


<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): CP367</p>
Name of Organisation(s) / individual(s): Waters Wye Associates	Date Submitted: 26/10/22	
Type of Change: <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 temporarily allow deferral of the requirement for an existing generating CMU to provide a Fossil Fuel Emissions Declaration at Prequalification until 1 month prior to the start of the Relevant Delivery Year.		
What the proposal relates to and if applicable, what current provision of Rules the proposal relates to (please state provision number): 3.6.5 Fossil Fuel Emissions Declaration		
Description of the issue that the change proposal seeks to address: This proposal seeks to modify the CM Rules to remove incentives for existing generating CMUs to not maximise availability, and output if required by the market, during the next two winter periods. Existing fossil fuel generating CMUs with commercial production start dates before 4 July 2019 that exceed the Fossil Fuels Emissions Limit are unable to participate in the Capacity Market if they do not comply with the Fossil Fuel Yearly Emissions Limit (FFYEL). Compliance is demonstrated via a Fossil Fuels Emissions Declaration (FFED), Capacity Market Exhibit ZA submitted at prequalification. The FFYEL is a backwards looking measure, that caps emissions in a continuous 12-month period in the 14 months prior to the opening of the prequalification. This means that for the T-4 auction anticipated to take place in early 2024 for DY 2027-2028 emissions would be measured in a 12 month period from Summer 2022 – Summer 2023. If generators relying on the FFYEL for participation in their CM were to maximise their output during the coming winter, it is highly likely they would exceed the FFYEL. In a very tight market, with extraordinary risks to system security, it is not in the interest of customers to discourage these generators from making themselves available when their running additional hours would still keep them within the terms of their environmental permits. As the rules stand, generators face a choice between maximising their running hours and contributing to security of supply during the coming winter - or participating in future T-4 CM auctions. It seems perverse to stop plants running if the		

market needs them to keep the lights on so that they limit carbon emissions to participate in the Capacity Market some 5 years away. Given the security risks we are seeing this year, such incentives to withhold capacity cannot be in the interests of customers.

While we understand and support emissions limits in the CM, it is our view that in the short term the priority for GB should be to maximise potential winter generation. We therefore propose that the Rules are amended for the next two auction windows to allow deferral of the requirement to provide a FFED to 1 month before the start of the relevant Delivery Year. This would allow generators to use emissions from 2026-2027 and 2027-28 to demonstrate compliance with FFYEL. By this time hopefully more normal market conditions prevail.

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 requirement to provide a FFED at prequalification will have direct impact on generators operating decisions during Winter 22/23.

More generally, the proposal furthers the Authority's relevant objectives by increasing the efficiency of the operation of the Capacity Market. Most importantly, we believe that the rules change will be in the best interests of customers as it should improve security of supply and by adding capacity to the market should create downward pressure on prices, essential given the cost of living crisis.

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

Rule 3.6.5 (a) to be modified as below:

3.6.5 (a) Subject to Rule 3.6.5(b), Rule 3.6.5(ca), ~~and~~ Rule 3.6.5(d) **and Rule 3.6.5(e)**, an Applicant for an Existing Generating CMU must provide to the Delivery Body a Fossil Fuel Emissions Declaration if the CMU comprises of at least one Fossil Fuel Component or at least one Storage Facility which has part or all of its electricity requirements met by an Associated Fossil Fuel Component (each a "relevant Fossil Fuel Component").

New Rule 3.6.5 (e) to be inserted

3.6.5(e) This Rule 3.6.5(e) applies solely to an Application submitted during the Prequalification Window for a Capacity Auction held in the 2023/24 or 2024/2025 Auction Window.

An Applicant may elect to defer the requirements in Rule 3.6.5 (a) until after the Capacity Auction to which the application relates, in which case the Applicant must declare that it will provide a Fossil Fuel Emissions Declaration for that Existing Generating CMU by no later than the date falling one month prior to the start of the relevant Delivery Year.

Rule 8.3.14 to be modified as below:

8.3.14 Failure to provide a Fossil Fuel Emissions Declaration

The Termination Event specified in Rule 6.10.1(o) will apply to a Capacity Agreement if:

(a) a Capacity Provider has previously provided a Fossil Fuel Emissions Commitment, a Fossil Fuel Emissions Declaration, or made a declaration under Rule 3.6.5(e), Rule 3.6.5A, Rule 3.6.6, Rule 3.6.7, Rule 3.9.5A, Rule 3.9.6 or Rule 3.9.7; and

(b) the Capacity Provider:

(i) fails to provide a Fossil Fuel Emissions Declaration where required under Rule 3.6.5(e) Rule 8.3.11, Rule 8.3.12, Rule 8.3.12A, and Rule 8.3.13; or

(ii) provides a Fossil Fuel Emissions Declaration in which the Applicant declares that in respect of a Fossil Fuel Component or Associated Fossil Fuel Component specified in the declaration (a "relevant Fossil Fuel Component"):

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(aa) the relevant Fossil Fuel Component exceeds the Fossil Fuel Emissions Limit (and, in the case of a relevant Fossil Fuel Component with a Commercial Production Start Date before 4 July 2019, no value for the Fossil Fuel Yearly Emissions has been provided); or

(bb) in the case of a relevant Fossil Fuel Component with a Commercial Production Start Date before 4 July 2019, the relevant Fossil Fuel Component exceeds both the Fossil Fuel Emissions Limit and the Fossil Fuel Yearly Emissions Limit

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 remove Capacity Market incentives for generators to limit their operations, even if the market is short of power, during the next two winter periods. While there is an inevitable trade off between emissions and security or supply, it is our view that for the next two winters, it is imperative that generation availability is maximised.

The proposer notes that if these plants are not available to increase their output, if required, there is a significant risk that total carbon emissions could be greater if NGESO call on the contingency contracts that have been agreed with coal fired generators, at least for this winter. At a minimum the total carbon emissions are unlikely to be any higher, as fossil fuel generators are the marginal plant, so if one fossil fuel generators cannot run as it risks being unable to pre-qualify for the Capacity Market, the probability is that another fossil fuel fired generator will be called to take its place.

We also note that in any event all plant will be constrained by EA permitting arrangements and that the change proposal merely removes any additional Capacity Market related incentives in relation to emissions. Were plant to breach their plant emissions limits, as specified in their environmental permit, they would be subject to enforcement action by the EA.

We recognise that Government will be concerned about carbon emissions, but it is better for gas plant to run some additional hours than for coal plant to run. Gas is far more flexible, so to produce the same output can run for less hours, as well as being less carbon intensive. Further, we would suggest that GB consumers would far rather have greater supply security, even if at the risk of some additional carbon emissions.

It has been suggested that it would be possible for plant breaching the Capacity Market emissions limits, to not prequalify for the T-4, but wait until the T-1. While we agree that is a possibility, we believe that it creates a policy risk for BEIS that the market moves several GW of capacity from T-4 to T-1 resulting in a potentially significantly higher clearing price in the T-4 auctions. BEIS would also have less certainty about the capacity being delivered until it reached the T-1 auction. If in the meantime some of the older plant shut, as its investors preferred to lock in revenue at T-4, then the T-1 could also be short. Therefore on balance we do not believe that this would be in the interests of customers, but does neatly illustrate that the current emissions limits will treat plant in the T-4 and T-1 auctions in a discriminatory manner that on the face of it serves no useful purpose.

Finally, we note that under the change proposal all CMUs will continue to demonstrate compliance with the FFYEL - merely the date of this demonstration will change. This is therefore about recognising the current extraordinary circumstances that market finds itself in for the next 2 winters.

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

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