


<h1>Proposal for a Capacity Market Rules Change</h1>		 <p>Making a positive difference for energy consumers</p> <p>Reference number (to be completed by Ofgem): CP358</p>
Name of Organisation(s) / individual(s): Waters Wye Associates	Date Submitted: 22/08/19	
Type of Change: <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Amendment <input type="checkbox"/> Addition <input type="checkbox"/> Revoke <input type="checkbox"/> Substitution 	If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to: Click here to enter text.	
Proposal summary (short summary, suitable for published description on our website) Urgent change proposal to allow Existing Generating CMUs to provide previous settlement period performance data outside of the 24-month window currently specified in Rule 3.6.1(a)		
What the proposal relates to and if applicable, what current provision of Rules the proposal relates to (please state provision number): 3.6.1 Previous Settlement Period performance		
Description of the issue that the change proposal seeks to address: <p>The rules do not allow Existing Generating CMUs that have been non-operational for the 24 months prior to the close of the Prequalification Window to provide previous settlement period performance and thereby prevents these CMUs from participating in capacity auctions. This inefficiently excludes generating capacity that can provide security of supply from participating in the capacity auctions. While we recognise the importance of an accurate assessment of an applicant's capacity, the current regime does not provide this in respect of generating units that have either been mothballed or that have had prolonged periods of repair and overhaul, even in cases where the generator is obliged to participate in the CM. The proposal will therefore improve the accuracy of the overall capacity assessment while maintaining existing incentives for applicants to provide an accurate assessment of their capacity. In this context we note the existing incentives on applicants to provide accurate assessments of their capacity, due to the need to prove satisfactory performance within the Delivery Year and the potential application of the termination fee regime.</p> <p>We have proposed two alternative ways to address this issue:</p> <p>Option 1 – The Rules are modified to allow applicants to provide settlement period performance from their last period of operation. This would allow mothballed and other non-operational plant to provide a historic indication of the capacity they can provide.</p> <p>This was the case within the Rules until 2018 and WWA is aware that generators have used this Rule previously. In Ofgem's change decision to alter the Rules there seemed to be a concern about mothballing, but we are not aware that this has ever been an issue. However, we are now aware that</p>		

plants that have been on extended outage are effectively disqualified from Prequalification until after they have started to operate, even though the period between the auction and the relevant Delivery Year is 3 to 4 years away. This seems unduly restrictive and discriminatory.

Option 2 – The Rules are modified to allow applicants to declare that they will demonstrate previous settlement period performance prior to the relevant Delivery Year. This would allow mothballed plant and other non-operational plant to provide the Delivery body with a ‘forward looking’ demonstration of performance. While in these circumstances the applicant would be prequalified on the basis of a declaration, this prequalification would be conditional upon a subsequent demonstration of performance. This and the termination fee regime noted above, should remove any incentive for potential applicants to provide unrealistic declarations in relation to settlement period performance. A further option (we note as optional in the legal text) would be to require any applicant to demonstrate at least one period of performance prior to the relevant Auction. While this approach would remove some flexibility, it could potentially act as a further protection against inaccurate declarations.

This may potentially be a longer term change as part of Ofgem’s 5 year review. This could replace the current historic data requirements from prequalification to closer to the auction, in line with Ofgem’s proposal to make prequalification simpler. In an ideal world, the DB would just be picking up the most recent data from EMRS.

This proposal meets the criteria for urgency set out by Ofgem in Section 1.14 of its *Guidance for the Change Process for the Capacity Market Rules* as the absence of generating units from the next round of capacity auctions will;

- i) Affect the efficient operation of the capacity market, by unnecessarily reducing the volume of capacity entering the auction, potentially resulting in higher auction clearing prices to the detriment of customers, and
- ii) Have a significant commercial impact on capacity market participants, possible capacity market participants, consumers or other stakeholders. In addition to the general impact on all consumers of potentially higher auction clearing prices feeding into energy prices, there will be a direct and concentrated commercial impact on the potential capacity market providers that will be unable to enter the auctions. This loss of future capacity market payments may in some cases be significant enough to affect the ongoing viability of some aging assets.

