Proposal for a Capacity Market Rules Change | Date Submitted: 23 January 2015 | **Appendix B - 2016 Rule Change Proposals**

National Grid Electricity Transmission (EMR Delivery Body) | Details of Proposer: | James Greenhalgh, Capacity Mechanism Manager, National Grid Electricity Transmission, james.greenhalgh@nationalgrid.com, 01926 656169

Type of Change	If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to?	What the proposal relates to and if applicable, what current provisions of Rules the proposal relates to	Description of the issue that the change proposal seeks to address	If applicable, please state the proposed revised drafting	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
	There are a number of possible changes that could be made around connection capacity methods, proving connection arrangements and de-rating factors. As seen in 2014 it is possible to successfully prequalify and run an auction with the current methods but we believe they could be refined to avoid any confusion.				
Revoke	No	This proposal relates to the connection capacity methods available to distribution CMUs. Rule 3.5.2 (b) and (c) indicates that for a Distribution connected Generating CMU the registered capacity or inverter rating stated in the Distribution Connection Agreement, Connection offer or DNO letter can be used to set the connection capacity.	Very few connection agreements that the Delivery Body has seen appear to contain a registered capacity figure so we believe that an alternative may be necessary.	The revised drafting will need to be developed through consultation with the industry and the distribution network operators.	It became clear through the 2014 prequalification process that few connection agreements, whether new or existing, actually contain a registered capacity or inverter rating. We believe that this option should be removed from the rules, however we recognise that another option may be required.
Revoke	No	This proposal relates to the connection capacity methods available for generating CMUs, specifically Rule 3.5.5 which allows generators to prorate their transmission or distribution entry capacities across their CMUs.	As multiple connection capacity calculations can be used within a single CMU (where they have multiple components) or multiple CMUs in a single connection agreement, it is possible to calculate a connection capacity above the entry capacity which, once de-rated is equal to or very close to a plants entry capacity. We do not believe this to be DECC's policy intent.	The revised drafting will need to be developed through consultation with the industry and DECC.	There is a risk of a gap between the "over delivery" against de-rated volume expected from plant whose de-rated capacity matches their TEC. This is a, currently unquantified, risk to system security. When there was a range around the de-rating factor available to industry they were comfortable with CEC or another fixed option being used to set the Connection Capacity.
Amendment	No	This proposal relates to Rules 3.6.3, 3.7.3 and the definition of Distribution Connection Agreement.	The rules and definition set out that a distribution connection agreement is an agreement between a licensed DNO and the CMU. This is an issue for anyone with a private wire connection agreement as they do not have an agreement with the DNO.	Amend the definition of Distribution Connection Agreement to reflect that not all CMUs are connected to a licensed DNO's network. Alternatively add a separate definition and reference to a Private Wire Connection Agreement.	The arrangements for capacity providers connected via a private network need to be developed and confirmed within the Rules, an activity not necessarily completely captured during DECC's policy development
Amendment	No	This proposal relates to Rule 2.3, the methodology for de-rating CMUs.	It is not clear whether de-rating factors are set for auctions in a calendar year or auctions for a Delivery Year	Amend Rule 2.3 to make clear that de-rating is calculated per Delivery Year.	The methodology applies to a Delivery Year rather than an auction, so the capacity procured in 2017 T-1 should have the same de-rating as used in the 2014 T-4 Auction. There may be a detrimental impact on trade of capacity agreements if the de-rating factors of plant types changed depending on the auction.
	The following rule changes are those which we believe may take longer the develop. We propose that work in these areas should start during 2015 ready for implementation either later this year or early in 2016.				
Amendment	No	Rule 6.6 sets out the process for achieving the Financial Commitment Milestone.	ITE reports are provided by New Build CMUs to achieve the financial commitment milestone, provide 6 monthly updates to the Delivery Body and to meet the substantial completion milestone. The exact contents of the ITE report are not clear.	Suggest aligning the requirements of the ITE report and the accompanying definitions with the guidance document produced.	We have had discussions with stakeholders regarding the report to meet the financial commitment milestone and it has become clear that there is a lack of clarity regarding its required contents. We have sought guidance from DECC on this and produced a guidance document, but that is not legally binding, and the rules are still open to interpretation.
Amendment	No	The definition of Total Project Spend contained in Rule 1.2, extending to the Independent Technical Expert Reporting Requirements. Rule 8.3.6 should also be considered.	The definition of Total Project Spend is unclear. There does not appear to be a limit on what is included, for example does it include the costs of the new gas connection for a new CCGT?	We propose that a formal review of the ITE reporting requirements around project spend is initiated. The review to ultimately provide recommendations for the form and content of any such reports, including whether they may draw on other reports (e.g. Lenders report) in order that the cost of another report does not act as a barrier to entry.	While we do not assess the total project spend we have been asked questions by applicants on what should be included. This links to the above point regarding ITE reports.

