



Annual Performance report: 2020

December 2020



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1. Introduction

As the appointed Settlement Body for the Capacity Market (“CM”), the Electricity Settlements Company (“ESC”) must, in accordance with Regulation 84 of the Electricity Capacity Regulations 2014 (as amended) (“the Principal Regulations”), produce an annual report on the performance of its functions in respect of each capacity year¹. The annual report must, no later than three months after the end of the capacity year to which it relates, be provided to the Secretary of State for Business, Energy and Industrial Strategy (“BEIS”) and must be published. This annual performance report covers the capacity year starting on 1 October 2019 and ending on 30 September 2020.

The CM was introduced as part of the government’s Electricity Market Reform (EMR) programme, through the Energy Act 2013. The CM is aimed at ensuring security of supply during times of peak demand, through capacity agreements awarded to capacity providers via an auction process. These capacity agreements provide a steady, predictable revenue stream upon which capacity providers can base their future investments, with the aim of ensuring security of supply in future years at the lowest cost to consumers.

ESC is the designated Settlement Body for the CM and its principal functions are to collect from electricity suppliers the funds to pay out to capacity providers in accordance with the relevant regulations. ESC is a private limited company, wholly owned by the Secretary of State for BEIS, which performs an integral role in the delivery of the CM. It oversees the

settlement of the CM to ensure that regular payments are made to capacity providers who have agreed to provide capacity or reduce demand at times of system stress.

On 15 November 2018, the judgment of the General Court of the Court of Justice of the European Union had the effect of temporarily annulling the European Commission’s State Aid approval for the CM and introduced a standstill period. This standstill period covered the period from 15 November 2018 until 25 October 2019, crossing into the 2019/20 capacity year covered by this report. During the standstill period, ESC suspended the collection of funds from suppliers and payments to capacity providers, but other aspects of the CM continued.

Although this capacity year started within the standstill period, in October 2019 the Secretary of State for BEIS announced that the CM standstill would end following the European Commission’s State Aid approval of the scheme. This meant ESC could start collecting CM payments from electricity suppliers and make capacity payments to capacity providers. In November 2019, ESC started collecting the standstill amounts from suppliers which meant capacity providers could be paid in full in January 2020 for their capacity commitments during the standstill period. From December 2019, ESC recommenced the usual monthly cycle of collections and payments, which continued for the rest of the capacity year.

¹ “Capacity year” is defined in regulation 2(1) of the Principal Regulations and means “a period of one year

starting on 1 October and ending on the following 30 September”.

Settlement system and process changes driven by standstill regulations² continued into March 2020. These regulatory driven changes enabled additional payment reconciliations and ensured enhanced accuracy of both supplier charges and capacity payments. These changes, driven by standstill regulations, were delivered two days prior to the initial UK-wide Covid-19 lockdown. As well

as the operational challenges caused by the Covid-19 lockdown, ESC had the additional task of implementing accelerated regulatory changes designed to help capacity providers meet their obligations during these challenging market conditions. ESC managed the development and resourcing for these changes whilst continuing to ensure operational accuracy was maintained.

2. Auctions

In order to participate in the capacity auctions run by National Grid ESO (NG ESO), some capacity providers are required at the 'pre-qualification' stage to lodge credit cover with ESC (in the form of cash or a letter of credit, or a combination of both).

Due to the standstill period, the usual T-4 auction in 2019 was replaced by a later T-3 auction held in January 2020, which followed the end of standstill and the restart of the CM. This T-3 auction procured capacity for the 2022/23 capacity year. The clearing price was £6.44 per kilowatt; the lowest cleared price ever achieved for a T-4 equivalent auction.

The T-1 auction held in February 2020 procured 1 GW capacity for the 2020/21 capacity year. The target capacity had been 300MW. The clearing price was £1.00 per kilowatt.

The final capacity auction that took place in Q1 2020 was the T-4 auction for the 2023/24 capacity year, in which just under 44 GW of capacity was secured at a price of £15.97 kW – significantly higher than the price of the T-3 auction held in January.

