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Capacity Market participants,
prospective participants and
other interested parties

Email: EMR_CMRules@ofgem.gov.uk
Date: 5 July 2016

Dear colleague

Electricity Market Reform (EMR): Decision (following the statutory consultation) on changes to the Capacity Market Rules pursuant to Regulation 77 of the Electricity Capacity Regulations 2014

Summary

- This letter sets out our decisions on changes to the Capacity Market Rules (the "Rules") pursuant to Regulation 77 of the Electricity Capacity Regulations 2014 (the "Regulations") [1].
- When reaching our decisions, we have taken into account the 23 formal responses to our statutory consultation on amending the Rules.
- We are also publishing a Schedule which sets out the changes to the Rules to implement our decision.
- These Rule changes will come into effect later this month alongside changes being brought forward by DECC.

Introduction

In our open letter of 19 November 2015 we set out our priority areas for changes to the Rules and invited proposals from stakeholders. We received 70 proposals. These are available on our website.

In line with Regulation 79 and our published guidance[2], we consulted on the Rule change proposals submitted to us, as well as nine proposed changes which we suggested[3]. The consultation ran from 29 April to 27 May 2016 (the "April consultation") and we received 23 formal responses. With the exception of confidential material we are publishing these responses alongside this letter. We also held a stakeholder workshop on 24 May 2016 to discuss the proposed Rule changes.

[1] The Electricity Capacity Regulations 2014 came into force on 1 August 2014 http://www.legislation.gov.uk/ukdsi/2014/9780111116852/pdfs/ukdsi_9780111116852_en.pdf
[2] https://www.ofgem.gov.uk/ofgem-publications/89120/finalguidelinesforthecapacitymarketrulesaugust.pdf
[3] Statutory Consultation on changes to the Capacity Market Rules https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-amendments-capacity-market-rules-0

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Context

The Capacity Market is governed by the Regulations and the Rules. The Regulations permit us to amend, add to, revoke or substitute (change) any provision of the Rules. When changing the Rules, we must have regard to our principal objective and general duties[4], and the specific objectives set out in the Regulations[5]:

- promoting investment in capacity to ensure security of electricity supply
- facilitating the efficient operation and administration of the Capacity Market
- ensuring the compatibility of the Capacity Market Rules with other subordinate legislation under Part 2 of the Energy Act 2013.

Section 41(9) of the Energy Act 2013 requires that the Authority, when amending the Rules, must, as soon as reasonably practicable after amendments are made, lay them before Parliament and publish them. We expect the amendments to be laid before Parliament and published later this month once the Electricity Capacity (Amendment) Regulations 2016 being developed by DECC have completed their passage through Parliament. Our Rule changes will then come into effect. We expect DECC's Rule changes to be made at the same time and that the process will be completed in time for the opening of the August 2016 Prequalification Window[6].

Our decision on amendments to the Rules

Annex A sets out our decision and reasoning for each of the proposals. We considered any new arguments or evidence received before making our final decisions; where appropriate, we have amended our minded to decision and/or drafting in the light of stakeholders' feedback. In a few instances, we have concluded that no change should be made now but that further review of the issue would be appropriate. In these cases we have specified whether we think the work should initially be taken forward by industry or ourselves.

We consulted on a number of questions relating to the methodology for calculating connection capacity. We have summarised the responses to those questions as part of annex C. However, as we indicated in the April consultation, we are not making any significant Rule changes on this issue at this stage. We will consider the responses further as part of our review of connection capacity arrangements.

We also asked stakeholders whether they agreed that the Load Following Capacity Obligation (LFCO) formula in the Rules could scale delivery obligations inappropriately during the first Transitional Arrangements (TA) Delivery Year and, if so, whether this warranted a change to the Rules. Following stakeholder feedback, we confirm that we expect to amend the formula ahead of the start of the 16/17 delivery year. We will be consulting further on this shortly.

List of annexes

- Annex A summarises the responses we received for each Rule change proposal we consulted on in the April consultation and our decisions
- Annex B provides a table summary of our decisions
- Annex C summarises the responses we received to the questions on possible amendments to connection capacity in the April consultation, and sets out our next steps.

[4] Ofgem's principal objective and general duties can be found at www.ofgem.gov.uk
[5] Regulation 78 sets out these objectives. Regulation 77(3)(a) states that the Authority must not make any provision in Capacity Market Rules which is inconsistent with the Regulations
[6] The numbering of the Rules may change when they are laid in Parliament from the version we are publishing today as a consequence of Rule changes being introduced by DECC.

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Next Steps

As explained above, these Rule changes will come into effect later this month.

We will consult further on changes to the LCFO rules over the summer so that any amendments can be made before the start of the first TA delivery year.

You can submit Rule change proposals at any time using the proposal form on our website. We encourage you to submit well-justified and developed proposals. In all cases, please provide evidence of the impact of the changes on consumers and the industry, particularly in the context of the capacity market objectives. One of the reasons we rejected some proposals this year (and last year) was that unsatisfactory reasons for making the changes were provided.

In our April consultation we said that we are considering the timetable for Rule changes in future years and whether an annual cycle is still appropriate. We aim to provide an update to stakeholders on this later in the year and we will consult on any significant changes to our existing guidance as appropriate.

Yours faithfully

Philippa Pickford

Associate Partner, Wholesale Markets
For and behalf of the Gas and Electricity Markets Authority

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Annex A: Responses received and decisions (by Rules chapter)

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1. General Provisions

Amendments we will make

Of1 – Ofgem

This proposal would extend the definition of Defaulting CMU (within the General Provisions)[7] to include a Capacity Market Unit (CMU) that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, and participated in the auction, but was not awarded a capacity agreement.

Consultation responses and decision

We have decided to make this amendment in part. We received nine responses. The responses were largely supportive of the policy intent but raised concerns about the inclusion of CMUs *suspected* of engaging in Prohibited Activities within the definition. Specifically respondents were concerned that this could result in parties being barred from auctions for up to two years even when that party has not been found to have participated in Prohibited Activities. In this situation there would not be a clear appeal route for those parties.

Our drafting in the consultation mirrored that of the existing definition which covers CMUs that have engaged in or are suspected of engaging in Prohibited Activities and *have* been awarded a capacity agreement. We note that in this circumstance there would be a clear appeal route for a CMU whose agreement in terminated. We agree that there are risks with extending this definition to include a CMU which does not hold an agreement and is *under suspicion* of engaging in Prohibited Activities given that the Rules do not include a clear appeal route for a party in these circumstances.

We have decided to extend the definition of a defaulting CMU to cover a party that *has engaged in* Prohibited Activities and participated in the auction but was not awarded an agreement. In this situation, the party will have been found to have engaged in one or more Prohibited Activities. During the course of the investigation process they will have had the opportunity to challenge the findings.

Of2 – Ofgem

This proposal would amend the definition of Legal Right in Rule 1.2 to make it consistent with Rule 3.7.1. The current definition defines Legal Right only with regard to land upon which a relevant CMU "is situated". Rule 3.7.1 (a) allows the Legal Right to cover land upon which a CMU "is, or will be located".

Consultation responses and decision

During consultation we received four responses to our proposed decision to accept this proposal. All the responses supported taking this proposal forward. We are making the change, therefore, for the reasons set out in our consultation. The stakeholder feedback included additional drafting to the definition of Legal Right in Rule 1.2. We have accepted these where they are consistent with the policy intent.

CP112 – E.ON

[7] Any reference to Rule numbers or chapters of the Rules refers to informal consolidated version of the Rules published 19 June 2015: https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/20150618_ofgem_capacity_market_rules_consolidated_0.pdf

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This proposal would amend the definition of Mandatory CMU in Rule 1.2 to clarify that Generating Units which are in receipt of low carbon support are not included. We agreed that the definition of Mandatory CMU should exclude ineligible CMUs which are receiving low carbon support and proposed to take this change forward.

Consultation responses and decision

We received three responses supporting this proposal. However, one response asked us to revise the wording of the definition of Mandatory CMU, and another response suggested extending the definition to also exclude long-term STOR contractors.

We agree that long-term STOR contractors that have not withdrawn, and are therefore 'excluded capacity' under the Regulations, should not be defined as Mandatory CMUs, similar to those Generating Units in receipt of low carbon support. We are taking forward the amendments as initially proposed, but we expect to consult over summer on a proposal to alter the definition further to ensure that all types of 'excluded capacity' are excluded from the definition of Mandatory CMU.

CP126 – Energy UK

This proposal would amend the Rules so that when a Refurbishing CMU's connection capacity is equal to its Pre-Refurbishment connection capacity, it does not have to be issued with a Final Operational Notification (FON) or an Interim Operational Notification (ION) for it to be classed as 'Operational'. This is because a generator may not be issued an ION or FON when its refurbishment work does not affect the network it is connected to (e.g. work to install emissions abatement equipment). It would also remove the requirement for this type of CMU to notify the Delivery Body when an FON or ION is issued.

Consultation responses and decision

One respondent agreed with the intent of the proposal but noted that Ofgem had not made drafting changes to Rule 6.7.5 as set out in the proposal. We do not think changes to Rule 6.7.5 are necessary given the changes to the definition of Operational.

We are making this change for the reasons cited in our consultation.

CP161 – VPI Immingham

This proposal seeks to make it possible for Applicants to identify 'Officers' to be an Authorised Signatory of the Applicant. This is to prevent Applicants that are not companies (such as partnerships) from failing to prequalify because they do not have directors to sign the relevant prequalification certificates. We proposed to take forward this proposal by adding a definition of 'Director', which incorporates relevant Officers, to the Rules for the purposes of Exhibits A to I.

Consultation responses and decision

We received a number of responses on our proposed decision during consultation. Stakeholders highlighted how the amendments should be made in a way that would affect the Exhibits but not change the terms director or officer elsewhere in the Rules. One response suggested that our proposed legal drafting produces an inconsistency in the use of terms throughout the Rules.

Having considered responses from stakeholders we will continue to take forward this proposal with the legal drafting proposed in our consultation. We believe our proposed

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drafting of the defined term 'Director' shows clearly what the term means and where in the Rules it applies.

Proposals rejected

CP111 – E.ON

This proposal would narrow the definition of Generating Unit under Rule 1.2 to make it clear that it only applies to equipment which is physically connected to, and capable of exporting to, a distribution or transmission network. We rejected this proposal because we believe it is an unnecessary clarification.

Consultation responses and decision

One response was received during consultation in support of our decision and no new evidence was presented to support making this change. We are therefore rejecting this proposal for the reasons stated in our consultation.

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2. Auction Guidelines and De-rating

Proposals rejected

CP94 – Association of Decentralised Energy (ADE)

This proposal would amend Rule 2.3 so that de-rating factors for Demand Side Response (DSR) CMUs would be set to reflect performance in the Capacity Market (CM), rather than being based on performance in Short Term Operating Reserve (STOR). We initially rejected this proposal because it was not sufficiently clear how a new de-rating factor for DSR CMUs would be calculated. The proposal received did not provide calculations for how reliability in the CM would be measured.