More generally, the proposal furthers the Authority’s relevant objectives by increasing the efficiency of the operation of the capacity market. It also prevents any undue discrimination against potential capacity providers that have not been operational in a narrowly defined window. Finally, it ensures the compatibility of the Rules with the requirement on certain categories of generators to participate in the capacity market.

If applicable, please state the proposed revised drafting (*please highlight the change*):

Option 1: 3.6.1(a) to be modified and 3.6.1(aa) to be inserted to read as follows:

3.6.1 Previous Settlement Period performance

(a) Each Applicant for an Existing Generating CMU must identify in the Application three Settlement Periods on separate days in:

*(i) the 24 months prior to the end of the Prequalification Window, or in the case where Rule 3.13 applies, prior to the close of the last day for submission of secondary trading;
or*

(ii) if the CMU has not been operational in the 24 months prior to the date one month before the start of the Prequalification Window:

(aa) the most recent 24 months of operation; or

(bb) if the CMU has previously been operational for less than 24 months, the most recent period of operation; or,

(iii) if the CMU has been subject to a continuous Transmission Restriction for the whole of the 24 months prior to the date one month before the start of the Prequalification Window, the most recent 24 months in which the CMU was not subject to a Transmission Restriction,

in which such Existing Generating CMU delivered a net output equal to or greater than its Anticipated De-rated Capacity and specify the physically generated net outputs, or Metered Volume where applicable, in MWh to three decimal places for each of those Settlement Periods.

(aa) Each Applicant for an Existing Generating CMU must also identify in the Application the 24 month period which contains the three Settlement Periods referred to in Rule 3.6.1(a).

Option 2: 3.6.1 (aa) to be inserted directly after 3.6.1 (a) to read as follows:

3.6.1 *(aa) Except in the case of an Application to participate in a T-1 Auction, Applicants for an Existing Generating CMU may instead of complying with Rule 3.6.1(a), declare that:*

- (i) 18 months prior to the commencement of the relevant Delivery Year they will identify three Settlement Periods on separate days after the end of the Prequalification Window, and*
- (ii) Optional [5 working days prior to the commencement of the first Bidding Window for the relevant capacity Auction, they will identify one Settlement Period after the end of the Prequalification Window]*

in which such Existing Generating CMU delivered a net output equal to or greater than its Anticipated De-rated Capacity and specify the physically generated net outputs, or Metered Volume where applicable, in MWh to three decimal places for each of those Settlement Periods.

Consequential amendments will also be required to implement the conditional nature of prequalification under 3.6.1(aa).

Analysis and evidence on the impact on industry and/or consumers including any risks to note when making the revision - including, any potential implications for industry codes:

The proposal will prevent the exclusion of operational generating capacity from the next rounds of capacity auctions, which is even more important as prequalification is now for both the T-3 and T-4 auctions. For the reasons set out above it will therefore have a positive impact on the operation of the capacity market. Further, as set out above, we see no reason why the change will negatively impact the accuracy of any assessment of capacity availability and therefore see no risk to the operation of the capacity market.

WWA believes that it is important in a time of concerns about supply security that Ofgem helps parties willing and able to commit to participate in the CM to bring their capacity to the market. Furthermore, Ofgem should recognise the very real problems that the suspension of the CM has created for parties and signal a willingness to help those who are required to participate or want to participate to be in the market. As we have stated the potential loss of two years of capacity payments will have a significant commercial impact on the excluded capacity providers. It would be perverse if the application of rules intended to identify capacity able to support security of supply, resulted in potentially available capacity being prematurely withdrawn from the market.

We note that a rule change this late into prequalification is not ideal. However, we expect it to impact very few parties and we believe it will not be onerous for the Delivery Body to check data from earlier time periods than they currently do. The metered data will exist for the impacted plants and if they can evidence their output inline with the Rules this should create no additional work.

Details of Proposer *(please include name, telephone number, email and organisation):*

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