

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be
completed by Ofgem):
CP127

Name of Organisation(s) / individual(s):
Energy UK

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:

We are not aware of any alternative proposal.

What the proposal relates to and if applicable, what current provision of Rules the proposal relates to (please state provision number):

Transfers of a Capacity Agreement – 9.25(a)

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

Currently obligation trading can only take place after the T-1 auction for the relevant Delivery Year. This is damaging to potential liquidity in obligation trading, which would be beneficial to the efficacy of the Capacity Market and ensure security of supply.

This change would enable obligation trading up to de-rated capacity to take place any time between the conclusion of a given auction and its relevant Delivery Year.

The benefits of making this change would be twofold:

- 1) If a new build CMU is unable to meet its milestones and meet its obligations on time, it will have the opportunity to trade out its obligation well in advance of the Delivery Year. This will provide more of a guarantee that capacity will be secured and put less pressure on the T-1 auction when there may not be sufficient alternative capacity available.
- 2) This will increase the incentives for existing generating CMUs which are unsuccessful in the T-4 auction to be available to provide capacity in the Delivery Year. This will benefit security of supply in the intervening years until the CM starts delivering.

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

Remove the following from Rule 9.25:

“...can only be effected on the Capacity Market Register after the T-1 Auction for the relevant Delivery Year has concluded and provided that...”

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 believe that this change meets Ofgem's objectives to facilitate efficient operation and administration of the Capacity Market by improving liquidity in obligation trading, improving opportunities for risk mitigation and ultimately ensure security of supply and value for money to consumers.

One risk which might be identified is that the change might encourage 'less credible' projects to participate in the Capacity Market auction. We do not perceive this to be a big risk and in fact the change reduces the risks of the current situation whereby prospective CMUs are not able to trade out their obligations prior to T-1.

We note, however, that obligation trading above de-rated capacity (as proposed by DECC in their recent consultation) should only be allowed at T-1 to avoid unintended consequences such as entire obligations being traded out to several CMUs above their de-rated capacity, rather than a like-for-like replacement.

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

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