Consultation responses and decision

We received two responses during the consultation which supported our proposed decision to reject this amendment at this time and consider this issue at a later date. As noted in consultation, we acknowledge that the reliability of DSR CMUs could be different from the reliability of STOR providers, but in the absence of a proposed new methodology for calculating de-rating factors for DSR CMUs we are not making this change. Stakeholders may wish to consider submitting a fully worked-up proposal that sets out a new de-rating factor calculation for DSR CMUs.

CP146 & CP158 – National Grid Electricity Transmission (NGET) & Scottish Power

These proposals would introduce a new formal 'verification' stage into the prequalification process (chapter 2 of the Rules). This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body. The intention of this was to minimise the amount of Applicants that have to go through a Tier 1 disputes process because they have made unintentional errors.

Consultation responses and decision

We received three responses on this issue. One was from NGET broadly in support of our reasons for rejecting this proposal that we set out in the consultation document. The other two argued that we should accept the changes. One of these argued that the additional stage would not cause a noticeable reduction in the standard of applications. We disagree although it is difficult to show either way. The other respondent advised that Regulation 69(5) should continue to be suspended; and they acknowledged, this is an issue for DECC. (The regulation prevents new information from being submitted at disputes.) Neither response provided new evidence in favour of the additional stage. We are therefore rejecting the proposals for the reasons stated in our consultation.

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3. Prequalification Information

Amendments we will make

Of3 – Ofgem

In our 2015 decision on changes to the Rules in relation to Opt-out Notifications, we clarified that in the case of receiving both an Opt-out Notification and a prequalification application, the Delivery Body should use the document submitted last (rule 3.3.3(b)). The change we made to achieve this inadvertently excluded parties who Opt-out of the T-4 auction but will be operational in the Delivery Year to participate in the corresponding T-1 auction. This was not our intention. We published a commitment in our FAQ in January 2015 and Open Letter in July 2015 that we would amend the Rules to correct this before the first T-1 prequalification in 2017.

Consultation responses and decision

We received four responses to this proposal, and in the main views from stakeholders were supportive. However, one company expressed concern that this change could introduce volatility in the T-1 auctions. We don't believe there is sufficient evidence to deviate from our original decision to take this proposal forward based on the feedback we received. Therefore, we will make the proposed change to rule 3.3.3(b). This rule change will not have an impact on CMUs which have opted-out and will be closed down, decommissioned or otherwise non-operational at the commencement of the Delivery Year.

Of4 – Ofgem

Applicants currently have the option of using Transmission Entry Capacity (TEC) to determine a generating unit's connection capacity. Where a site is split into multiple CMUs, the power station's TEC is split between each unit in proportion to that unit's share of the total Connection Entry Capacity (CEC). Currently, the total CEC used is the maximum of the station level CEC or the sum of individual units' CEC. However, using the station level CEC could result in a connection capacity that is not equal to the total station TEC. That is not the intention of the formula. This proposal seeks to correct the TEC formula by removing the option to use station level CEC.

Consultation responses and decision

We previously consulted on this change in our November Open Letter and most respondents were supportive. In response to the April consultation two respondents noted their support for the change. One respondent noted that the minimum rule is no longer necessary and that there is an interaction with CP125, which also proposed to amend this formula.

We intend to make the change and also amend the formula to remove the minimum rule, as it is not mathematically possible for an individual unit CEC to be greater than the sum of all unit CECs. This does not change the working of the formula but makes it more readable. We think this removes the need for further changes because of auxiliary load, as proposed in CP125.

There is one further drafting change from the proposal: the option to use station level CEC has also been removed from Rule 3.5.5(b), which ensures the formula works for Distribution CMUs as well as Transmission CMUs.

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Of5 – Ofgem

Under Rules 3.6.1(b) and 3.6.1(c), Non-CMRS[8] Distribution CMUs must provide confirmation of the Line Loss Factor (LLF) values applicable to the three periods identified to demonstrate historical output. This requires a letter from either a DNO or supplier (depending on the CMU's meter type). Failure to submit this will lead to the CMUs not prequalifying.

The policy intent of these provisions is to ensure that line loss factors are applied consistently; in particular to ensure that non-CMRS Distribution CMUs can benefit from the additional capacity they are due as a result of line losses. However, the current Rules cause prequalification problems for some of these CMUs, even if they do not wish to claim Line Loss Adjustments. For example, because they are unable to get a letter from a supplier, DNO or Unlicensed Network owner confirming the LLF values.

Also, some parties thought there was a lack of clarity about what the DNO letter required under 3.6.1(c)(i)(aa) should include in the 'LLF methodology statement'. We confirmed in our August 2015 FAQ[9] that this only needs to include LLF values, not the calculations behind the LLF values.

We proposed to amend Rules 3.6.1(b)(i)(bb) and 3.6.1(c)(iii) so that Non-CMRS Distribution CMUs which have not provided LLF values are still able to prequalify based on their non-adjusted historical output. We also proposed to clarify what is required in the DNO letter.

Consultation responses and decision

We received two responses during consultation both of which supported our decision to make the proposed amendments. No evidence was provided against our proposed decision. We will therefore continue to make this amendment for the reasons stated during consultation.

Of6 - Ofgem

Rule 3.7.1 requires Applicants to provide planning consents for New Build CMUs. We are concerned that the current drafting makes it possible for a CMU to prequalify with planning consents which include an explicit expiry date which is earlier than the end date of the Capacity Agreement. This could create risks for security of supply if generators have to close down within their capacity agreement period because their planning permissions have expired.

Consultation responses and decision

We received several stakeholder responses in favour of this Rule. We note that most of the planning consents we have seen do not have any expiry date. Where this is the case this Rule change will not have any impact. However, to prevent future cases where Ofgem has to take action against defaulting CMUs we will be implementing this change to 3.7.1[10].

One stakeholder proposed a minor alteration to the wording included in Rule 3.7.1, but we considered this alteration (which would have allowed the planning consent to expire at the same time as the capacity agreement) to be inappropriate. We believe

[8] CMRS is the Central Meter Registration Service: https://www.elexon.co.uk/glossary/central-meter-registration-service/
[9] https://www.ofgem.gov.uk/sites/default/files/docs/2015/08/20150824_capacity_market_faqs.pdf
[10] https://www.ofgem.gov.uk/publications-and-updates/ofgem-opens-investigations-five-generators-compliance-capacity-market-rules

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that this drafting change could increase the risk that the CMU with a capacity market agreement is unable to deliver that agreement as the CMU will require a valid planning consent to disassemble the existing site structures.

Of7 – Ofgem

This proposal would ensure that a Prospective CMU can only claim a given item of capital expenditure for the purposes of one prequalification application. The existing Rules potentially enable a CMU which has gained a multi-year capacity agreement to cite the same capital expenditure in a subsequent application in order to qualify for a second multi-year agreement. This may be possible where the periods for qualifying expenditure overlap.

Consultation responses and decision

We have decided to make this change to ensure that capital expenditure cannot be claimed for more than one capacity agreement (Rules 8.3.6(aa) and 3.7.2(c)). We received several stakeholder responses in favour of the intent of this Rule change and some that suggested amendments. We note that this prohibition will be for successful applications only and will apply only where the capital expenditure has been spent.

CP99 – ADE

This proposal would amend Rule 3.6.1(b) to make it easier for Non-CMRS Distribution CMUs to prove their physically generated output. In particular, it would enable these CMUs to provide evidence that they delivered a Metered Volume when discharging a balancing services obligation as an alternative to providing a letter from a supplier or former supplier. We initially accepted this proposal on the basis it helped to streamline prequalification.

Consultation responses and decision

We received a number of responses to this proposal during consultation, none of which opposed our proposed decision. Two responses highlighted concern for the robustness of data being provided through this alternative approach, and also the reduced number of checks in a process which does not involve using meter operator's data. Having consulted the Delivery Body we believe that the evidence of delivering a Metered Volume when discharging a balancing services obligation is a robust alternative and we will continue to take forward this proposal. As this proposal was raised to solve a problem particular to certain types of CMUs, we will introduce drafting that restricts this alternative option only to those CMUs that are not able to provide a letter from a supplier or former supplier.

CP109 & CP142 - DECC & NGET

These proposals from DECC and NGET would amend the Rules (3.6.4 (a), (b) and (c) and 3.9.4) so that applicants are only required to complete a Metering Assessment and provide metering related information (with the exception of MPANs) after a Capacity Auction rather than during prequalification.

In addition, NGET proposes that metering information could be provided directly to the Settlement Body rather than via the Delivery Body (effectively moving the current responsibility of collecting and verifying metering information onto the Settlement Body).

Consultation responses and decision

The first of these amendments simplifies prequalification and is in line with our objective to promote the efficient operation of the CM. Feedback from stakeholders

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supported our decision on this proposal, and therefore we will move the provision of metering related information and the completion of a Metering Assessment into the post-auction period. We have amended our drafting from consultation to cover interconnector CMUs in the change. This in line with the policy intent on which we consulted.

To take into account the short period between the start of the delivery year and the auctions for the anticipated early capacity auction and the second Transitional Arrangements Auction we have made some drafting changes. These drafting changes say when the provision of metering related information and the completion of a Metering Assessment should be done where the period between the auction and the Delivery Year is less than eight months. In addition, we have changed some of the existing rule referencing on metering for the purposes of clarity and within the scope of our consulted policy intent.

We have decided not to take forward the second element of the proposal as this would effectively change the roles and responsibilities of the Delivery Body and the Settlement Body.

CP114 – E.ON

This proposal seeks to simplify the Opt-out process by removing the requirement for an accompanying statement signed by two directors to say that they are able to correctly sign a Certificate of Conduct (Rule 3.12.5). We agreed that Rule 3.12.5 does not appear to have any benefit. The director's ability to sign a Certificate of Conduct is implicit in their signing a Certificate of Conduct (as required under 3.11.5). We proposed to take forward this change as it removes an unnecessary requirement.

Consultation responses and decision

We received no responses objecting to our proposed decision during consultation. We will therefore make the amendment and remove Rule 3.12.5, removing an unnecessary requirement for the reasons stated in our consultation.

CP117 – Eggborough Power Limited

For the first two Capacity Auctions, New Build CMUs were able to declare in their prequalification applications that they would obtain all Relevant Planning Consents and would have the Legal Right to use the land by no later than 17 Working Days prior to the commencement of the Capacity Auction (Rule 3.7.1(a)). This was an alternative to making these declarations at the time of the prequalification application. This provision has now expired.

This proposal would make Rule 3.7.1(a) applicable to all future Capacity Auctions, not just the first two Capacity Auctions.