3. Metering tests

Capacity providers seeking to participate in a capacity auction must, as part of the CM prequalification process, carry out a metering assessment. From the information provided at the metering assessment, NG ESO will determine whether or not a metering test is required. ESC is required to perform these

metering tests. The tests seek to ensure a capacity provider's metering arrangements correctly reflect the flow of electricity supplied, generated and consumed within a site. Meter testing is therefore crucial in

² Within this document, "standstill regulations" are defined as per The Electricity Capacity (No. 1)

Regulations 2019 and The Electricity Capacity (No. 2) Regulations 2019.

providing confidence in the integrity of the CM and the meter data that underpins it.

During the 2019/20 capacity year, ESC undertook 46 component tests for 35 capacity market units (CMU) – 30 for new-build/existing CMUs and five for unproven demand side response (DSR) capacity providers. ESC also completed 11 metering site visits throughout the 2019/20 capacity year as part of its metering assurance programme. The metering aggregation rule information of 752 CMUs across five capacity years (multi-year agreements) have been validated, 314 CMUs have been validated for the 2020/21 capacity year. ESC has approved

19 change requests for amendments to capacity providers metering arrangements.

Normally, site audits are conducted to ensure meter configuration and test compliance. The site audits were suspended due to the Covid-19 lockdown. They were restarted once non-essential work was allowed to take place and four were completed before the end of the 2019/20 capacity year. We are increasing the number of site audits in the next capacity year to compensate for the lower numbers in 2019/20 due to Covid-19.

4. Settlement costs levy

ESC's day-to-day operational costs are funded by suppliers via the settlement costs levy set by the relevant CM regulations. The levy amount is updated annually following a robust and detailed annual business planning and management process.

The settlement costs levy for the financial year 2019/20 was set at £7.554m, a decrease of £0.075m on the previous year's levy of £7.629m. The small decrease in costs is due to the reduction in updates to the settlement

system process as most of the CM standstill restart costs were incurred in the previous financial year.

ESC delivered a good fiscal performance in financial year 2019/20, half of which falls within the period covered by this report, meeting all operational requirements. As a result, the company was in a position to return to suppliers £611k of settlement costs levy collected from suppliers during 2019/20.

5. Settlement

As outlined above, one of ESC's core activities is to perform the Settlement Body functions as set out in Part 6 (Payments) of the Principal Regulations. This role requires ESC to make payments to, and receive payments from,

capacity providers who hold capacity agreements. ESC obtains the funds to make payments to capacity providers from electricity suppliers. However, due to the CM being in standstill during most of the 2018/19



capacity year and into the 2019/20 capacity year, no payments to or from capacity providers were made until January 2020.

ESC implemented a number of significant settlement system changes from October 2019 to March 2020 to facilitate the remainder of the work associated with the restart of the CM following the end of standstill, including functionality to provide for:

- a) New credit cover parameters for the CM restart, including new data from NG ESO on approvals and rejections;
- b) Standstill capacity payment credit notes to capacity providers (including scaling functionality);
- c) Capacity provider ad hoc invoice functionality to handle potential payment disputes relating to the standstill period;
- d) System interface requirements between NG ESO and ESC to manage standstill data flows;
- e) DSR unproven capacity credit note to repay overcharged capacity penalty paid;
- f) DSR unproven capacity recovery of overpaid capacity payments; and
- g) Standstill collection period reconciliation.

Other regulatory or industry code driven settlement system changes ESC implemented are as follows:

- a) The introduction of renewable technologies into the CM scheme required new functionality to allow the settlement system to offset State Aid double counting. This 'Relevant Benefit

Capacity Payment' deduction functionality was delivered in August 2020, in advance of the 2020/21 capacity year.

- b) Covid-19 emergency and CM scheme response – the ongoing pandemic resulted in some acute issues in the CM, particularly for DSR providers that needed to carry out Satisfactory Performance Day (SPD) tests when many of their business customers were shut during lockdown, reducing demand. BEIS carried out a rapid response consultation with a one-week response window and ESC, alongside its delivery partner NG ESO, delivered the functionality required to enable these easements.
- c) Changes due to BSC Mod [P344](#) and [P354](#) resulted in the need to alter the input data to the settlement system.

