 1000 + individual assets will equate to approximately 1-3 MW of capacity and require approximately 220 hours of work to assure.

**Question 18: Do you agree with the introduction of the proposed separation period?**

No.

**Question 19: If you disagree with the proposals, please provide supporting detail of your disagreement, and provide alternative solutions where possible.**

This does not mitigate the issues highlighted with the larger and exponentially growing volumes of bespoke DSR which will require a metering test as the rules currently require.

Elexon and LCCC have provided analysis and potential improvements to these areas, presented at CMAG Meeting 20. A work group has been established between the Settlement Body and NESO to provide further review of this area of the Rules. It was recommended at CMAG 20 that there be a subcommittee established with CPs and ITEs to support the review, yet, this has not been taken up by CM interested parties.

LCCC, NESO and their delivery partners will continue to review and work together to establish improved internal processes to mitigate these issues, however internal process improvements will not address the burden on CPs to undertake the metering tests – and the knock on implications specifically on the customers of the domestic DSR, “bespoke” components.

**Question 20: Do you agree that the proposed TF1 termination fee of £5,000/MW for Unproven Demand Side Response (DSR) Capacity Market Units which fail to provide a DSR Test Certificate will enhance delivery assurance for DSR capacity agreements?**

Yes

**Question 21: Please provide the reasoning behind response to question 20 and supporting evidence where appropriate. If you disagree, please provide suggestions and evidence for alternative methods that could be considered.**

A termination fee may incentivise provision of a DSR Test Certificate. It may discourage DSR from entering the market if they think there is a possibility they may fail.

In December 2024, 600MW lost from T-4 2024 Unproven DSR CMUs being terminated in December 2024 for failing to provide a DSR Test Certificate.

This could have resulted in £3 million Termination fees, if in place at this time.

Alternative assurance to delivery should also be considered, proportionate to the volume of capacity provided at component level.

Delivery Partners and CPs currently spend a disproportionate amount of time and effort assuring the metering of large volumes of small capacity assets, this change only goes part way to address this: See Question 17.

As per our response to questions in CM Call for evidence on Consumer Led Flexibility, by taking a baseline over longer periods of time to provide an accurate profile of capacity provision, and/or at the discretion of the CM partners would remove the overall requirement for individual Metering Tests. Termination and suspension of payments based on consistency could then further incentivise participation in actual assurance of capacity.

Consideration and cross Code collaboration with bodies managing flexible markets and the balancing mechanisms, should be undertaken, to further acknowledge the assurances provided by BSC and other code bodies particularly with regards to domestic DSR assets, removal of the DSR Test certificate could mitigate the inherent risks of perceived weakening of assurance.

In future consideration provided to the interoperability of data provided by Flexible Metered Asset Registration should also be included.

**Question 22: Do you foresee any unintended consequences to the proposal under section 5.6. or believe a more effective solution exists for improving delivery assurance?**

We believe that further changes should be made to secure capacity and gain the greatest benefit of mixed portfolios to do so. There will be significant duplication of assets between schemes and capacity and balancing mechanisms.

Considerations should be provided here as to how flexible assets could be deployed between and within Flexible Markets, BSC and CM schemes. Future thought on interoperability of data, where assets are registered and participate in both, primacy of policy and energy delivery will also need to be considered across schemes.

With regards to duplication of assets across schemes and mechanisms, thought should be provided to ensuring accuracy of system balancing, and settlement. A single source of the truth with regards to which assets are registered and participating in which scheme or balancing mechanism could help shape primacy decisions and governance thereof.

In our response to question 15 of the CM Call for evidence on Consumer Led Flexibility: One of the key outcomes of the CM is to ensure security of supply. The methodology currently in place do not preclude assets from providing capacity purely to gain and maintain a contract at the entry level. Security of Supply requires enduring assurance that this capacity is available when necessary. The current methodologies in place mean that assets often do not provide the necessary level of consistent assurance required to provide that overall security. It is recommended that further consideration be given to tightening requirements on consistency of capacity, over time limited testing.

We consider a review of the effectiveness of Penalty calculations, and a review of Satisfactory Performance rules to be a priority for CM Rules modernisation. Penalty calculations are not an effective deterrent for non-supply of capacity in a system Stress Event. When coupled with the provisions for volume re-allocation following a parties are

able to make commercial decisions concerning the supply/ non-supply of energy and hedge the potential penalties incurred. We recommend a tightening of Satisfactory Performance rules, with a focus on consistent delivery of capacity data, in order provide a greater assurance of intent to deliver in a system stress event.

