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| Modification proposal: | Balancing and Settlement Code (BSC) P440: Enabling Elexon to administer the Capacity Market Advisory Group (P440) | | |
| Decision: | The Authority ¹ directs that this modification be made ² | | |
| Target audience: | National Grid Electricity System Operator (NGESO), Parties to the BSC, the BSC Panel and other interested parties | | |
| Date of publication: | 25 July 2022 | Implementation date: | 1 September 2022 |

Background

The Capacity Market is designed to provide investment in the overall level of reliable capacity (both supply and demand side response) needed to help ensure secure electricity supplies. It was introduced as part of the government's Electricity Market Reform ("EMR") programme. The Capacity Market Rules ("CM Rules") govern how the Capacity Market operates, as set out in The Electricity Capacity Regulations 2014 (the "Regulations"). Ofgem is responsible for amending, adding to, revoking or substituting any provision of the CM Rules in line with the Regulations.

On 14 January 2022 we published a call for input³ seeking stakeholder feedback on our intention to establish the Capacity Market Advisory Group ("CMAG") to enable the CM Rules change process to become more dynamic and adaptive to changing market conditions, whilst also increasing transparency and promoting collaboration between industry parties when

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ [Establishing the Capacity Market Advisory Group | Ofgem](#)

developing, scrutinising, and prioritising CM Rules changes. We then published our decision⁴ to establish CMAG along with our responses to stakeholder feedback on 9 May 2022.

As part of our decision, we appointed Elexon to become the Secretariat of CMAG. However, the current arrangement of the BSC does not allow Elexon to undertake the administrative duties to support CMAG and so P440 was raised.

The modification proposal

P440 was raised on 9 May 2022 by National Grid Electricity System Operator (“NGESO”) to permit Elexon to take on the administrative duties required to support CMAG on a not-for-profit basis. The proposer considers the proposal to facilitate objective (f)⁵ of the BSC Objectives.

Under P440 Elexon shall:

- be required to create, maintain and operate CMAG processes in support of the Change Process for the Capacity Market Rules guidance;
- be accountable to the Authority rather than the BSC Panel for operating and maintaining (including charging) the CMAG processes; and
- recover costs for the administrative work associated with the operation of CMAG from BSC parties in proportion to their market share through the main funding share. The budget will be set as part of Elexon’s annual budget process, and the authority will conduct annual reviews of Elexon’s performance.

⁴ [Decision on establishing the Capacity Market Group \(CMAG\) | Ofgem](#)

⁵ Implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

BSC Panel⁶ recommendation

At the BSC Panel meeting on 9 May 2022, the BSC Panel unanimously considered that P440 would better facilitate the BSC Objectives, and the Panel therefore recommended its approval. Panel members agreed by majority that P440 facilitates Objectives (f), (c), (b) better than the baseline with two members voting neutrally as they did not feel that the impact was direct.

The panel questioned how much Elexon is expected to spend on administration activities and queried whether the Main Funding Share was the most appropriate method of recovering CMAG administration costs as not all BSC Parties participate in the Capacity Market. Elexon responded with an approximate of £400,000 for administration costs and committed to report the CMAG administration activity cost in the BSC annual budget as a separate line item to ensure transparency to industry.

The panel also questioned what measures would be in place to prevent overspend by Elexon on CMAG administration activities and questioned how Elexon's performance would be managed. In response, Elexon stated that CMAG administration costs would be part of the Elexon annual budget and that the usual cost control mechanisms would apply.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 13 June 2022. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC;⁷ and

⁶ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and [Standard Special Licence Condition C3 of the Electricity Transmission Licence](#).

⁷ As set out in [Standard Condition C3\(3\) of the Electricity Transmission Licence](#).

- directing that the modification be made is consistent with our principal objective and statutory duties.⁸

Reasons for our decision

We consider this modification proposal will better facilitate BSC objective (f) and has a neutral impact on the other applicable objectives.

(f) implementing and administering the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

We consider P440 to facilitate Objective (f) of the BSC Objectives as it enables Elexon as the secretariat of CMAG to administer CMAG which as part of the CM Rules change process facilitates the operation of the Capacity Market.

We first stated our intention to appoint Elexon as the Secretariat of CMAG in our call for input as we considered it to facilitate objective (f) of the BSC Objectives. Some respondents to the call for input raised a similar concern to the panel in response to a question on the suitability of the funding mechanism, stating that not all BMUs are CMUs and questioned the suitability of the choice of funding mechanism. In response, we stated in our decision that we acknowledge that not all BSC parties participate in the Capacity Market, however it is the most appropriate and proportionate option and will facilitate objective (f) of the BSC Objectives, which all BSC signatories accede to. Moreover, we anticipate the costs of CMAG to be relatively small. We continue to support these views and note that other funding options would add time and systems costs that may be disproportionate to the costs being levied.

Some respondents to the call for input also raised similar concerns to the panel over the management of Elexon's performance in administering CMAG and the management of the

⁸ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

associated costs that Elexon would recover. We stated in our decision that we will regularly review Elexon's performance including the cost associated with the administration of CMAG and would seek to change the Secretariat should we consider the CMAG objectives are not being facilitated. We reaffirm our commitment to a regular review process and support Elexon's use of their annual budget processes to ensure that costs are managed internally as well as reporting CMAG administration cost as a separate line item to ensure transparency.

Decision notice

In accordance with Standard Condition C3 of the Transmission Licence, the Authority hereby directs that modification proposal BSC P440: Enabling Elexon to administer the Capacity Market Advisory Group be made.

Grendon Thompson

Head of Wholesale Markets Management – Energy Systems Management and Security

Signed on behalf of the Authority and authorised for that purpose