

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP195

Name of Organisation(s) / individual(s):
National Grid Interconnector Holdings Ltd

Date Submitted:
11 November 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:

The proposer is unaware of any similar amendment

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

To amend the CM Rules regarding the Price Maker / Taker status of New Build and Refurbishing Interconnector CMUs

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

This proposal relates to rule 4.5.1 (vii) (a) which states that all interconnector CMUs must be given Price-Taker status only. This include New Build and Refurbishing Interconnector CMU types.

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

The proposer is seeking to amend the provisions of rule 4.5.1 (vii) (a) to align the treatment of interconnectors with the equivalent provisions for generating CMUs. At the time of the original implementation of the Capacity Market in 2014 government set out proposals that recognised that new build or refurbishing generator CMUs face different commercial incentives to existing generating CMUs and as a result should be able to exit a capacity market auction at any price. This was in comparison to existing generators that by default would be price takers and therefore unable to exit the capacity market auction until a pre-defined threshold price had been reached in the capacity auction and only once the auction price had fallen below that threshold would they be able to exit the auction. Government also recognised that certain existing generators may have valid reasons for needing to exit at higher prices and allowed the owner of the generating CMU to be able to drop out of the auction at any price, provided it lodged further information with the regulator Ofgem through a "Price Maker Memorandum". When interconnector CMUs were introduced into the capacity market in 2015, the final drafting implemented by government did not reflect the position applied to generating CMUs. All interconnector CMUs must be given Price Taker status by the Delivery Body meaning they may only exit any capacity market auction below the Price Taker Threshold and not above it. Furthermore the interconnector CMU may not change this status through the submission of a price maker certificate. The proposer does not believe that this differing treatment is justifiable. Prospective Interconnector CMUs face similar commercial choices to prospective generating CMUs and the decision to proceed with a New Build or Refurbishment project for an interconnector for a specific year will take into account a variety of potential revenue streams, capacity market revenue being one of these. It is therefore unclear why prospective

interconnector CMUs are not price makers, and this proposal seeks to align the treatment of prospective interconnector CMUs with prospective generating CMUs. In a similar manner there is little to suggest that if evidence may be lodged with the regulator for an existing generating CMU to become a Price Maker why this option is not also open to an interconnector CMU. This proposal also seeks to align treatment in this area also.

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

Amend rule 4.5.1 (vii) – delete the word “Generating” after the word “Prospective”. Amend Rule 4.5.1 (viii) delete the word “Generating” after the word “Existing”. Delete Rule 4.5.1 (viia). Amend Rule 4.8.1 delete the word “Generating” after the word “Existing”.

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:

Under the present rules, an owner of a prospective interconnector CMU must judge whether it is able to accept a capacity agreement at a price below the price taker threshold (currently £25/kW). If it is not then the only option it has is to NOT participate in the auction. This brings about the risk that if the auction subsequently clears at a price above the price taker threshold, and also at a price above that which the owner of the interconnector CMU would have accepted had it felt able to participate in the auction, then consumers are disadvantaged as a higher priced form of capacity than the prospective interconnector will help set the clearing price. As the capacity auction is a cleared price auction, such distortions in the clearing price can have a very significant cash impact on consumers. In the case of an existing interconnector CMU the analysis is one of equitable treatment. The proposed adjustments to capacity market rules would allow an existing interconnector, if it finds itself in the same commercial circumstances as an equivalent generating CMU to be able to provide the same level of information to the regulator and receive the same treatment under capacity market rules with regard to bidding in the capacity market auction. The capacity market was founded as a technology neutral capacity market allowing all forms of capacity to bid against one another on the same terms unless there were circumstances that dictated the need for a different treatment. We cannot identify any reason why there is a difference in treatment for existing interconnector CMUs and existing generating CMUs. We also note that dissimilar treatment of interconnector CMUs with regard to the price maker / price taker rules was not consulted upon by government prior to its implementation, so we are also unaware of the original government rationale for the difference.

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

Joshua Coomber / 07874010307 / Joshua.coomber@nationalgrid.com / National Grid