

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be
completed by Ofgem):
CP107

Name of Organisation(s) / individual(s):
Alkane Energy - Tony Bryan

Date Submitted:
15 January 2016

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

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 provision of Rules the proposal relates to (please state provision number):

7.5.1 (r) allows New Build CMUs or a DSR CMU to alter the location of a new build Generating Unit(s) and/or DSR CMU Component(s), or of an Interconnector CMU. However, it does not allow a Generating CMU to alter the location of a component.

As a generating CMU may also be made up of a number of different generating units at different locations we believe parties should be able to notify the change in location of any components making up a CMU of any type.

Furthermore, we do not see why this rule only applies to new build plants and not Existing CMUs, or their components. We therefore also propose that the rule is extended to allow Existing CMUs to notify that it is moving location.

Description of the issue that the change proposal seeks to address:

Where a CMU is made up of components these may need to relocate for a variety of reasons and the CM Rules should facilitate this. For example, a small genset may move to take advantage of a new fuel supply, or move on a site to allow for further development, etc. The rules correctly address the problem of a development needing to alter its location, but did not envisage that only part of a CMU may be in this position. We believe that this was a policy oversight rather than an intent.

For Existing CMUs there may also be a need to relocate all or a component of that CMU. Again this could be to allow further development of a site, or to replace a redundant piece of equipment on a different site, freeing up a location to cater for new equipment, etc. CMU owners would only make such changes if it was economic, but with a 4 year lead time between the auction and the delivery year not allowing flexible parties to take to take advantage of opportunities as they arise will lead to a less efficient delivery of the CM obligations.

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

As we are not sure what other changes are proposed we have not specifically proposed firm changes, but believe the following could work:

7.5.1 (r) in respect of a New Build **or Existing** CMU or a DSR CMU, where a Capacity Provider notifies the Delivery Body that the location of a Generating Unit(s), **or Components of a Generating CMU**, and/or DSR CMU Component(s), or of an Interconnector CMU, is or will be

different from the location described in the Application, within five Working Days of receiving such notification

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:

We do not believe that it was the policy intent that parties who had a number of components making up a CMU would not have the same flexibility to locate those components as those with single component based CMUs. Unless this rule is altered the commercial flexibility of smaller parties in particular will be limited and an unlevel playing field created between different CMU configurations. This could increase compliance costs for one class of parties over other classes. This would distort competition.

The cost of component based CMUs is likely to increase in further auctions as the parties with type of investment may feel it is necessary to build in redundant MWs in case they have to move sites at a later date. It will be to the detriment of consumers if the rules add to risks that are then priced into the offer prices in an auction.

In the case of Existing CMUs, it would be possible for a CMU owner to move/purchase a component outside the delivery period and then pre-qualify the component again as a CMU then transfer the obligation to the "new" CMU (Chapter 9 allows for a transfer of part of an obligation 9.2.4(a)). However, it seems uneconomic to put the CMU owner and the Delivery Body through this whole process when a simple notification would achieve the same result. Again this would be economically efficient, allowing parties to take advantage of commercial opportunities, or respond to arising events, such as relocation due a site event.

We have not quantified the value at risk if this rule change is not made, but were a party to have a CMU with 2 components and they needed to move one component the cost may be related to the opportunity cost of using the site vacated by the moving equipment, such as the opportunity to develop new generation, or extend an industrial process. For some parties this may equate to significant value (£ms). If a party cannot relocate part of a CMU it may be forced to transfer the whole obligation (as without both components it may not qualify as a CMU), which will have a cost (lost income and possible charge to take on an obligation).

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

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