Consultation responses and decision

We received no responses objecting to our proposed decision during consultation. We will therefore make the proposed change and amend Rule 3.7.1(a) so that it applies on an enduring basis. We have changed the deadline for obtaining consents and legal right from 17 Working Days to 22 Working Days prior to the commencement of a Capacity Auction to allow NGET more time to review the consents.

CP122 – Energy UK

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This proposal would clarify that a six-figure grid ordnance survey reference means all eight digits of the alphanumeric code (two letters and six numbers). We proposed to take this forward as we agree it is a useful clarification that could reduce mistakes during prequalification.

Consultation responses and decision

We received one response during consultation which supported our proposal to accept this change. No evidence was provided objecting to our proposed decision. We have decided to make this change. Relevant amendments have been made to provisions in Chapters 3, 4, 8, and Schedule 1 of the Rules.

CP136 – Moyle Interconnector

These proposed changes would base the Connection Capacity of an Interconnector CMU on its Connection Entry Capacity (CEC) or, if different, its maximum technical capacity, as opposed to its Transmission Entry Capacity (TEC). It would also cap the De-rated Capacity for Interconnector CMUs at TEC to prevent them from failing to prequalify as a result of 3.6A.2.

Consultation responses and decision

Five respondents did not agree with making any change, citing that this change only impacts one party and that TEC is a better reflection of IC output. Six respondents agreed with the proposal, favouring the inclusion of CEC in the formulation of connection capacity for interconnectors. Three parties suggested waiting until the wider review of connection capacity is implemented before making any change.

We agree with the respondents who favoured the change. As generators are able to set their connection capacity at CEC we believe allowing the same Rules for interconnectors is appropriate. Therefore we intend to take forward this proposal.

We do not think that the argument that there is only one party that will be directly affected by this proposal is relevant to our decision. We also note this proposal could impact more than one interconnector, as it would reduce the need to hold TEC at the same level as CEC. We did not receive evidence or reasons to suggest TEC is a better reflection than CEC of measuring the maximum potential capacity of an interconnector.

We considered if we should delay this change given our wider consideration of connection capacity. However we have decided to make this change now as we consider that it will enable more genuine capacity to participate in the CM, potentially lowering costs to customers.

Two parties expressed concern as to how de-rating factors would be changed in response to this proposal. We believe in this circumstance it is important to distinguish between connection capacity, which is the maximum capacity and de-rated capacity, which is a probabilistic measure of how much reliable capacity can be delivered. Interconnector de-rating factors will, for example, take into account the conditions in the interconnected market[11]. These factors are distinct from the theoretical maximum capacity of the interconnector, which is what the connection capacity represents.

[11] See section 7.2 of the Electricity Capacity Report 2015 for a description of how ranges for the de-rating for interconnectors are derived: https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Electricity%20Capacity%20Report%202015.pdf

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In our consultation we also asked whether the requirement for interconnectors to hold TEC up to their de-rated capacity should be removed. The vast majority of respondents thought de-rated capacity should be capped at TEC and did not think the requirement to have TEC should be removed. Several stakeholders pointed out that generators may also be able to generate above TEC in a stress event, for example with a maxgen instruction (Grid Code BC2.9.2), and therefore interconnectors were not different in this respect. We agree that capping de-rated capacity at TEC provides an equal footing with generators and helps to provide protection against, for example, constraints on interconnectors which would cap their output at TEC. Therefore we do not plan to remove the requirement for interconnectors to hold sufficient TEC to meet their de-rated capacity obligation.

CP149 - RWE

This proposal would remove the requirement on applicants to submit de-rating Factors and Anticipated De-rated Capacity (Rules 3.4.5(c) and 3.4.5(d)). We proposed to accept this amendment as we agree that Applicants do not actually have to submit De-Rating Factors in practice and Anticipated De-rated Capacity is automatically calculated by the Delivery Body.

Consultation responses and decision

We received one response, which supported our proposal to take this forward. We are therefore making this change.

CP150 - RWE

This proposal would amend Rule 3.5.4 to clarify how the Average Highest Output of a Generating Unit should be determined when calculating connection capacity: that it should be converted to MW and stated to three decimal places.

Consultation responses and decision

One respondent noted this clarification was helpful, while no respondents disagreed with this change. We are therefore making this change.

CP157 – Scottish Power

This proposal would change the Rules (3.7.1 and 4.7.1) to explicitly recognise the potential for Connection Capacity to be higher than the capacity stated in a Relevant Planning Consent, and would require participants to provide documentary evidence to explain and justify any difference in order to prequalify.

Consultation responses and decision

We agree that connection capacity can justifiably be higher than the capacity stated in the Relevant Planning Consents, and responses were supportive of our analysis. We are making this change.

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Proposals rejected

CP92 – ADE

This proposal recommends the introduction of line loss estimates on the basis of periods of system stress, rather than annual averages, to reflect the line losses that would occur in a stress event.

Consultation responses and decision

We have decided to reject this proposal as the only two stakeholder responses received supported the reasons for rejection set out in our consultation.

CP105 – ADE

This proposal sought to reduce the administrative burden for applicants involved with obtaining letters from suppliers and DNOs under Rule 3.6.1(c) and made suggestions to:

- remove the requirement for Non-CMRS Distribution CMUs using the Balancing Services Metering Configuration Solution or Bespoke Metering Configuration Solution to provide a letter from the Distribution Network Operator (DNO);
- add a definition of 'Electricity Supplier' under Rule 1.2 and impose a timeline for the Electricity Supplier to provide a letter within 15 working days; and
- add a new requirement under Rule 3.6.1 that if the relevant Electricity Supplier has ceased trading, no supplier letter is required.

We rejected this proposal but noted we were proposing our own changes in this area to resolve some of the issues raised (Of5).

Consultation responses and decision

We received two responses supporting our consultation decision to reject this proposal. No evidence was provided to support of the change. We are not making this change for the reasons stated in our consultation document.

CP120 – Energy UK

This proposal sought to simplify the prequalification process for CMUs that opt-out over multiple consecutive years. It proposes to either allow participants to submit an 'evergreen' opt-out which only expires once the CMU opts in, or to enable providers to submit a declaration that the information from a previous opt-out remains the same. This would require changes to Chapter 3 of the Rules. We proposed to reject this as it is very important for opt-out information to be accurate to ensure the CM procurement recommendations are robust. We also understand that the Delivery Body has made changes to simplify the opt-out process, reducing the need for this proposal.

Consultation responses and decision

We received one response during consultation in support of our minded to decision to reject this proposal. No new evidence was provided to support the initial proposal. We are not making this change for the reasons stated in our consultation document.

CP121 – Energy UK

This proposal would introduce the option for Applicants to submit Metering System Identifiers (MSIDs) instead of Meter Point Administration Numbers (MPANs) throughout the

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Rules (eg 3.4.3) in order to reduce the burden involved in providing explanations when an MPAN is not unique to a CMU.

Consultation responses and decision

We received one response to our consultation in this area in support of our proposed decision to reject this change, and no views in opposition. We are not making this change for the reasons stated in our consultation document.

CP125 – Energy UK

This proposal seeks to clarify how Connection Entry Capacity (CEC) should be stated for the purposes of calculating a Transmission CMU's Connection Capacity. In particular it would:

- require applicants to declare whether a CMU's CEC is set net of Auxiliary Load or as a gross figure;
- if it is the latter, require the CMU to submit an outline of the methodology used to calculate Auxiliary Load and then subtract it from CEC;
- explicitly state that the Delivery Body must not prequalify a CMU if the above information is not provided;
- amend the formula in Rule 3.5.5 to ensure it is compatible with the Auxiliary Load requirement in Rule 3.5B.1(c).

Consultation responses and decision

We received one response in favour of this proposal and one response agreeing with our rejection. Further evidence was offered to support the argument that there is a "capacity gap" between capacity available in the market (via MEL data) and capacity offered in the capacity market.

We acknowledge that such a "capacity gap" could be due to a variety of reasons, including failure of plant to net-off auxiliary load. However we have not seen any specific evidence that this gap is due to auxiliary load. Therefore we continue to reject the proposal for the reasons outlined in our consultation, in particular that the Rules already provide that connection capacity must be stated net of auxiliary load.

However, we will re-consider this proposal in future if sufficient evidence is presented to us showing that auxiliary load has not been accounted for correctly.

We note that one part of this proposal relates to Rule 3.5.5 and ensuring it is compatible with the requirement to state connection capacity net of auxiliary load. We are making changes to this formula as part of Of4, which will ensure auxiliary load can be accounted for correctly so are not taking the CP125 proposal forward. (In addition to the changes outlined in our consultation we intend to remove the minimum function from this formula, as mathematically it is unnecessary. This does not change the working of the formula but makes it more readable.)

CP143 – NGET

This proposal sought to clarify the requirement for applicants to provide evidence of their Relevant Planning Consents during prequalification. In particular, it suggests specifying in the Rules that:

- these consents must permit construction of a generating unit whose size is at least equal to the CMU's connection capacity;
- they should be valid at the point of prequalification;
- should be specific as to what the consents are granted for; and
- any range in size must be supported by accompanying evidence.

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Consultation responses and decision

We received two responses supporting our proposed decision to reject the proposal and our reasoning for it. We are not making these changes for the reasons in our consultation.

However, we agree that generators should be able to submit technical evidence to the Delivery Body in order to justify why their connection capacity is higher than the MW volume specified in a planning consent. We are therefore making a related rule change – see CP157.

CP151 - RWE

This proposal would amend Rule 3.5.4 so that a Generating Unit's Average Highest Output would be determined using the three periods where that unit generated its highest output, rather than the three periods where the overall CMU delivered its highest output.

Consultation responses and decision

We received one response agreeing with our proposal to reject this change and noting that a CMU should be able to run all of its units concurrently. Therefore we are not making this change for the reasons set out in our consultation.

CP152 - RWE

This proposal would amend the Connection Capacity calculation methodology for Distribution CMUs which hold Transmission Entry Capacity (TEC). In particular, it would amend the definition of Station Level Transmission Entry Capacity ('STEC') for Distribution CMUs so that it refers to the lower of Maximum Export Capacity and TEC.

Consultation responses and decision

We received no responses to this proposal and therefore we continue to reject it for the reasons cited in our consultation.

CP153, CP154 & CP155 - RWE

These three proposals are interlinked:

CP153 would amend Schedule 3 so that Wind and Solar are included as Generating Technology Classes, enabling de-rating factors to be published for these technologies. This was intended to enable Solar and Wind CMUs to participate in the CM and allowing them to be taken into account when assessing the connection capacity at shared connections.

CP154 would amend the rules by removing the word 'Anticipated' in all references to the term 'Anticipated De-rated Capacity'. This is intended to enable Applicants to take into account the output from units which are part of a shared Connection Agreement but do not participate in the CM (and therefore do not have anticipated capacity).

CP155 seeks to amend the definition of Distribution Connection Agreement so that Applicants for CMUs with shared connections, where the counterparty to the Distribution Connection Agreement is not responsible for that CMU, can participate in the Prequalification process.