Alternatively, a fair and consistent approach to assuring intent to supply should be made. Where capacity is not proven, or provided by assets under contract, payment should not be made. This would incentivise the provision of capacity, and consistent provision of data proving the capacity.

## Appendix 2 – Elexon’s response to ‘Capacity Market: Consumer Led Flexibility’<sup>2</sup>

### **Question 1: Do you agree with our proposals to introduce new Demand Side Response Generating Technology Classes based on technology type?**

Yes

### **Question 2: Please provide the reasoning behind your response to question 1 and supporting evidence where appropriate. If you disagree, please provide suggestions and evidence for alternative methods that could be considered.**

Elexon’s subsidiary EMR Settlement, has in the last year taken on greater responsibility from NESO to manage the processes associated with CM Aggregation rules, in particular managing 100s of thousands of individuals behind the meter DSR with the CM. The vast majority of these are Domestic, Genuine Demand Response.

Each of these types of assets are already participating in the Capacity Market, however the CM Rules governance have not yet been updated to be proportionate to the volume of capacity provided by the large volumes of assets.

The CM has been largely focused on the assumption that all assets would be large, and or industrial and commercial. This premise is based on the assumption that all capacity is equal, and requires equal assurance.

Each individual asset (where EV) provides approximately 7KW. 1000 + individual assets will equate to approximately 1-3 MW of capacity and require approximately 220 hours of work to assure. Approximately the same amount of time is required for singular 100MW asset.

Where GTC and customer type splits are requested, consideration should be given to Question 20 in the CM Proposals to modernise, which suggests a £5000/MW Termination fee should a DSR fail to provide a test certificate. This does not feel proportionate to the capacity provided by each individual asset.

The volume of domestic and smaller behind the meter assets has increased exponentially over the last five years. EMR Settlement is expecting to have circa 750K registered by the end of this year (2025):

T2021 – 1,237 meters – 86% increase  
2022 – 3,827 meters – 209% increase  
2023 – 29,181 meters – 622% increase  
2024 – 220,611 meters – 656% increase  
2025 – 750,000 meters - 340% increase (Approximate, based on CP forecasts).

The type and use of the asset goes some way to determining its suitability for providing Capacity, the level of assurance required over the data provision of these assets, what data should be collected, held and published for each asset type. This should be

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<sup>2</sup> <https://www.gov.uk/government/calls-for-evidence/capacity-market-consumer-led-flexibility>

considered when determining if a DSR Test certificate for all assets is required and the proportionality of a termination fee if blanket across all DSR GTC types and customers.

Due to the bi-lateral nature of these technologies, they do not fit optimally within the following classes:

- Behind-the-Meter (BTM) Storage
- Behind-the-Meter (BTM) Generation
- Genuine Demand Response (inc. turn-down)

Fundamentally, BTM Storage, and Generation are could be classified as Genuine Demand Response. All three technology types as defined here, have the ability to provide both genuine demand response and behind the meter generation and storage, they consume by charging, store, and are able to discharge.

The only real differentiator would be the Customer Type. It could be expected that Genuine Demand Response could be ringfenced to only include domestic i.e. those without Batteries in any shape on premise. Only by including customer type, as part of the asset description could they be treated as a succinct technology class with specific assurances applicable to them.

It is envisaged the only way to adequately accommodate the EV and V to G technologies into those listed, would be to simply meter each activity separately. This adds greater complexity and cost to the customer, Capacity Providers, network operators and NESO to implement, manage and settle.

It is assumed that the technology would be based on fixed metering points; applied at the point of charge / discharge, rather than applied to the actual vehicles themselves, as per Elaxon's response to question 1.

**Question 3: Do you have any opinions on whether an additional Generating Technology Class is necessary for Electric Vehicles and Vehicle to Grid technologies, or can these be included in the proposed categories?**

No.

**Question 4: Can you foresee any unintended consequences that might arise from the introduction of separate Generating Technology Classes for Electric Vehicles and Vehicle-to-Grid?**

No.

**Question 5: What are your views on the utilisation of non-Balancing Mechanism ShortTerm Operating Reserve in the current Demand Side Response de-rating methodology?**

We support updating the current de-rating methodology to provide accurate Capacity assessments.

Accurately reflecting this contribution in de-rating methodologies ensures a more realistic assessment of available capacity within the systems.

This will encourage optimal deployment of DSR capability across the network.  
It will provide fair treatment for DSR provider:

- DSR providers should receive appropriate and accurate credit for this contribution to grid stability.