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Amendment	No	Rule 6.4 sets out the indexation for capacity payments	The indexation method to be applied by an applicant when determining total project spend against the auction parameters expressed against the 2012 base year is not defined.	To be developed, but this needs to be defined or the existing indexation provisions for capacity payments in the Regulations need to be applied also to this situation.	The method needs to be defined to ensure consistency.
Amendment	No	Rule 8.3.6 states that a new build CMU must present a certificate for the ITE confirming that is it satisfied the plant has met the necessary criteria. This certificate must be provided prior to the start of the delivery year	Providing such a report prior to the start of the delivery could be impossible if the unit is commissioned in the September as it could take some months for the finances to be signed off and verified. Similarly if the substantial completion milestone is delayed it is impossible to meet that requirement.	Review the timings for the reports	The timings should be reviewed to allow all CMUs sufficient time to gather the information. We propose subject to further review that the report/certificate is provided [6] months after the commissioning and reconciliations take place, and include a process for recovering any excessive capacity payments if required.
Amendment	No	This proposal relates to the identity of the applicant for new build CMUs, specifically the provisions in Rule 3.2.	The rules are written such that to apply for a new build generating CMU, that applicant must be the legal owner. We believe this may require a review as it could be preventing capacity from coming forward and there may be scenarios where a developer wishes to bring forward a project on behalf of the legal owner.	This area, including the certificates and Rule 3.2 needs a legal review.	Developers taking forward projects on behalf of the legal owners may be unable to successfully prequalify. For example a potential CMU being built at an industrial or commercial site where the legal owners had no expertise or knowledge to make an application and wished a third party to take ownership of the application.
Amendment	No	This proposal relates to Rules 4.2.3 and 3.3.3 (b) which concern submission of an application.	Rule 4.2.3 may contradict 3.3.3 (b). 4.2.3 suggests that if someone submits an Opt-Out then an Application for a CMU the later Application should considered by the DB. 3.3.3 (b) expressly forbids this though saying that no Application can be submitted after an Opt-Out has been submitted for an Auction.	Clarify Rule 4.2.3 and 3.3.3 (b)	Any potential conflicts within the Rules should be resolved.
Amendment	No	Chapter 7 sets out the contents of the CM register	Assessment of whether all of the information on the CM register is required to be published. For example, Rule 7.6.3, the private register maintained by the delivery body could be replaced with an obligation for the DB to retain such information for a defined number of years.	Review Chapter 7	There is a lot of information on the register which is perhaps less useful and distracts from the important information.
Amendment	No	Rule 8.3 sets out the specific obligations and consequences for capacity providers.	There is no link to Rule 7.5.1 (r) which sets out how the location of a CMU can be updated. A process to define exactly how this should be taken forward is required, for example how it interacts with metering tests/assessments and how it impacts the declarations and statements made at prequalification for the previous site	A review of Rule 8.3 and 7.5.1 (r) is required.	The rules are not fully aligned and it is possible for a CMU to move but potentially breach Rule 8.3 in the process.
Amendment	No	Schedule 1 sets out the content of the Capacity Agreement Notices	We believe the content of the agreements could be rationalised.	Review Schedule 1	A lot of the content of the Capacity Agreement Notice needlessly replicates the CM Register or contains needless volumes of administrative information. Only information required to identify the CMU, the holder of the obligation and the terms of the obligation should be on the notice. Propose removing the following terms: 1. Bank Details (admin information to be provided to Settlement Body only) 2. MPAN information (not necessary to define the capacity obligation) 3. Type of CMU 4. Registered Address 5. De-Rated Capacity
	The following group of rule changes are linked to the auction, but are not necessary for the 2015 auctions.				
Amendment	No	Exit Bid is defined in Rule 1.2	The minimum exit bid is not defined.	Add the minimum exit bid to the definition of exit bid.	The minimum exit bid price is 1p as they take effect at 1p below. This was a question raised during the 2014 process, its inclusion in the rules would add clarity.

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Amendment	No	The price taker threshold is assumed to be at a bidding round price floor.	This assumption is not defined in the rules but should be for clarity.	Add to definitions or include in chapter 6.	DECC have confirmed that the price taker threshold will be at a bidding round price floor, but if it was not there would be a significant systems impact so for comfort and clarity we believe this should be included in the Rules.
Amendment	No	Rule 5.6.6 sets out the requirements for a Duration Bid Amendment.	In a variable price duration auction the wording is not specific but suggests that a DBA could be submitted to increase the duration both above the D-10 declaration (if that was less than the maximum obligation period), and above any previous DBA.	Specify that duration is capped at D-10 declaration and cannot be increased above this. And determining whether duration can be increased again or whether DBAs can only reduce duration.	The Rules are not specific on this area, but a bidder should not be allowed to increase their duration above their D-10 declaration.