# Proposal for a Capacity Market Rules Change

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**Reference number***(to be completed by Ofgem)*:
**CP141**

| **Name of Organisation(s) / individual(s):** | **Date Submitted:** |
|---|---|
| National Grid Electricity Transmission Ltd | 15/01/16 |

**Type of Change:**

- ☐ **Amendment**
- ☐ **Addition**
- ☐ **Revoke**
- ☐ **Substitution**
- ☒ **Other**

**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)***:**

Consultation question 4 in reference to rules 8.3.3 and 8.3.4. Reallocation of DSR components.

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

In response to Ofgem's question of

"Do you believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the costs of increased testing and prequalification? Does volume reallocation already provide sufficient flexibility for DSR CMUs?"

There is currently no process in place to move components from one DSR CMU to another in a similar way to which balancing services providers move components. We believe the current form of secondary trading and post event volume reallocation offers DSR CMUs adequate opportunity to move capacity.

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

N/A

**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 is a perception that the CM is currently inflexible and restrictive for DSR, specifically around the reallocation of components. The following highlight the areas which we believe the industry are seeking to address:

- *DSR reallocation would allow an applicant to move components within CMUs to different CMUs within their portfolio*.

- *Reallocation would allow a CMU which has components which generate in different seasons (i.e. winter/summer components) to reallocate them during the year*.
- *Reallocation would facilitate portfolio maintenance by allowing DSR CMUs to add in/replace different components within the delivery year.*

We have summarised our response to these points below, each of which has been expanded on in an accompanying proposal,

*DSR reallocation would allow an applicant to move different components within CMUs to different CMUs within their portfolio*.
The basic principle of the CM is to provide a firm level of capacity across a number of CMUs for an entire year. It is not a balancing service contract where providers can offer differing volumes each week as more capacity becomes available. CMUs go through robust prequalification to ensure they are eligible and appropriate for the capacity market; to change prequalified components with non-prequalified components could undermine this principle of the CM. In that reallocating components from one CMU to another may boost the reliability of the receiving CMU but at the expense of the delivery CMU. Leading to no overall benefit in security of supply but increase in costs to provide it.
Currently in place (and being refined in the DECC consultation) is secondary trading and volume reallocation which would allow an applicant to trade capacity from one CMU to another. This method allows for DSR reallocation, it could be argued with fewer constraints to the reallocation proposals, as applicants would be able to trade with other companies not just those within their portfolio.

*Reallocation would allow a CMU which has components which generate in different seasons (i.e. winter/summer components) to reallocate them during the year*.
We do not think any fundamental change is necessary to achieve the desired outcome. A CMU can currently prequalify more components than are necessary to fulfil a Capacity Obligation, facilitating seasonal differences. For example if CMU has 20MW of summer components and 20MW of winter components, the capacity market allows all to be allocated to a single CMU to provide 20MW all year around.

*Reallocation would allow DSR CMUs to add in different components within the delivery year*.
The current rules allow for new DSR components to be added to a CMU part way through the year in the form of a secondary trading entrant: Under Rule 3.13.1: **Application process for Secondary Trading Entrants –** Applicants can still apply for secondary trading, after they receive a DSR test and become proven DSR components and pass through a separate prequalification, they can be traded into CMUs.

As there is already a process for new components to be added into the Capacity Market and as we, in principle, agree additional capacity should be included, we would support a method of making this easier with the premise that only genuine new capacity is included: In order to check this the applicant would have to apply to the settlement body who could check the metering information to make sure the component had not entered the CM before in that particular delivery year. From here the Delivery Body could prequalify the component and allow it in the capacity market.
This would further increase the flexibility of the capacity market whilst minimising the chances of gaming which could occur (as outlined previously) making them available for trading both within portfolio and available to other Capacity Providers.

We believe that the above routes provide the flexibility that DSR providers are seeking with regards to CMU reallocation but note that we are also committed to working with DSR providers to facilitate the growth of DSR volumes in the Capacity Market and increase their ability to participate in other balancing services outside of the CM.

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

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