The aim of the proposals is to ensure that CMUs which co-locate with non-CM generators (such as wind and solar farms) are not over rewarded for their capacity. This could occur

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because a CMU receives a connection capacity equal to the maximum capacity of that connection site, despite the possibility that the non-CM generator could provide output during a stress event. This would mean the CMU would not actually be able to provide the full capacity stated in its agreement.

Consultation responses and decision

We received three responses relating to these proposals, one of which was supportive of our analysis and proposed decision. As noted in our consultation, we agree that this is an issue that potentially needs addressing, and two of the responses were supportive of this view. No new evidence was presented to support the proposed amendments in their current form, and we therefore are not making the change for the reasons set out in our consultation. However, we would be interested to receive further fully worked-up proposals in this area in future.

CP160 – UK Power Reserve

This proposal seeks to clarify the definition of 'Legal Right' to minimise the risk of different interpretations by Applicants. It would also make additions to Rules 3.7.1 and 4.7.1 to specify that the Legal Right to land should be for a time period equal to or greater than the duration of the Capacity Agreement. In addition, it would require applicants to provide documentary evidence of a Legal Right.

Consultation responses and decision

We received no responses objecting to our proposed decision to reject this proposal and two responses in support. We therefore reject the proposed changes for the reasons in our consultation.

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4. Determination of Eligibility

Amendments we will make

Of8 - Ofgem

This proposal would amend Rule 4.6.2 so that when the CM Settlement Body provides a credit cover approval notice to an applicant it also provides a copy to the Delivery Body. This would remove the need for applicants to provide a copy of this notice to the Delivery Body.

Consultation responses and decision

Feedback from stakeholders on this proposal was positive. However, as we understand that DECC is implementing a similar change that will cover this issue we are not making this change. We were asked whether the Rules sufficiently capture the timing of 'Commencement of the Development' expiry date. Our view is that this is captured by Rule 3.7.1(a)(i) and no further amendment to this Rule is required.

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5. Capacity Auctions

Amendments we will make

CP137 – NGET

Currently there are no clear rules about when a clearing price and capacity volume should be provided to bidders and made public following a Capacity Auction. This proposal would change Rule 5.10 to specify that the Delivery Body should publish a provisional clearing price and volume by 8pm on the day a CM auction clears.

Consultation responses and decision

We received two responses, both in support of the proposal but with drafting suggestions. We received further information from the Delivery Body which proposed that the exact publication timing would be dependent on whether the auction cleared before or after 12pm. We have revised the drafting to require the Delivery Body to publish the results within 24 hours of the auction clearing. The purpose of the proposal on which we consulted was to provide clarity to stakeholders as to when the results will be published. We consider the change from the consultation drafting is consistent with the purpose and corrects an oversight in the proposal.

Proposals rejected

CP96 – ADE

This proposal would either delete Rule 5.3.2(b), which excludes bidders unless they have complied with "the terms of any continuing Capacity Agreement in relation to any CMU", or replace it with a paragraph which states the specific Rules and Regulations where it would be appropriate to exclude Bidders from a Capacity Auction for non-compliance.

Consultation responses and decision

We received two comments on our minded to reject decision. One was from NGET supporting our position. The other was from ADE raising further reasons for making the Rule change. They gave examples of where ADE members felt there was a lack of clarity about the effect of the rule and its potential financial implications.

Rule 5.3.2(b) creates circumstances in which the consequences of not meeting the terms of a capacity agreement will have ongoing implications for the provider's potential future agreements. We consider the rule is intended to put measures in place to deter participants from acting in a careless or reckless manner. Having considered ADE's response we remain of the view that the intent to hold participants to account for meeting the terms of a capacity agreement is appropriate, where non-compliance could have serious consequences. We will reconsider this should we receive further proposals evidencing the extent and nature of the harm created by Rule 5.3.2(b).

CP102 – ADE

This proposal would require details of the capacity which has exited each Bidding Round to be published after each Bidding Round and as part of the Capacity Market results.

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Consultation responses and decision

We have decided to reject this proposal. The Delivery Body responded in support of our intention to reject. We received no other related comments. We are therefore continuing to reject it on the grounds set out in the consultation document.

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6. Capacity Agreements

Proposals rejected

CP159 – Multifuel Energy Ltd

This proposal seeks to amend the Rules so that Renewables Obligation (RO) eligible technologies other than biomass (such as energy from waste with CHP) can voluntarily terminate a Capacity Market Contract in order to transfer to the RO scheme. We proposed not making this change as it would require a change to the Regulations and we notified DECC of the issue raised.

Consultation responses and decision

We received one response during consultation which supported our decision. No evidence was provided against our proposed decision. Therefore, we reject this proposal for the reasons stated in consultation.

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7. Capacity Market Register

Amendments we will make

CP144 – NGET

This proposal seeks to simplify the Capacity Market Register (CMR) by removing certain requirements listed under Rules 7.4.1, 7.4.5, and 7.5.1. We proposed partially to take forward this proposal as removing unnecessary information would simplify the register. However, we rejected the suggestion of removing some information requirements as they were deemed necessary for the ESC's functions or other monitoring purposes.

Consultation responses and decision

We received two responses to our consultation, both in support of our proposed decision to partially take forward this proposal. The Delivery Body confirmed its current need for metering information for their functions, which supports our decision to remove some items but keep others. In line with our consultation we are therefore removing the following requirements under Rule 7.4.1: (a)(vi) the Anticipated De-rated Capacity of the CMU, (a)(viii) the identity of an Agent nominated for that CMU by the relevant Applicant, and (i) the relevant Delivery Years.

Proposals rejected

CP116, CP123 & CP135 – E.ON, Energy UK & InterGen

These three proposals made very similar suggestions to amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued this is reflected on the CM Register.

Consultation responses and decision

We have decided to reject these proposals. We consulted on accepting the changes on the grounds that it would increase transparency. We received two responses. One of these was sympathetic to the policy intent but suggested the CMR should not be updated until after the appeal process had been completed (where applicable). The second respondent was opposed to the change. We have reviewed the issue. There is a risk that publishing this information could have detrimental unintended consequences. For example, the terminated party could effectively become a distressed seller when seeking to trade its obligation as others would know of its difficulties. There is also the chance that the party has its termination withdrawn which weakens the transparency argument in favour of publishing these notices.

CP101 - ADE

This proposal would amend Rule 3.4.3 so that an Applicant must specify a CMU's generation type and fuel type in its prequalification application. We rejected this proposal because the Government has proposed making similar changes to the CMR as part of its amendments (including the addition of fuel type).

Consultation responses and decision

As proposed in our consultation, we are rejecting this proposal on the basis that Government has proposed making this change as part of its amendments. We received no responses in opposition to our proposed decision.

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CP110 – E.ON

This proposal would add 'Generating Technology Class' to the CM Register and split up the 'OCGT and reciprocating engine' class to specify fuel type. This would imply changes to Rule 7.4.1 in particular. We rejected this proposal because the Government has proposed making similar changes to the CMR as part of its amendments (including the addition of fuel type).

Consultation responses and decision

As proposed in our consultation, we are rejecting this proposal on the basis that Government has proposed making this change as part of its amendments. We received no responses in opposition to our proposed decision.

CP156 – Scottish Power

This proposal seeks to amend Rule 7.4.1 to include 'Generating Technology Class' on the Capacity Market Register. It would also amend Schedule 3 by splitting up the 'OCGT and reciprocating engines' class into four separate classes. We proposed to reject this proposal as Government has proposed making similar changes to the CMR as part of its amendments.

Consultation responses and decision

We received no views in opposition to our minded to decision during consultation and will therefore reject this proposal.

CP106 – Alkane

This proposal would ensure that, if 'Fuel Type' becomes a requirement on the Capacity Market Register, it is clear in the Rules that a participant is able to change its Fuel Type. We initially rejected this proposal as it related to the changes to the CMR which Government are proposing to make. We forwarded this proposal to Government to be considered alongside these other changes.

Consultation responses and decision

We did not receive any responses objecting to our consultation decision. We are therefore rejecting this proposal for the reasons stated in our consultation. We also note here that the Rules as currently drafted will allow participants to change their Fuel Type on the CMR at the point it becomes factually inaccurate. Rule 7.7 allows participants to apply to the Delivery Body for a relevant entry in the Capacity Market Register to be amended or deleted.

CP107 – Alkane

This proposal seeks to allow existing generators to alter the location of generating units. Currently relocation is available only to New Build Generating CMUs, Interconnector CMUs, and DSR.

Consultation responses and decision

We have decided to reject this proposal for the reasons stated in our consultation. We received only two responses to our rejection, both of which supported our intention to reject the proposal.

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CP119 & CP133 – Energy UK & Green Frog Power

These proposals would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.

Consultation responses and decision

We have decided to reject these proposals. We received only one related response to our consultation which was from National Grid in favour of our minded to decision. We continue to believe that the Capacity Market Register is not the right platform for facilitating secondary trading and suggest that industry should develop a bespoke platform for promoting liquidity in secondary trading.

CP134 – Green Frog Power

This proposal would amend Rule 7.4.1(c) so that the Capacity Market Register only displays the prequalification status for CMUs after the Tier 1 disputes process.

Consultation responses and decision

We have decided to reject this proposal on the understanding that Government will be making a very similar amendment (as indicated in DECC's March 2016 consultation). We received no arguments against our proposed rejection.

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8. Obligations of Capacity Providers and System Stress Events

Amendments we will make

Of9 - Ofgem

This proposal would include Emergency Manual Disconnections[12] in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction (ILR). It would also take forward CP24[13] from last year (which proposed including Automatic Low Frequency Demand Disconnections within the scope of ILR).

Consultation responses and decision

NGET agreed with the proposal, noting it would align the Rules with the operational practices of the National Grid control room and the operational realities of Capacity Market Warnings.

One respondent suggested additional wording may be needed to ensure System Stress Events only related to adequacy issues. We are satisfied that Rules 8.4.2(i) and 8.4.2(ii) already exclude actions which are not due to adequacy and have not found any evidence against this.

We did not receive any other response to this proposal and intend to make the change.

CP139 – NGET

This proposal suggested placing an obligation on New Build CMUs and DSR CMUs to submit relevant documents when notifying the Delivery Body that it wishes to relocate one or more Generating Units or DSR components. The current Rules do not make explicit the documents required for relocation. As a result, the Delivery Body currently requests that CMUs submit documentation relevant for prequalification. This proposal would formalise this process and require relocating CMUs to submit documents including planning consents, connection arrangements, financial commitment milestones, metering assessments, metering configuration confirmation, OS Grid Reference for the new location, STOR status, Low Carbon Exclusion and Low Carbon Status, and the new MPAN. The proposal would also extend the Delivery Body's window for assessing relocation applications from 5 working days to 10 (Rule 7.5.1).