Failing to account for this contribution accurately could disadvantage DSR providers and inadvertently provide a route for gaming in the CM. By providing accurate methodologies to measure the De-rating of short term the CM will be better able to ensure that DSR providers are able to provide the actual capacity as required.

**Do you have any alternative suggestions? Please provide evidence to support your response.**

De-rating factors for DSR providers that actively participate in Non-BM STOR could be adjusted downward to reflect their availability and reliability.

This would acknowledge their value to grid stability and ability to deliver agreed capacity.

We do recommend providing greater consideration to developing specific measures. Establishing clear and objective metrics to assess the performance of DSR providers delivering Non-BM STOR services. These measures could include factors such as response times, delivery accuracy and overall contribution to grid stability.

Should this be undertaken, they will need to be reviewed and adjusted on a semi-frequent basis to ensure they reflect changes in DSR technologies, market conditions and grid requirements.

By incorporating the value of Non-BM STOR provided by DSR into De-rating methodologies the CM can better recognise the contributions of flexible demand and incentivise the development of a more effective and resilient grid.

**Question 6: Do you agree that Demand Side Response exhibits duration limits?**

Yes.

We do agree that certain technology classes within the DSR exhibit duration limits.

Technical constraints – certain technology types have limitations on how quickly they are able to ramp up or turn down, which will naturally limit their potential availability in a Stress Event.

Consumer Comfort, consideration should be provided to the end consumer. Prolonged testing of technology types associated to cooling, heating, or EV charging / discharging which could limit the acceptable duration of DSR for the end consumer. Additional consideration should be provided to what is acceptable testing for different Technology and customer types under Satisfactory Performance Days under rule 13.4 and associated rules.

It is assumed that consumer comfort is taken into account when providing the end use optionality to sign up to schemes such as the CM, and that the end user would be

appropriately compensated. Therefore, those with assets which are absolutely essential to the running of the site (for example cooling of servers) would not sign up. In order to incentivise Genuine Turn Down into the CM, an alternative could be that, they are able to participate with shorter duration limits set.

Frequency stability, calling on all DSR types to ramp up and turn down for a given length of time, could further impact grid security by leading to significant and sustained load reductions or increases in defined areas of the country where DSR is most prevalent. Consideration will need to be given as to how best to address the locational distribution of DSR and market signals in those areas.

**Question 7: Do you agree with the proposals to adopt a duration limited methodology to de-rating Demand Side Response categories?**

Yes

**Question 8: Do you have views on whether this approach should be applied across all proposed Demand Side Response categories?**

Consideration could be given to provision of flexible contracts, offering flexible contracts to allow for varying durations of DSR availability could incentivise wider technology type participation, and innovation in service delivery. It would also align with greater flexibility aims within the market.

At a general customer level, further consideration could also be given to greater dynamic pricing mechanisms for DSR to encourage consumers to adjust their patterns over longer periods. Specifically, consideration could be given concerning implicit and explicit demand side response access to flexible markets outside the CM.

**Question 9: Do you foresee any unintended consequences from adopting a duration limited methodology?**

Yes. Added complexity, and fairness will need to be core considerations to any new methodology.

Where this would be applied to DSR specifically, differing technology types will require differing duration methodologies. This in and of itself could be a barrier to operability and entry to market, purely due to the operational overhead of applying, proving and maintaining these at an operational level for delivery partners and CPs.

There is a question as to what the downstream impact would be on penalty calculations following a Stress Event as well. Applying a methodology in order to qualify for an auction or prove the assets will have consequences to how penalty calculations are applied to differing technologies. As a result, the Stress event calculations will become more complex, and for a process which has (so far) not been called upon in the lifetime of the CM, this may appear to be disproportionate to the intent.

**Question 10: Do you agree with our proposed approach to component reallocation within Demand Side response Generating Technology Classes?**

Yes

**Question 11: Do you believe that additional supporting changes are necessary to accommodate the proposals outlined in question 10?**

Yes.

**Question 12: If you believe additional supporting changes are necessary, what changes do you propose should be considered?**

Steer provided by DESNZ and Ofgem concerning Secondary Trading, has been that the CM is an asset-based capacity provision market, rather than contractual. Whilst this was in reference to the secondary trading provisions, consideration may be given to the changes to aggregated portfolios comprising of mixed GTC and genuine Demand response, where each component consists of less than 1MW.

Currently the CM rules state that where a component is switched out, it must be replaced with like for like capacity provision. As stated in the consultation, in line with rule 4.4.4 they may only be replaced with like for like GTC. This in effect means that for example, one domestic DSR may only be replaced with one domestic DSR – like for like. By implementing GTC restrictions on re-allocation, it could prevent CPs from ensuring an adequate mix of technology to ensure continued capacity which is the goal of the CM.