ESC implemented the following settlement system changes in non-regulatory driven improvements, driven by industry feedback from the last mock stress event:

- a) ESC introduced new EMRS Portal functionality which allows capacity providers to view all metered data volumes that they have previously submitted to the settlement system. This will benefit all capacity providers that need to carry out DSR and SPD tests as it gives them visibility of the data that will be used in the testing carried out by NG ESO. This additionally supports the requirements for data within a stress event.
- b) ESC also made improvements to the capacity volume register, increasing

transparency which will assist capacity providers should there be a stress event.

- c) ESC automated the acceptance and rejection of capacity volume

reallocation notices (CMVRNs) to allow participants to trade more freely during the volume reallocation period post stress event.

6. High level comparison: 18/19 and 19/20 reports

	2018/19 Annual Report*	2019/20 Annual Report**
Metering component tests	62	46
Metering site visits	3	11
Settlement costs levy	£7.629m	£7.554m
Credit Cover collected	£0	£211m

* Standstill significantly reduced metering activity and removed credit cover liability.

** Covid-19 reduced numbers of site visits significantly from a normal year.

7. Restart

Following the decision in October 2019 by the European Commission to confirm that the GB Capacity Market is compatible with EU State aid rules, the Secretary of State for BEIS triggered the restart of capacity payments and the invoicing and collection of the capacity market supplier charges to fund these capacity payments. The relevant regulations that govern the collection of capacity market supplier charges and the payment of capacity payments were amended by BEIS during the

standstill period to provide for a one-off standstill collection and payment. Under the amended Electricity Capacity (Supplier Payment etc.) Regulations 2014 (“Supplier Regulations”), ESC is required to calculate and invoice suppliers for the one-off standstill supplier charge collection covering the standstill period.

The standstill period covered the entire 2018/19 capacity year (October 2018 to



September 2019) as well as the months of October and November 2019, which fell within the 2019/20 capacity. Regular monthly collections and payments have resumed from December 2019 for the remainder of the 2019/20 capacity year.

In November 2019, in accordance with the Supplier Regulations, ESC invoiced electricity suppliers a total of £1,165m in line with their market share. ESC subsequently collected over 99% of this within 15 working days. Under the Supplier Regulations, ESC was required to mutualise the shortfall in collections by invoicing those non-defaulting suppliers in accordance with their market shares. All suppliers issued a mutualisation invoice paid in full, and ESC was able to pay

capacity providers their standstill capacity payments in full and on time.

Under the relevant regulations, ESC is required to maintain a non-payment register that lists any suppliers that have not paid a CM invoice and ESC is required to apply late payment interest to such amounts. ESC is also required to seek recovery from those suppliers that have not paid their standstill supplier charge invoices and, where ESC recovers amounts owed, these are paid back to non-defaulting suppliers that paid a mutualisation invoice (£8m was invoiced to suppliers initially). Currently, just £4.5m is still outstanding all of which is with administrators for failed suppliers, which overall was an excellent result for ESC, BEIS and the CM.

8. The year ahead

It was a challenging capacity year with the standstill period coming to an end. There have also been many improvements delivered which will stand ESC in a good position going forward. We are building on the closer working relationships set-up between delivery partners to help better manage the CM.

On end-to-end process improvements, ESC is leading on a review process across the delivery and settlement bodies to ultimately optimise how the CM works for both bodies and for capacity providers.

We have completed a review of the Satisfactory Performance Days process which was our test case and resulted in three change recommendations, one of which has been implemented and the others will be implemented through our system change

pipeline. We have also completed a review of the credit cover process for capacity providers. Our aim is to review all operational processes that cross the delivery bodies to reduce risk, cost and improve user experience.

With regard to the stress event testing programme, we consulted capacity providers at the EMR Delivery Body's Capacity Market Event on 15 July 2020 to highlight our approach to testing the stress event process in preparation for a stress event. We received feedback that visibility of change and improvement is more important than just one mock stress event. This year has seen a number of capacity market notices (CMNs) and this raises the question of how we resource this activity. Although these CMNs did not result in any stress events, we continue with our stress event testing



programme and will consider the delivery of a mock stress event or similar testing that allows us to prove readiness, including a number of settlement system changes implemented through the year and

highlighted through our communication from EMRS.

We continue to work with BEIS and Ofgem to ensure future policy change is considered and organised appropriately.

If you would like to discuss any part of this report further or have any questions, please email: info@electricitysettlementcompany.uk.



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