Consultation responses and decision

We have decided to accept this proposal. We received three responses from stakeholders which supported in principle our introduction of these new requirements for relocating New Build and DSR CMUs. We have also decided to introduce a new amendment proposed by a stakeholder to require the submission of a description of the nature of the construction, repowering, or refurbishment to be taken where applicable. This is to bring these requirements in line with the rest of the Rules.

[12] As covered in section OC6.7 of the Grid Code
[13] CP24: https://www.ofgem.gov.uk/publications-and-updates/e-capacity-market-rules-change-proposal-1

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Proposals rejected

CP95 – ADE

This proposal seeks to introduce more flexibility for Capacity Providers to add and remove DSR CMU Components to and from DSR CMUs. This would have implications for Chapter 8 of the Rules. We noted in consultation it is important that DSR is able to compete effectively in the CM. We rejected this proposal CP95 in favour of taking forward three related proposals: CP124, 129, and 130. We felt that the combination of CP124, 129 and 130 would be a better solution to these issues than CP95 alone for the reasons in our consultation.

Consultation responses and decision

In our consultation we asked stakeholders whether they agreed that the combination of CP124, CP129 and CP130 would be a better solution to issues that CP95 raises and seeks to address. All of the responses we received to this question were in favour of the combination over CP95, or where not, they agreed that the combination of CP124, CP129 and CP130 would address the issues raised by CP95 sufficiently. No evidence was provided in opposition to the analysis we presented in consultation and the concerns we raised regarding CP95.

Therefore, we maintain our decision to reject this proposal in favour of CP124, CP129 and CP130, for the reasons stated in our consultation.

CP108 – DECC

This proposal suggests that DECC, Ofgem and NGET consider how rules in relation to Capacity Market Warnings operate in practice and interrelate with other system warnings issued by the System Operator (SO) and whether any rule changes are required.

Consultation responses and decision

There was no clear agreement on whether Capacity Market warnings should become more aligned with SO warnings. However, we note that most parties favour increased visibility and transparency of warnings.

Four respondents favoured not making any change. Three noted they were happy with the current arrangements, while one favoured a "wait and see" approach. Some of those stakeholders suggesting alignment thought changes would be needed in the Grid Code rather than the CM Rules.

One respondent noted any change to timings of the warnings would have commercial consequences, while another argued that the timings must remain as agreements in the last auctions were secured on this basis.

Other stakeholders favoured alignment without changing the timings, for example in the way in which warnings are communicated. Several stakeholders suggested posting CM warnings on the BMRS website to aid transparency. Several of these thought there should also be an alternative method of communication. Two stakeholders suggested having a separate website for this purpose.

As no specific rule change was put forward, we continue to reject this proposal. However, stakeholders can submit fully worked-up proposals if they are concerned about the visibility and transparency of Capacity Market warnings.

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CP128 – Energy UK

This proposal suggests amending the Load Following Capacity Obligation (LFCO) formula in Rule 8.5.3 by using a better proxy for demand and for total system capacity.

Consultation responses and decision

One respondent thought we should reject the proposal as the formula was known at the time of prequalification, while one respondent thought the formula works as written. The other nine respondents to this question thought it was a significant issue and should be fixed before October 2016. Some respondents noted that an approximate solution would be preferable to no solution.

In our consultation we asked for further, developed, proposals of how to fix this issue. Two respondents, Energy UK and E.ON put proposals forward with drafting, while three others put suggestions forward without drafting.

We recognise that this issue can have a significant impact on providers and the aims of the Transitional Auctions (TA). As noted in our consultation, we believe the LFCO formula is appropriate once there is a significant proportion of the total capacity participating in the delivery year, and therefore a change will only be needed for the first TA delivery year. We therefore propose to amend the formula, for 2016/17 only, before the start of the first delivery year in October 2016.

We have considered the five proposals submitted to us and believe three of them are workable solutions. We intend to consult on these proposals shortly.

One further issue with the LFCO formula was put forward in response to our consultation: that Involuntary Load Reduction (ILR) can take several weeks to determine and therefore may compromise settlement timings. We do not plan to consider this now, but stakeholders may want to consider submitting a fully worked-up proposal if this is thought to be an issue.

CP131 – ESC

This proposal relates to the treatment of Interconnector CMUs with respect to the obligation and output of the CMU. ESC proposed amending chapter 8 of the Rules so that the metered volume is used to calculate an Interconnector CMU's output, consistent with the approach used for other CMUs. Currently, the Interconnector Scheduled Transfer (IST) is used for determining the output.

Consultation responses and decision

We have decided to reject this proposal. We received feedback from four stakeholders which raised concerns with the existing policy. They raised concerns that the current policy would not take account of reliability issues which may occur after gate closure. Two of these respondents argued that interconnection is generally treated the same as generation for the purposes of the CM and it is therefore more appropriate to use the same metering arrangements.

This is a complex area requiring further consideration beyond the scope of our previous consultation. Stakeholders may wish to provide proposals giving further analysis and evidence on the impact on industry and consumers arising from the current arrangements and potential alternatives.

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CP145 – NGET

This proposal would amend Rule 8.4 so that the definition and determination of a System Stress Event is aligned with the cash-out arrangements (i.e. when the System Buy Price has reached or exceeded the Value of Lost Load (VoLL)).

Consultation responses and decision

The majority of respondents agreed with our decision to reject this proposal. One respondent noted that the current measurement of system stress – Involuntary Load Reduction – is also required for calculating capacity obligations, and therefore removing it from the definition of system stress would not reduce administrative burden. NGET, in response to CP128, noted they thought Involuntary Load Reduction could be removed from the calculation of capacity obligations and replaced with an alternative term in the LFCO formula.

The proposer of this change disagreed with our rejection. While they agreed the new trigger for system stress would be imperfect, they believed timing was important and it would be better to have an imperfect measure sooner, rather than a more accurate one later. They suggested that quicker reporting timescales would better inform trading decisions and allow the market to respond more readily during stress events.

We continue to see benefits in making the trigger of system stress simpler. However, the risks identified in our consultation, such as wrongly called stress events or missed stress events because of prices not rising to VoLL, still exist. We do not see major benefits in quicker reporting timescales. As we noted in our consultation, prices in the market should already be a good indication of system stress and provide an adequate incentive to react, even if not linked to stress events directly.

We continue to reject this for the reasons above and in our consultation.

<u>Proposals we want to consider further</u>

CP129, CP130 & CP141 - EnerNOC & NGET

CP141, proposed by NGET, did not make a specific Rules change but proposed making it easier for DSR capacity to be added to CMUs, as long as sufficient checks are put in place. CP129 and CP130 from EnerNOC proposed to amend Rule 8.3.4 so that DSR providers are able to add and remove components to or from DSR CMUs, and to allow components that had been removed from a CMU to be reinstated in a different Delivery Year. Our proposed decision was to take forward CP129 and CP130, and by extension CP141. We agreed in our consultation that it is important for DSR providers to be able to add new components to DSR CMUs to maintain reliability, and also that there is no need to prevent a component from *ever* being added back to a DSR CMU in the event of its removal.

Consultation responses and decision

As noted in response to CP95, we asked stakeholders for their views on taking forward CP129, CP130 and CP124 rather than CP95 (Question 3). In their responses to that question, stakeholders, generally, voiced their support for the component reallocation process. The Settlement Body in their response raised concerns that the systems to allow for component reallocation would not be ready until late 2017.

Since consultation we have engaged with the CM Settlement Body and Delivery Body and understand there are valid reasons for expecting systems for component allocation to not be delivered until 2018. This type of functionality has not been designed and will require substantial development before it is ready to be delivered. Although we continue to support the proposal, we must therefore delay

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implementation of the relevant Rules amendments until a time when the process can be delivered. We will continue to engage with Delivery Partners to ensure the relevant functions are designed and scheduled for delivery at the earliest opportunity so that the benefits for consumers of this proposal can be realised.

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9. Transfer of Capacity Obligations

Amendments we will make

CP100 – ADE

This proposal seeks to ensure that all CMUs are able to transfer the entire volume of their capacity obligation to another CMU. ADE believes that the existing wording of Rule 9.2.4 may limit the ability of DSR and embedded generation to do this.

Consultation responses and decision

We have decided to make this change. We didn't receive any objections or concerns from stakeholders to the change. We received one comment suggesting a clarification to our proposed drafting. The drafting could have been read to permit either party to hold a capacity obligation lower than the Minimum Capacity Threshold (MCT) so long as the aggregate across the Transferor and Transferee was equal or greater than the MCT. This would go against the policy intent on which we consulted. We have consequently changed the drafting.

CP131 – ESC

This proposal relates to the treatment of interconnector CMUs with respect to the obligation and the output of the CMU. The majority of the proposal affects chapter 8, Obligations of Capacity Providers and System Stress Events, and is covered above. However, the ESC have included in the proposal an additional provision for chapter 14. This provision requires the SO to provide the Settlement Body with an Interconnector CMU's Interconnector Schedule Transfer (IST) in certain circumstances.

Consultation responses and decision

We have decided to make the amendment to ensure the SO provides the necessary information to the settlement body. We received no comments in disagreement on this point.

Proposals rejected

CP97 – ADE

This proposal seeks to clarify a new Rule proposed by DECC[14] (Rule 9.2.8A) to ensure that distribution Generating CMUs and DSR CMUs can engage in obligation trading.

Consultation responses and decision

We are rejecting this proposal on the grounds that it relates to a DECC rule change rather than to an existing rule. We received no responses on this point, other than from the Delivery Body noting our minded to decision.

[14] See DECC's autumn 2015 consultation: https://www.gov.uk/government/consultations/2015-consultation-on-capacity-market-supplementary-design-proposals-and-changes-to-the-rules-and-regulations

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CP127 & CP132 – Energy UK & Green Frog Power

These proposals would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.

Consultation responses and decision

We have decided to reject these proposals. This was on the basis that the system for facilitating secondary trading is currently untested and it would be preferable to have tested the current arrangements before considering the proposed change. We received three related responses, one of which was noting our view without providing further comment. The two others were supportive of the proposals' intent but provided no new arguments.

CP147 - NGET

This proposal would amend Rule 9.2 to prevent the transfer of capacity obligations during the Prequalification Assessment Window for any Capacity Auction. NGET argue that this would increase efficiency by focusing Applicants, Capacity Providers and Delivery Body on the prequalification process during the assessment window.

Consultation responses and decision

We are rejecting this proposal. We received one comment from stakeholders on our minded to decision. This was from NGET in support of their proposal. It did not make any new arguments for the proposal. We continue to think that the arguments put forward are insufficient to justify adding a barrier to participants carrying out this part of their commercial business.