We believe that further changes should be made with the mindset within the rules to secure capacity and gain the greatest benefit of mixed portfolios in order to do so. With the advent of the flexibility market, there will be significant overlap between assets that could be registered in both. The CM could take greater advantage of this, to ensure that the risk to security of supply is further reduced, by ensuring that the makeup of portfolios are as flexible as possible to meet the requirements of the grid.

**Question 13: Do you agree that information submitted with respect to aggregated Capacity Market Unit portfolios could be reduced without negatively impacting delivery assurance?**

Yes.

**Question 14: Please present views on how any alternative approaches could be addressed and implemented.**

By coupling with the Flexibility Market and acknowledging the assurances provided by BSC and other code bodies particularly with regards to domestic DSR assets, the requirements currently in place are overly burdensome.

One could argue that the same theory could be applied to the larger scale assets as well. Specifically concerning metering tests and Satisfactory Performance Days.

**Question 15: Do you have views on changing baselining methodologies in the Capacity Market?**

No.

**Question 16: Do you have views on aligning baselining methodologies with other markets?**

Not at this time.

**Question 17: Do you have views on how changes to the penalty regime could incentivise more accurate baselining in the Capacity Market?**

We consider a review of the effectiveness of Penalty calculations, and a review of Satisfactory Performance rules, a priority.

One of the key outcomes of the CM is to ensure security of supply. The methodologies currently in place do not preclude assets from providing capacity purely to gain and maintain a contract at the entry level. Security of Supply requires enduring assurance that this capacity is available when necessary. The current methodologies in place mean that assets often do not provide the necessary level of enduring and constant assurance required to provide that overall security. It is recommended that further consideration be given to tightening requirements on consistency of capacity, over time limited testing.

To this end, Penalties for non-delivery in a CM SSE, is not an effective deterrent, when coupled with the provisions for volume re-allocation. Parties are currently able to make commercial decisions concerning the supply/ non-supply of energy and hedge the potential penalties incurred. Tightening of Satisfactory Performance rules provide a greater incentive to ensure continued capacity.

Tightening of Satisfactory Performance Day rules, and greater emphasis on assurance of intent is required to prevent the potential for hedging as highlighted in the consultation.

We suggest taking a baseline over longer periods of time to provide an accurate profile of capacity provision, and/or at the discretion of the CM partners would remove that potential. Termination and suspension of payments based on consistency of intent could then further incentivise participation in actual assurance of capacity.

So far, a SSE has never occurred. Should it occur and capacity providers have indeed exaggerated their DSR capacity, and not provided that capacity in the SSE, they will incur a penalty. This is disproportionate to the potential negative impact of underperformance in a SSE. Particularly when coupled with the ability of all CPs to effectively trade away that penalty at a commercial level.

Penalties occur after the event; this means they also occur after a Capacity Provider has been paid for its 'perceived' ability to perform in a SSE. The penalty regime and subsequent volume reallocation conditions could therefore be viewed as a commercial risk only, which may be hedged against their payments up to that point.

Rather, DENZ could consider payment for performance only. If CPs do not perform, consideration should be given to holding payment / no payment for a defined length of time. For simplicity, holding capacity payments for the month of the SSE, coupled with suspending payments for consistent underperformance could be a greater incentive to assure capacity provision during a SSE.

This could simplify the CM rules, whilst increasing assurance of it.

**Question 18: Do you agree with intentions to introduce a completion milestone ahead of the relevant Electricity Capacity Report?**

Yes.

**Question 19: Please explain the reasoning behind your response to question 18 and provide supporting evidence where appropriate. If you disagree, please provide suggestions and evidence for alternative methods that could be considered.**

We agree with the overall intention of the change. However, consideration must be provided to how this will work in tandem with introduction of new GTCs and assurances that other changes in this consultation seek to provide.

Consideration should be given to when this requirement is applied. Should this be at CMU level, which would necessitate CMUs be formed of single sites and or technology. This could result in less flexibility within the market. Whereas, applying it at asset level could be overly administrative.

Consideration should also be provided to interoperability of data between markets which these assets will be registered. Joint regulation and cross code collaboration will be required in order to clarify and assure use of capacity of BTM DSR.

**Question 20: Do you foresee any unintended consequences from earlier introduction of completion milestones?**

Restrictions around Secondary Trading, could result in less capacity entering the market. Consideration could be given to how Secondary Trading works in this regard.