

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP230

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

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:

[Click here to enter text.](#)

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

If a party has conditionally prequalified and are appealing that decision via the Tier 1 disputes process, believing that they should have prequalified fully (or be rejected), then the cut off for the posting of credit is the same day as the notification of the Tier 1 appeal outcome, i.e. to ensure that they remain in the process, they are forced to post credit when it may be the case that they do not have to. Therefore, the Rules should be amended to make it clear that if you are appealing a decision via the Tier 1 process, the cut off for posting of credit should fall 15 working days after being informed of the outcome of the decision, as it currently is for those parties that were rejected and conditionally prequalified after a successful appeal. This will ensure that parties do not incur the costs of posting credit unnecessarily whilst still maintaining the integrity of the posting of collateral

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

The proposal relates to Rule 4.6.1 - conditional prequalification, applicant credit cover. We believe that this Rule has been interpreted differently by different parties. Furthermore, the EMR Delivery Body sent conflicting advice out to parties. On 28th September, they stated that parties did not have to post credit if they were disputing their conditional prequalification decision. This was then changed on October 7th, stating that parties did have to post credit, even if they were disputing the decision. We believe that a Rule 4.6.1.1 should be added stating that where a party is appealing the conditional prequalification decision, then they do not have to post credit until 15 days after the outcome of the appeal is known

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

Following prequalification this year, some parties had been informed that they had conditionally prequalified, when in fact they should have prequalified fully. They were then asked to post credit, with the deadline for posting the credit the same day as the decision on the Tier 1 dispute, i.e. to ensure that the CMU remains in the process, they have to post credit, when in fact they may request it to be returned the very next day. This incurs unnecessary costs on parties – for a 1GW power station, this is £10M of credit which incurs significant unnecessary costs – credit does not come free.

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

Rule 4.6.1.1 (or equivalent numbering) should be added and should read “If an Applicant is disputing the outcome of their prequalification result, as per Regulation 69, then the requirement to post Applicant Credit Cover to the CM Settlement Body in accordance with the Regulations becomes 15 Working Days after the notification of the outcome of the decision.”

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:

For a 1GW power station, assuming a cost of credit of 1%, this would cost approximately £8.3k per month (excluding fees and the time required to finalise the credit letter). Many banks have a minimum credit period, for example 3 months. Using the above assumptions, the minimum cost of posting this credit might be £25k. If the Tier 1 dispute turns out that the decision should have been different, this is then a totally unnecessary cost burden on the CMU. If the outcome of the Tier 1 dispute remains the same, then the party still posts credit well in advance of the auction and therefore there is no issue in terms of integrity of the process.

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

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