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10. Volume Reallocation

Amendments we will make

CP115 – E.ON

This proposal suggests amending Rule 10.4.1 to clarify the Volume Reallocation process and ensure it reflects its policy intent. We provided some clarification in our consultation response to questions raised by the proposal and we agree that there are potential issues with Rule 10.4.1. However, we opted to take more time to consider the proposal further before making substantial changes to the Rules, given the complexity of the process and legal drafting.

In consultation we agreed that there were potential issues with Rule 10.4.1. Given the complexity involved and the potential for unintended consequences we committed to considering the issue further before making any changes. In our consultation we clarified our understanding that:

1. The restrictions under Rule 10.4 apply to each individual trade between two CMUs. Rule 10.4.2 sums the individual trades to produce a net aggregate volume for that Settlement Period.
2. The restrictions already apply to Transferees. Rules 10.4.1(b) and 10.4.1(c) apply to the outturn volumes following a trade between two CMUs - not just to the transferor's volume.

Our initial analysis on this issue seemed to suggest that Rule 10.4.1(c)(ii) prevents a trade between a CMU which over-delivered and a CMU which under-delivered, unless it brings the under-delivering CMU back to balance (par). To fix this issue we proposed adding legal drafting to 10.4.1(c)(ii).

We asked stakeholders whether they agreed there is an issue with Rule 10.4.1(c)(ii) and if so, if our suggested addition to this Rule fix the problem, and if not, how it should be amended (Question 6).

Consultation responses and decision

We received a number of responses to our consultation question which highlighted how the restrictions on volume reallocation could be made clearer under Rule 10.4, particularly with regard to how they impact upon the Transferor and Transferee. Stakeholders accepted our understanding with regard to the first point above - the restrictions should apply to each individual trade between two CMUs.

Following a further review of the current Rules we agree with stakeholders that the Rules as currently drafted are specified only in terms of the Transferor. However, whilst this means that the Rules place direct restrictions on Transferors, because the provisions reflect Adjusted E_{ij} they also place indirect restrictions on Transferees. This occurs when the relevant Transferor has been identified as Transferee in respect to a separate CMVRN for the same Settlement Period. However, we believe provisions that place direct restrictions on Transferees should be included, both for clarity and because there are two trading outcomes which are currently permitted by the Rules which should be prevented. Contrary to the policy intent, the Rules currently allow an under-delivering CMU to move into over-delivery, and an over-delivering Transferee CMU to move further into over-delivery.

We are therefore taking forward this proposal and introducing drafting to ensure the policy intent is captured in the Rules. The amendments will clarify restrictions on

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Transferees left uncovered by current restrictions on Transferors. The drafting change to Rule 10.4.1(c)(ii) we proposed in the consultation will not be taken forward. We consider that in the context of our other changes it will be clear that Rule 10.4.1(c) and its sub-clauses relate to restrictions on the relevant Transferor.

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11. Transitional Arrangements

No amendments.

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12. Monitoring

Proposals rejected

CP140 - NGET

This proposal would make a single Independent Technical Expert (ITE), appointed by the Delivery Body, responsible for assessing the progress of New Build CMUs against construction milestones. This would replace the current approach where participants are able to appoint their own ITEs. The proposer argues that this would increase efficiency and objectivity in the process and make it clearer for prospective new builds.

Consultation responses and decision

We received two comments in support of our minded to decision to reject and none opposing it. NGET supported our minded to decision but they expressed ongoing concern with ITE reports and argued that there need to be clarity in the Rules to allow the process of reviewing the ITE reports to be as objective as possible. Stakeholders may wish to submit a fully worked-up proposal to address any lack of clarity on this issue.

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13. Testing Regime

Amendments we will make

CP124 – Energy UK

This proposal would allow the performance of portfolios of DSR CMUs to be assessed on an aggregate basis during DSR Tests and Satisfactory Performance Days. Our initial decision was to take forward this proposal. We considered that the benefits to consumers from this amendment outweigh any potential risks.

In our consultation document we noted that stakeholders had raised a number of concerns with this proposal during discussions including: that it creates difficulties for the SO when balancing the system; that it could undermine security of supply; and that it discriminates against non-aggregated CMUs. We responded to each of these concerns in our consultation: in our view the potential risks were limited and did not outweigh the benefits of taking this proposal forward.

Consultation responses and decision

We received a number of responses to our consultation, some of which reiterated the concerns above. One stakeholder requested that the legal drafting be made clear that the Joint DSR Test is an alternative to the standard DSR Test. The majority of responses were in support of our decision to take forward.

We acknowledge that introducing portfolio testing is to the benefit of larger portfolios. However our changes do not discriminate against smaller providers; any DSR CMU greater than 500kW may take part in a portfolio test. Our change removes a barrier for DSR providers and encourages greater efficiency within the CM, ultimately to the benefit of consumers.

Whilst portfolio testing reduces the level of headroom providers may build into their DSR CMUs on an individual CMU basis, relative to the current arrangements, we do not think that the portfolio test allows unreliable DSR CMUs to enter the CM. The Joint DSR Test requires aggregate Proven Capacity to equal aggregate Unproven Capacity for the portfolio, and Proven Capacity must still be demonstrated during Winter on Satisfactory Performance Days. Additionally, de-rating, volume reallocation, penalties, and DSR aggregator's own business models act to ensure reliable delivery in the CM from portfolios.

The Delivery Body noted its concern about the impact that DSR portfolios could have for the system where they are demonstrating performance without advance notice. At this time we do not believe that there is sufficient reason to prevent DSR portfolios from testing and demonstrating satisfactory performance on aggregate. We will continue to monitor the uptake of DSR portfolio entry, and will engage with NGET on its views, and will act accordingly.

We decide therefore to take this proposal forward and are publishing amendments intended to make the Joint DSR Test a viable alternative to the DSR Test. We will also be taking forward amendments to allow aggregation of DSR CMUs when demonstrating satisfactory performance. DECC has confirmed that, consistent with their policy intent, volume reallocation will not be available for the TA. This means DSR providers will not be able to manage portfolio delivery via volume reallocation in the TAs. However, we believe bringing forward CP124 at this time remains beneficial and offers greater flexibility to DSR participants. We understand from DECC that

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volume reallocation will be available to those taking part in the early capacity auction for delivery year 17/18.

Proposals rejected

CP93 – ADE

This proposal would amend Rule 13.4 to allow successful dispatches of DSR in reaction to a Capacity Market Warning to be counted as a Satisfactory Performance Day. We initially rejected this proposal because we believe Government proposals to allow DSR CMUs to nominate Satisfactory Performance Days ex-post would effectively achieve the same aims.

Consultation responses and decision

We received no responses objecting to our proposed decision and one response in support. We therefore reject the proposed amendment for the reasons noted in our consultation.

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14. Data Provision

No amendments

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15. Schedules & Exhibits

Amendments we will make

CP113 – E.ON

This proposal would amend Schedule 6 part (I) to remove the requirement for Capacity Providers to provide meter calibration test data for Reactive Meters. E.ON believes Reactive Meters are not covered in the current definition of Meter.

Consultation responses and decision

We received two supporting responses on this proposal from stakeholders, and as proposed in the consultation document, we have decided to take this proposal forward. As reactive energy is not used in the CM, we are able to simplify the Rules and bring them in line with the definition of Meter under Rule 1.2.

Proposals rejected

CP103 - ADE

This proposal seeks to simplify metering requirements by enabling providers to refer to existing arrangements where settlement meters are used. In particular, it would remove the requirement for providers with the Supplier Settlement Metering Configuration Solution to provide the information in paragraphs (c)(iii) to (c)(x) and (f) to (p) of Schedule 6 when submitting a Metering Statement.

Consultation responses and decision

As the information CP103 proposes to remove is necessary for ESC to carry out their functions, we will continue to reject this proposal. During the consultation, we received only one response to this proposal and this was supportive of our decision.

CP104 – ADE

This proposal seeks to simplify the metering requirements in Schedule 7 by allowing an aggregated CMU to present a calculation of the total measurement error of the overall CMU rather than for each of the individual sites.

Consultation responses and decision

Feedback from stakeholders is supportive of our rationale for rejecting this proposal, and we will continue to reject this proposal for the reasons outlined in the consultation document.

However, the ESC has suggested that a process could be introduced to the CM for allowing dispensations from certain metering requirements (for example around accuracy classes). This could be similar to the process used for BSC settlement[15]. ESC and industry may want to work together to develop a fully worked-up proposal.

[15] https://www.elexon.co.uk/reference/technical-operations/metering/metering-dispensations/

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CP118 – Energy Pool UK Limited

This proposal seeks to explicitly introduce the "Firm Frequency Response Bridging" scheme within the Relevant Balancing Services included in Schedule 4.

Consultation responses and decision

We have decided to reject this proposal as no new evidence has been submitted. Two stakeholder responses supported our rejection because including the FFR bridging scheme would create ambiguity over other subsidiary schemes and because the rules are already sufficiently clear. Stakeholder responses mostly focused on suggesting the inclusion of Enhanced Frequency Response as a relevant balancing service in Schedule 4. Stakeholders may wish to bring forward fully worked up proposals for the inclusion of Enhanced Frequency Response in the CM.

CP138 – NGET

This proposal from NGET would amalgamate Exhibits A, C-G in the Rules in order to reduce the number of certificates that have to be signed and uploaded as part of the prequalification process.

Consultation responses and decision

We have decided to reject this proposal. We do not think it would necessarily simplify the prequalification process as not all the certificates are relevant to all providers. We received only one comment in relation to the proposal which was from NGET acknowledging our reasoning for our minded to decision.

CP98 & CP148 – ADE & Open Energi

These two proposals seek to ensure that dynamic fast frequency response (FFR) is able to participate in the CM. FFR is specified as a relevant balancing service in Schedule 4, but these proposals suggest that providers are incapable of passing the current DSR Test requirements. As a result, despite the inclusion of FFR as a relevant service, providers are excluded from participating because they are unable to successfully pre-qualify.

To address this problem, these proposals recommend the introduction of an alternative methodology for passing a DSR Test and calculating the volume of DSR provided. The proposal is for this to be on the basis of a "non-zero Contracted Output" of FFR.

Consultation responses and decision

We received ten responses on this issue. The majority expressed support for FFR's inclusion in the CM in principle; two (ADE and Open Energi) gave full support for the methodology set out in the proposal. Three respondents were concerned that rewarding FFR providers for both turn-up and turn-down DSR – which would result from using the term "non-zero Contracted Output" – could lead to sub-optimal allocation in the CM.

We have not yet received sufficient evidence to convince us that the proposed methodology appropriately rewards capacity. The Regulations require us to consider certain objectives when making changes to the Rules. We are not persuaded that the proposed approach is sufficiently aligned with the objective to promote investment in capacity to ensure security of electricity supply. Therefore, and because no alternative methodologies for passing the DSR test and allocating the volume of the CM Obligation were presented, we have decided not to accept the proposals CP98 and CP148. We consider that it is important to find a suitable resolution to this issue and

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will work with stakeholders to develop a testing and allocation methodology that is consistent with the objectives of the CM while facilitating the participation of FFR.

