

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by Ofgem):
CP128

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: No

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

Load Following Capacity Obligation formula (Rule 8.5.3)

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

Our understanding of the policy intent was that LFCO should scale obligations based on demand during a delivery period as a proportion of peak demand. The current LFCO formula does not do this.

The LFCO formula uses the sum the output of all Capacity Committed CMUs as a proxy for national demand $[2 \times \sum E_{ij}]$. CM capacity only makes up a proportion of total UK capacity (e.g. some plant opts out; low carbon capacity is excluded, etc). In particular, in the TA, the capacity committed CMUs will only be a very small proportion of total capacity.

Therefore LFCO will not scale back the obligation as we believe the policy intends, as it only looks at performance of auction acquired CMUs. For example, in the TA, LFCO as written will scale obligations based only on the performance of TA CMUs.

Going forward, from 2018 onwards LFCO will not consider performance of capacity outside of the CM (opted out capacity, low carbon, etc).

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

On the assumption that policy intent is to scale obligations based on demand as a proportion of peak demand, LFCO formula (Rule 8.5.3) needs to use a better proxy for demand and for total system capacity.

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:

LFCO is much harder to anticipate if it is based only on CMUs with agreements. If the intent of LFCO was to reduce the capacity obligation when demand is lower during the year to reduce CM participants' risk, the current formula does not do this, leading them to face higher risks than necessary, and therefore

unnecessarily increasing the cost of the capacity market.

The problem is particularly stark in the TA, where the current formula bases LFCO on the performance of only a small number of CMUs. In the TA, the result of the LFCO calculation will be entirely unpredictable: it could be high at times of low demand, or low at times of high demand. Fixing this will mean that the requirements in the TA become similar to those in the main capacity market, rather than entirely artificial, allowing it to provide experience to new capacity providers and so improve the efficiency and effectiveness of the market.

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

Pavel Miller, Energy UK, 0207 747 1833, pavel.miller@energy-uk.org.uk