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## ESO Response to Ofgem's Ten-year review of the Capacity Market Rules consultation

Dear Olga,

Thank you for the opportunity to respond to your consultation on Ten-year review of the Capacity Market Rules.

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a vital role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the trilemma.

The Electricity Market Reform Delivery Body (EMR DB) plays a pivotal role in overseeing the implementation and operation of both the Capacity Market and Contracts for Difference schemes. As a central entity, we ensure the effective delivery and management of these mechanisms, which are critical components of the UK government's energy policy. The EMR DB works closely with stakeholders, market participants, and regulatory bodies to facilitate transparent and efficient processes.

In approaching the consultation, the ESO has prioritised a collaborative approach focused on thorough analysis and engagement with key stakeholders. We previously expressed detailed views in our [response](#) to DESNZ's Phase 2 Consultation and so refrain from outlining detailed responses to each question in this consultation and request that you refer to our response to the aforementioned consultation. We have, however, summarised our key points below.

ESO broadly agrees that the objective of the Capacity Market (CM) Rules remain appropriate though we believe that both efficient investment and efficient operation should be emphasised. As the system and markets change over time, it is important that market design and policy are evolved to achieve efficient investment as well as efficient operation. However, it is difficult to fully assess this, without a counterfactual for comparison. Evolution in the wider energy landscape and changes in CM participants means that changes are needed, if retained in the future.

While the current CM Rules have been effective to a certain extent, some short-term improvements could be implemented to enhance efficiency in achieving the stated objectives. These include:

- Better utilisation of CM-awarded resources such as penalties; improved secondary trading and notification process.
- Strategy for managing the transition for unabated gas.
- Strengthening ambition of innovation and de-risking support for low carbon, dispatchable, sustained-response resources.
- More ambitious and robust energy efficiency policy (traditional approach, not through power policies)
- Developing new reliability metrics for changing nature of system stress.

It is also important to acknowledge that the CM Rules in their current form, are too complex, ambiguous (in relation of policy intent) in some areas, and difficult to follow. We recognise these challenges and are actively working, in conjunction with key stakeholders, towards improve the Rules to enhance their effectiveness. By simplifying the regulatory framework, providing greater clarity and transparency, and ensuring consistency in application, we aim to help make the CM more accessible and conducive to achieving its objectives.

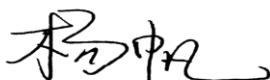
There is potentially significant distortion in the interaction of the various markets due to the very nature and design of the CM. This can be mitigated, and consumer value increased through coordinated reforms in wholesale market design and policy, leading to improved efficiency and a transformed role for capacity remuneration mechanisms. We are actively engaging with Ofgem and DESNZ, including through the ESO's Net Zero Market Reform (NZMR) work to develop amendments to the CM. For our detailed analysis that is relevant to this consultation, please refer to our [NZMR Phase 4 Report](#).

Additionally, it is necessary to evaluate the system stress events that the CM is designed to address and how they are expected to change in future (e.g. less frequent but of longer duration) and what this might mean for the CM. The ESO's NZMR work raises concerns that, with system change and market reforms, the CM might not be able to provide consumers value for money in securing efficient investment in the right kind of resources that can ensure cost effective system security and reduce carbon emissions. In our NZMR Report, we have identified alternatives to the CM that we think should be explored as they better meet objectives in a zero carbon renewables-based system.

Finally, as is also discussed in our NZMR work, there is evidence that the CM suppresses wholesale scarcity prices, and that research has also shown that Capacity Providers are not passing through full benefits to consumers.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Bethany Hanna, Strategy & Policy Manager, EMR Delivery Body, at [Bethany.Hanna@nationalgrideso.com](mailto:Bethany.Hanna@nationalgrideso.com).

Yours sincerely



Rebecca Yang,  
**Head of EMR Delivery Body**