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Annex B: Summary Table of Decisions

Ref. No.	Summary of proposals	Proposed Decision
Of1	This proposal would extend the definition of Defaulting CMU under Rule 1.2 to include a CMU that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, and participated in the auction, but was not awarded a capacity agreement.	Partially take forward
Of2	This proposal would amend the definition of Legal Right in Rule 1.2 to make it consistent with Rule 3.7.1. The current definition defines Legal Right only with regard to land upon which a relevant CMU "is situated". Rule 3.7.1 (a) allows the Legal Right to land upon which a CMU "is, or will be located".	Take forward
Of3	This proposal would amend Rule 3.3.3(b) to fix an issue where parties who voluntarily Opt-out of a T-4 auction but remain operational in the Delivery Year are excluded from participating in the corresponding T-1 auction.	Take forward
Of4	This proposal seeks to correct the formula in Rule 3.5.5 by removing the option to use station level CEC for apportioning TEC between different generating units.	Take forward
Of5	This proposal would amend Rules 3.6.1(b)(i)(bb) and 3.6.1(c)(iii) so that Non-CMRS Distribution CMUs which have not provided LLF values are still able to prequalify based on their non-adjusted historical output. It would also clarify what is required in a DNO letter.	Take forward
Of6	This proposal would amend Rule 3.7.1 so that, where planning permissions for New Build CMUs contain an explicit expiry date, that expiry date must not be within the period of the Capacity Agreement that the CMU is applying for.	Take forward
Of7	This proposal would amend Rule 3.7.2(c) and add Rule 8.3.6(aa) to prevent Prospective CMUs from citing the same capital expenditure in more than one multi-year capacity agreement.	Take forward

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Of8	This proposal would amend Rule 4.6.2 so that when the CM Settlement Body provides a credit cover approval notice to an applicant it also provides a copy to the Delivery Body. This would remove the need for applicants to provide a copy of this notice to the Delivery Body.	Reject
Of9	This proposal would include Emergency Manual Disconnections in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction (ILR). It would also take forward CP24 from last year (which proposed including Automatic Low Frequency Demand Disconnections within the scope of ILR).	Take forward
CP92	This proposal would base line loss estimates on the basis of periods of system stress, rather than annual averages, to account for line losses that would occur in a stress event.	Reject
CP93	This proposal would amend Rule 13.4 to allow successful dispatches of DSR in reaction to a Capacity Market Warning to be counted as a Satisfactory Performance Day.	Reject
CP94	This proposal seeks to amend Rule 2.3 so that de-rating factors for DSR CMUs would be set to reflect performance in the CM, rather than being based on performance in Short Term Operating Reserve (STOR).	Reject
CP95	This proposal seeks to introduce more flexibility for Capacity Providers to add and remove DSR CMU Components to and from DSR CMUs.	Reject
CP96	This proposal would either delete Rule 5.3.2 (b), which excludes bidders unless they have complied with "the terms of any continuing Capacity Agreement in relation to any CMU", or replace it with a paragraph which states the specific Rules and Regulations where it would be appropriate to exclude Bidders from a Capacity Auction for non-compliance.	Reject
CP97	This proposal seeks to clarify a new Rule proposed by DECC[16] (Rule 9.2.8A) to ensure that distribution Generating CMUs and DSR CMUs can engage in obligation trading.	Reject

[16] DECC, October 2015 consultation

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CP98	This proposal seeks to ensure that dynamic fast frequency response (FFR) is able to participate in the Capacity Market by introducing an alternative methodology for passing a DSR Test.	Reject
CP99	This proposal would amend Rule 3.6.1(b) to make it easier for Non-CMRS Distribution CMUs to prove their physically generated output. In particular, it would enable these CMUs to provide evidence that they delivered a Metered Volume when discharging a balancing services obligation as an alternative to providing a letter from a supplier or former supplier.	Take forward
CP100	This proposal seeks to ensure that all CMUs are able to transfer the entire volume of their capacity obligation to another CMU. ADE believes that the existing wording of Rule 9.2.4 may limit the ability of DSR and embedded generation to do this.	Take forward
CP101	This proposal would amend Rule 3.4.3 so that an Applicant must specify a CMU's generation type and fuel type in its prequalification application.	Reject
CP102	This proposal would require details of the capacity which has exited each Bidding Round to be published after each Bidding Round and as part of the Capacity Market results.	Reject
CP103	This proposal seeks to simplify metering requirements by enabling providers to refer to existing arrangements where settlement meters are used. In particular, it would remove the requirement for providers with the Supplier Settlement Metering Configuration Solution to provide the information in paragraphs (c)(iii) to (c)(x) and (f) to (p) of Schedule 6 when submitting a Metering Statement.	Reject
CP104	This proposal seeks to simplify the metering requirements in Schedule 7 by allowing an aggregated CMU to present a calculation of the total measurement error of the overall CMU rather than for each of the individual sites.	Reject
CP105	This proposal seeks to reduce the administrative burden for applicants involved with obtaining letters from suppliers and DNOs under Rule 3.6.1(c).	Reject

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CP106	This proposal seeks to ensure that, if 'Fuel Type' becomes a requirement on the Capacity Market Register, it is clear in the Rules that a participant is able to change its Fuel Type.	Reject
CP107	This proposal seeks to allow Existing Generating CMUs to alter the location of generating units.	Reject
CP108	This proposal suggests that DECC, Ofgem and NGET consider how rules in relation to Capacity Market Warnings operate in practice and interrelate with other system warnings issued by the System Operator and whether any rule changes are required.	Reject
CP109	This proposal would amend the Rules so that applicants are only required to complete a Metering Assessment and provide metering related information (with the exception of MPANs) after a Capacity Auction, rather than during prequalification.	Take forward
CP110	This proposal would add 'Generating Technology Class' to the CM Register and split up the 'OCGT and reciprocating engine' class to specify fuel type.	Reject
CP111	This proposal would narrow the definition of Generating Unit to make it clear that it only applies to equipment which is physically connected to, and capable of exporting to, a distribution or transmission network.	Reject
CP112	This proposal seeks to amend the definition of Mandatory CMU in Rule 1.2 so that Generating Units which are in receipt of low carbon support are not included.	Take forward
CP113	This proposal would amend Schedule 6 part (I) to remove the requirement for Capacity Providers to provide meter calibration test data for Reactive Meters.	Take forward

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CP114	This proposal seeks to simplify the Opt-out process by removing the requirement for an accompanying statement signed by two directors to say that they are able to correctly sign a Certificate of Conduct (Rule 3.12.5).	Take forward
CP115	This proposal suggests amending Rule 10.4.1 to clarify the Volume Reallocation process and ensure it reflects its policy intent.	Take forward
CP116	This proposal would amend Rule 6.10.2 so that the issuance of a Termination Notice is reflected on the Capacity Market Register.	Reject
CP117	This proposal would make Rule 3.7.1(a) (which allows New Build CMUs to declare they will obtain all Relevant Planning Consents and have the Legal Right to land up to 17 Working Days prior to a Capacity Auction) applicable to all future Capacity Auctions, not just the first two Capacity Auctions.	Take forward
CP118	This proposal seeks to explicitly introduce the "Firm Frequency Response Bridging" scheme within the Relevant Balancing Services included in Schedule 4.	Reject
CP119	This proposal would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.	Reject
CP120	This proposal seeks to simplify the prequalification process for CMUs that opt-out over multiple consecutive years. It proposes to either allow participants to submit an 'evergreen' opt-out which only expires once the CMU opts-in, or to enable providers to submit a declaration that the information from a previous opt-out remains the same.	Reject
CP121	This proposal would introduce the option for Applicants to submit Metering System Identifiers (MSIDs) instead of Meter Point Administration Numbers (MPANs) throughout the Rules in order to reduce the burden involved in providing explanations when an MPAN is not unique to a CMU.	Reject

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CP122	This proposal would clarify in the Rules that a six-figure grid ordnance survey reference means all eight digits of the alphanumeric code (two letters and six numbers).	Take forward
CP123	This proposal would amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued, this is reflected on the CM Register.	Reject
CP124	This proposal would allow the performance of portfolios of CMUs to be assessed on an aggregate basis during DSR Tests and Satisfactory Performance Days.	Take forward
CP125	This proposal seeks to clarify how Applicants should account for Auxiliary Load when using Connection Entry Capacity (CEC) to set a unit's Connection Capacity.	Reject
CP126	This proposal would amend the Rules so that when a Refurbishing CMU's connection capacity is equal to its Pre-Refurbishment connection capacity, it does not have to be issued with a Final Operational Notification (FON) or an Interim Operational Notification (ION) for it to be classed as 'Operational'.	Take forward
CP127	This proposal would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.	Reject
CP128	This proposal suggests amending the Load Following Capacity Obligation (LFCO) formula in Rule 8.5.3 by using a better proxy for demand and for total system capacity.	Reject
CP129	This proposal would amend Rule 8.3.4 so that DSR aggregators are able to add new components directly to DSR CMUs.	Consider further

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CP130	This proposal suggests either deleting Rule 8.3.4(d) or amending it so that a component that has been removed from a DSR CMU can be reinstated as part another DSR CMU in a different Delivery Year.	Consider further
CP131	This proposal would amend the Rules so that an Interconnector CMU's performance is measured using metered output rather than the Interconnector Scheduled Transfer (IST).	*Partially* take forward
CP132	This proposal would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.	Reject
CP133	This proposal would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.	Reject
CP134	This proposal would amend Rule 7.4.1(c) so that the Capacity Market Register only displays the prequalification status for CMUs after the Tier 1 disputes process.	Reject
CP135	This proposal would amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued, this is reflected on the CM Register.	Reject
CP136	This proposal would base the Connection Capacity of an Interconnector CMU on its Connection Entry Capacity (CEC) or, if different, its maximum technical capacity, as opposed to its Transmission Entry Capacity (TEC). It would also cap the De-rated Capacity for Interconnector CMUs at TEC to prevent them from failing to prequalify as a result of 3.6A.2.	Take forward
CP137	This proposal would change Rule 5.10 to specify that the Delivery Body should publish a provisional clearing price and volume by 8pm on the day a CM auction clears.	Take forward

