

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP203

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

Anon.

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Date Submitted:

11/11/2016

Type of Change:

Amendment

Addition

Revoke

Substitution

If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:

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Proposal summary (short summary, suitable for published description on our website)

We are proposing to amend the definition of Excluded Capacity to include Generating Units holding a black start contract. This would therefore exclude Generation Units holding Black Start contracts from participating in the Capacity Market, unless the Capacity Provider elects to withdraw or suspend from their Black Start Contract.

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

This proposal would apply to the Capacity Market (Amendment) (No 2) Rules 2016 [Ofgem], and as such, would apply to all contracts with a delivery year from 2020 onwards.

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

The provision of a Black Start Contract provides another form of secured project funding for a CMU which is not open to all CMUs, which could have a distorting effect on the Capacity Market clearing price. Further, the similarity in services provided by the Capacity Market and Black Start contracts could unfairly financially penalise consumers.

Black Start contracts are available for New-Build Sites, and the expected duration of a new-build contract can be up to ten years. This is of similar duration to a Capacity Agreement, and in many respects, Black Start contracts mirror Capacity Agreements

Whilst Black Start contracts are bespoke, there is the possibility for capital contributions to be made towards the installation, refurbishment and testing of Generating Assets. These provisions are effectively accounted for in a Capacity Agreement.

Black Start Contracts provide a guaranteed source of project funding for multiple years, in some cases mirroring the length of a multi-year Capacity agreement; Provision of Black Start funding could reasonably be expected to be used offset Total Project Spend and fully remunerate investment cost if combined with a Capacity Agreement. As such, this could reasonably be assumed to have a distorting effect on the final auction clearing price: The extra project funding that Black Start contracts provide creates an un-level

playing field, as Capacity Providers in receipt of Black Start contracts could afford to bid at a lower price than those not in receipt of a Black Start contract. This has the potential to reduce the clearing price to far below the cost of constructing and maintaining Generating Units, and as such will prohibit certain types of CMU from being able to compete in the Capacity auction which are not able to secure Black Start funding.

As Black Start and Capacity Market funding is ultimately passed on to the consumer, it is therefore within their interest to exclude Black Start Capacity from the Capacity Market, as the situation may arise where the consumer is in effect paying twice for the same capacity with little benefit to themselves.

We note that Capacity holding long-term STOR contracts is excluded from the Capacity Market under similar grounds. We therefore propose that like the provisions for Long-term STOR, Capacity Providers are given the choice within the Capacity Market Rules, to withdraw from their Black Start contract in order to participate in the Capacity Market.

The precedent to exclude Black start has been set by the European Union by the exclusion of Long-term STOR from the Capacity Market, as explained in "State aid SA.35980 (2014/N-2) – United Kingdom Electricity market reform – Capacity market". As Black Start contracts are similarly incompatible with the Capacity Market, due to the potential for distortion, we therefore seek to exclude them on similar grounds.

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

Insertion of a new definition

Excluded CMU means:

(a) for a Capacity Auction for Delivery Year "t", an Existing CMU (or any Generating Unit forming part of an Existing Generating CMU) that is, for any Capacity Auction in respect of Delivery Years t-1 or t-2, Retired; or

(b) for a T-1 Auction for Delivery Year "t", an Existing CMU (or any Generating Unit forming part of an Existing Generating CMU) that was, in the T-4 Auction in respect of Delivery Year t, Non-Operational Opted-out **or**

(c) for a Capacity Auction for Delivery Year "t", an Existing or Prospective CMU (or any Generating Unit forming part of an Existing or Prospective CMU) that is, for any Capacity Auction in respect of Delivery Year T-1, in receipt of a Black Start Contract for any Generating Unit comprising said CMU.

Insertion of a new definition

Relevant Black Start contract means any contract held by the Capacity Provider for any Generating Unit comprising a CMU which has been awarded under National Grid's Black Start service provision.

3.4.9 Relevant Black Start status

Each Applicant must declare at the time of making the Application that the CMU to which the Application relates:

(a) is not the subject of a Relevant Black Start Contract and will not be the subject of a Relevant Black Start Contract at the commencement of, or during, the relevant Delivery Year; or

(b) is currently the subject of a Relevant Black Start Contract and the Applicant further irrevocably declares that, if it is awarded a Capacity Agreement in the Capacity Auction for that CMU, it will withdraw from, or request that the System Operator terminates, the Black Start Contract by

- (i) The first day of the relevant Delivery Year If the relevant Delivery Year begins less than 12 months after the auction;**
- (ii) No later than 12 months after the auction in respect of a Delivery Year beginning more than 12 months after auction**

Analysis and evidence on the impact on industry and/or consumers including any risks to note when making the revision - including, any potential implications for industry codes:

Should a Capacity Provider hold a Capacity Agreement and a Black Start Contract, they will effectively be paid twice over for the same capacity; These costs will ultimately be passed on to the consumer. As such, the exclusion of Black Start capacity from the Capacity market will have a beneficial effect on the consumer as the overall cost passed on will be reduced.

Excluding Black Start from the Capacity Market will also necessitate a change to the regulations, in order to fully incorporate Black Start into the list of Excluded Capacity.

A provider in receipt of a Black Start Contract may not be able to withdraw from their Black Start Contract by the proposed date. However, Providers who already hold Black Start contracts must take the lead time for withdrawing from a Black Start contract into account when deciding on whether or not to take part in the Capacity Market; Providers will be able to operationally opt-out should they wish to continue with their Black Start Contract. The short lead time between winning a Capacity Agreement and having to cancel a relevant Black Start contract is necessary to ensure that a Provider is not able to reap the benefits of holding both simultaneously and being able to use Black Start funding to benefit their CMU before the CM agreement takes effect, although it is unreasonable to expect Providers to withdraw from their Black Start contract before taking part in the Auction process.

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

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