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CP138	This proposal from NGET would amalgamate Exhibits A, C-G in the Rules in order to reduce the number of certificates that have to be signed and uploaded as part of the prequalification process.	Reject
CP139	This proposal would place an obligation on New Build CMUs and DSR CMUs to submit relevant documents when notifying the Delivery Body that it wishes to relocate one or more Generating Units or DSR components.	Take forward
CP140	This proposal would make a single Independent Technical Expert (ITE), appointed by the Delivery Body, responsible for assessing the progress of New Build CMUs against construction milestones. This would replace the current approach where participants are able to appoint their own ITEs.	Reject
CP141	This proposal would make it easier for new DSR components to be added to CMUs as long as these are genuinely new components which have been checked by the Settlement Body and then prequalified by the Delivery Body.	Consider further
CP142	This proposal would amend the Rules so that applicants are only required to complete a Metering Assessment after a Capacity Auction rather than during prequalification. In addition, it proposes that metering information could be provided directly to the Settlement Body rather than via the Delivery Body	Reject
CP143	This proposal seeks to make the requirements around Relevant Planning Consents more specific. In particular, that consents must permit construction of a generating unit whose size is at least equal to the CMU's connection capacity; that they should be valid; that they should specify what the consents are granted for; and that any range in size must be supported by accompanying evidence.	Reject
CP144	This proposal would simplify the Capacity Market Register by removing certain requirements.	*Partially* take forward
CP145	This proposal would amend Rule 8.4 so that the definition and determination of a System Stress Event is aligned with the cash-out arrangements (i.e. when the System Buy Price has reached or exceeded the Value of Lost Load (VoLL)).	Reject

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CP146	This proposal would introduce a formal 'verification' stage into the prequalification process. This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body.	Reject
CP147	This proposal would amend Rule 9.2 to prevent the transfer of capacity obligations during the Prequalification Assessment Window for any Capacity Auction.	Reject
CP148	This proposal would help ensure that dynamic fast frequency response (FFR) is able to participate in the Capacity Market by introducing an alternative methodology for passing a DSR Test.	Reject
CP149	This proposal would remove the requirement on applicants to submit De-rating Factors and Anticipated De-rated Capacity (Rules 3.4.5(c) and 3.4.5(d)). As the De-rating Factors are automatically calculated by the Delivery Body's portal, the proposer believes that the Rule imposes an unnecessary prequalification condition on applicants.	Take forward
CP150	This proposal would amend Rule 3.5.4 to clarify how the Average Highest Output of a Generating Unit should be determined when calculating connection capacity - that it should be converted to MW and stated to three decimal places.	Take forward
CP151	This proposal would amend Rule 3.5.4 so that a Generating Unit's Average Highest Output would be determined using the three periods where that unit generated its highest output, rather than the three periods where the overall CMU delivered its highest output.	Reject
CP152	This proposal would amend the Connection Capacity calculation methodology for Distribution CMUs which hold Transmission Entry Capacity (TEC). In particular, it would amend the definition of 'STEC' for Distribution CMUs so that it refers to the lower of Maximum Export Capacity and TEC.	Reject
CP153	This proposal would amend Schedule 3 so that Wind and Solar are included as Generating Technology Classes, enabling de-rating factors to be published for these technologies. This has the intention of enabling Solar and Wind CMUs to participate in the Capacity Market and allowing them to be taken into account when assessing the connection capacity at shared connections.	Reject

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CP154	This proposal would amend the rules by removing the word 'Anticipated' in all references to the term 'Anticipated De-rated Capacity'. This is intended to enable Applicants to take into account the output from units which are part of a shared Connection Agreement but do not participate in the Capacity Market (and therefore do not have anticipated capacity).	Reject
CP155	This proposal seeks to amend the definition of Distribution Connection Agreement so that Applicants for CMUs with shared connections, where the counterparty to the Distribution Connection Agreement is not responsible for that CMU, can participate in the prequalification process.	Reject
CP156	This proposal seeks to amend Rule 7.4.1 to include 'Generating Technology Class' on the Capacity Market Register. It would also amend Schedule 3 by splitting up the 'OCGT and reciprocating engines' class into four separate classes.	Reject
CP157	This proposal seeks to ensure that the Rules explicitly recognise the potential for Connection Capacity to be higher than the capacity stated in a Relevant Planning Consent, and would require participants to provide documentary evidence to explain and justify any difference in order to prequalify.	Take forward
CP158	This proposal would introduce a formal 'verification' stage into the prequalification process. This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body.	Reject
CP159	This proposal seeks to amend the rules so that Renewables Obligation (RO) eligible technologies other than biomass (such as energy from waste with CHP) can voluntarily terminate a Capacity Market Contract in order to transfer to the RO scheme.	Reject
CP160	This proposal seeks to clarify the definition of 'Legal Right' to minimise the risk of different interpretations by Applicants. It would also make additions to Rules 3.7.1 and 4.7.1 to specify that the Legal Right to land should be for a time period equal to or greater than the duration of the Capacity Agreement. In addition, it would require applicants to provide documentary evidence of a Legal Right.	Reject
CP161	This proposal seeks to add a definition of 'Officer' as an Authorised Signatory of the Applicant. This is to prevent Applicants that are not companies (such as partnerships) from failing to prequalify because they do not have directors to sign the relevant prequalification certificates.	Take forward

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ANNEX C: Connection Capacity

This section describes the responses we received to the questions in Annex C in our consultation, which covered possible amendments to connection capacity. It also sets out our intention to further consider our leading option of allowing a free choice of connection capacity, with testing up to that amount.

Background

Last year we received two Rules change proposals which suggested that the current methodology for calculating connection capacity could lead to Generating CMUs being able to overstate their capacity. Given the potential impacts of this change we decided to consider the proposals further before making any change. In November 2015 we published an open letter seeking stakeholder views on the issue and also on a number of potential options for amending the methodology. In our statutory consultation on rule changes we set out, in Annex C, some quantification of the issue and a proposed way forward, noting we did not plan to take forward these changes before the next prequalification round. We asked participants for their views on our proposed approach.

Our proposed approach

In our consultation we presented further evidence of the issue which aimed to quantify the extent of the problem. We showed that total capacity from units in the capacity market register was higher than the equivalent sum of capacity using the highest historical MEL figures. We also noted that capacity from existing units had increased from 2014 to 2015 largely due to a change in the connection capacity methodologies used by participants.

Our preferred approach is for generators to have a free choice of connection capacity which they are then tested up to**.** This is because we believe participants are best placed to know their maximum potential capacity during stress. We agreed with many of the respondents to our open letter that the best solution is for parties to have a 'free choice' of connection capacity. However, we believe a free choice would need to be supported by appropriate incentives to ensure that parties pick their maximum potential capacity and do not overestimate it.

Responses to our consultation

Stakeholders were generally supportive of making changes to the rules around connection capacity, with a majority favouring a free choice. There was also significant support for changes to the testing regime to accompany this change.

Several respondents disagreed that any changes were required, however two of those respondents agreed that if some change was made, Ofgem's proposal was a sensible way forward. Responses to the specific questions are summarised below.

Question 9: Do you agree with our analysis and conclusions in relation to connection capacity?

In relation to our analysis, participants noted that there could be other reasons for the highest MEL figures to be lower than the equivalent connection capacities on the register. These include ambient temperature conditions, participants failing to include auxiliary load, and other commercial reasons. However, most of those who commented on our analysis agreed with the broad conclusions.

On our proposed way forward, the vast majority of participants agreed with allowing a free choice, with significant support for changes to the testing regime. Those who did not support making a change generally favoured the current arrangements.

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Two respondents believed participants should only be tested up to their de-rated capacity, as this is the level of the obligation.

Most respondents thought it was sensible not to make changes immediately and to develop changes further.

<u>Question 10:</u> Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?

The majority of respondents suggested some changes to the satisfactory performance requirements were needed.

Several respondents argued that some leeway is required as performance depends on ambient conditions at the time and in a warm winter units may not be able to meet their maximum output. Other reasons for allowing leeway included that plant degrades over time and that for a CHP generator, local steam and power requirements may change over time. Because of the need for leeway, one respondent argued for testing to de-rated capacity within the delivery year but allowing historical evidence of achieving connection capacity. Another stakeholder supported the case for using historical output, but testing up to connection capacity should the participant wish to exceed this level.

It was noted that the risk of losing all payments is likely to encourage generators to reduce the level of capacity they commit in the auction and that it would be unfair to penalise generators who entered a connection capacity in good faith. Four respondents suggested a pro-rata approach under such circumstances would be appropriate.

One respondent suggested a CUSC modification could be brought forward to allow generation above TEC or CEC during Capacity Market performance tests.

Two respondents noted that performance on three separate days was unnecessary and that one period would be sufficient.

Three respondents thought the current satisfactory performance requirements should remain, with one noting this would ensure connection capacity is not stated above TEC.

<u>Question 11:</u> Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?

Respondents raised concerns about the exclusion of genuine capacity. It was noted requiring sufficient TEC to cover connection capacity could raise costs for participants which could increase the auction clearing price and the costs of the CM. A couple of participants noted that generators may be able to exceed TEC in a stress event as they may provide maxgen services, which would not breach the CUSC.

Five respondents believed TEC was not a barrier to entry. One of those respondents noted that if given a free choice there will not be any testing issue as parties will not state a connection capacity higher than TEC.

One respondent believed participants are already remunerated for capacity exceeding their TEC, either through over-delivery payments or the opportunity to earn revenue through volume reallocation. They noted that even if, in theory, a participant can exceed TEC, it has made a commercial decision not to pay the charges, eg TNUoS or DUoS, for it to be able to utilise that capacity. They argued that any additional output may only be deliverable for a short period of time and therefore that parties should not be remunerated with a "firm" capacity payment for capacity that is only available under certain system conditions.

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The majority of respondents did not see short term TEC as a solution to the possibility of excluding genuine capacity, noting that applying for it was a lengthy and expensive process, that it may not be available, that participants must already have TEC at prequalification, and that it may not be a worthwhile investment.

Question 12: Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?

The majority of respondents did not believe there was any risk of capacity withholding if given a free choice of connection capacity. Reasons included adequate competition preventing any benefit from withholding and that the Regulations and REMIT legislation already forbids this behaviour.

One respondent noted that if liquidity in the auction were to decrease withholding could become a problem and suggested monitoring against MEL values.

Respondents did not generally support further measures to address the possibility of withholding, noting that a supporting justification would be difficult to evaluate and minimum thresholds could prevent participation as participants may need to discount the capacity of their plant to mitigate the risk of not being able to meet their satisfactory performance criteria.

However, one respondent agreed with the need for supporting justification and two respondents supported setting minimum capacity thresholds, with one suggesting a prudent approach would be to base these on historical performance.

Next Steps

Following the responses to this consultation we remain of the view that the most appropriate way of determining connection capacity is to allow a free choice and test participants up to this level.

However, we think changes to the testing regime may be necessary to ensure genuine capacity is not excluded. Therefore we will develop this proposal further.
We plan to work closely with industry and will consult again before proposing any amendments.

Related proposals

While we do not intend to make immediate changes to prevent overstating of capacity, we do intend to take forward two other proposals which relate to connection capacity. We intend to correct the TEC formula (Of4) as this is a simple change which was generally supported. We also intend to take forward CP136, which would allow Interconnectors to use Connection Entry Capacity to set their connection capacity. We believe this proposal can allow more genuine capacity to participate and therefore making this change now brings forward those benefits.

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