


<b>Proposal for a Capacity Market Rules Change</b>		 Making a positive difference for energy consumers
		<b>Reference number</b> (to be completed by Ofgem): <b>CP209</b>
<b>Name of Organisation(s) / individual(s):</b> ScottishPower	<b>Date Submitted:</b> 11 November 2016	
<b>Type of Change:</b>  <input checked="" type="checkbox"/> <b>Amendment</b>  <input checked="" type="checkbox"/> <b>Addition</b>  <input type="checkbox"/> <b>Revoke</b>  <input type="checkbox"/> <b>Substitution</b>	<b>If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:</b> We consider this proposal to be a variant of CP163 and CP164, as it seeks to address the same issues raised. We have also raised two additional new variants of this proposal, which contain limited changes to what Agreements the proposal should apply to, and the duration of the proposed new testing.	
<b>What the proposal relates to and if applicable, current provision of Rules the proposal relates to (please state provision number):</b>  Currently, the testing regime (set out in Rule 13.4) only tests the technical capability of Capacity Market Units (CMU) to deliver energy for one Settlement Period (half an hour) at a time, compared to the likely typical duration of a system stress event of around two to three <sup>1</sup> hours. This may allow Capacity Payments to be made in respect of a CMU which is not technically capable of performing its obligations in a typical system stress event. These payments could support a competitive auction bid for certain technologies, even after making allowance for penalties for non-performance in each and every likely system stress event. In order to achieve the intended level of security of supply and ensure that consumers receive value for money, it is necessary that only CMUs (or portfolios) that are technically capable of delivering their obligations over the duration of a typical system stress event should qualify for capacity payments. (Given that penalties are designed to incentivise reliability and the testing regime is designed to assure capability, it is appropriate to address this issue in the testing regime.)  In order to minimise the impact on existing holders of Capacity Agreements, the proposal exempts Capacity Agreements entered into prior to 1 December 2016 from the stricter testing requirements but applies to all other CMUs with effect from the start of Capacity Year 2017/18 (ie. 1 October 2017). It should be introduced into the Rules as part of a suitable update made earlier during 2017.  <small>1 For example, the Notices of Insufficient System Margins/Capacity Market Warnings issued on the 4 November 2015 (2 hours), 9 May 2016 (2.5 hours) and 31 October 2016 (2.5 hours), all highlight the likelihood of system stress events lasting for between two and three hours.</small>		
<b>Description of the issue that the change proposal seeks to address:</b>  In order to prevent Committed CMUs which are only technically capable of generating for a single Settlement Period at a time from qualifying for Capacity Payments, we propose that one of the three tests each year (or the single test for those cases where only a single test is required)		

should have an extended duration of six consecutive Settlement Periods (three hours).

Failure to demonstrate the requisite number of tests, including an extended duration test, within a specified time window, as is the case of the current testing regime, would result in the suspension of Capacity Payments.

We are proposing to exempt Transitional Capacity Auction CMUs from this more stringent testing requirement in order to facilitate DSR learnings, but we consider that DSR participating in the enduring auctions should meet the same capability standard as generation.

**If applicable, please state the proposed revised drafting** (*please highlight the change*): The following is a track changed version of the 14 July 2016 informal consolidation of the current rules as published by Ofgem.

## 1.2 Definitions

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**Satisfactory Performance Day** has the meaning given in Rule 13.4.01

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## 13.4 Demonstrating satisfactory performance

13.4.01 A “Satisfactory Performance Day” is a day on which a Capacity Committed CMU has demonstrated to the Delivery Body (in accordance with Rule 13.4.2) capacity at a level equal to or greater than its Capacity Obligation or aggregate Capacity Obligations for at least one Settlement Period (which Settlement Period may fall within a System Stress Event) and:

- (a) that day is a separate day to any other Satisfactory Performance Day;
- (b) except in relation to Capacity Agreements entered into prior to 1 December 2016, where the Rules (other than Rule 11.3.4(b)) require three Satisfactory Performance Days to be demonstrated in any period, the third such day shall only be considered to be a Satisfactory Performance Day if the capacity has been demonstrated on that day for six successive Settlement Periods (an “Extended Performance Day”) unless either or both of the two previous Satisfactory Performance Days is an Extended Performance Day; and
- (c) any requirement to demonstrate six Satisfactory Performance Days shall be treated as a requirement to demonstrate two successive groups of three such days.

13.4.1 Subject to Rule 13.4.1A and Rule 13.4.1B, if a Capacity Committed CMU has not demonstrated to the Delivery Body (~~in accordance with Rule 13.4.2 capacity at a level equal to or greater than its Capacity Obligation or aggregate Capacity Obligations for at least one Settlement Period (which Settlement Periods may fall within a System Stress Event) on three separate days (each a “Satisfactory Performance Days”)~~) during the Winter of the relevant Delivery Year:

- (a) the Capacity Committed CMU must demonstrate three additional Satisfactory Performance Days after 1 May in that Delivery Year or at any time in any subsequent Delivery Year;
- (b) the Capacity Committed CMU’s entitlement to Capacity Payments will be suspended in accordance with the Regulations from 1 May in that Delivery Year until the later of 1 June in that Delivery Year and the day on which the third Satisfactory Performance Day is demonstrated pursuant to Rule 13.4.1(a) above; and
- (c) if the Capacity Committed CMU fails to satisfy the requirements of Rule 13.4.1(a) by the end of the relevant Delivery Year then, without prejudice to the ongoing suspension of Capacity Payment pursuant to Rule 13.4.1(b), the Capacity Provider with respect to such Capacity Committed CMU must repay all Capacity

Payments received (net of any Settlement Period Penalties paid capacity provider penalty charges paid under Regulation 41) in that Delivery Year in accordance with the Regulations.

13.4.1A For the purposes of the definition of “Satisfactory Performance Day” in Rule 13.4.01, in the case of an Interconnector CMU, the demonstration that is to be made is of Net Output at a level greater than zero as recorded for the purposes of the BSC by file CDCA-I041 of the Central Data Collection Agent (CDCA).

13.4.1B Subject to Rule 13.4.1C and for the purposes of the definition of “Satisfactory Performance Day” in Rule 13.4.01, in the case of a group of Capacity Committed CMUs with the same Capacity Provider (a “CMU Portfolio”), where those CMUs are either:

- (a) DSR CMUs which consist of DSR CMU components on two or more different sites; or
- (b) Non-CMRS Distribution CMUs, where, for each such CMU the aggregate connection capacity of all generating units is no greater than 50MW.

the demonstration that can be made instead of Rule 13.4.1 is capacity delivered in aggregate by the CMU Portfolio at a level equal to or greater than their combined Capacity Obligations (subject to Rule 9.5.1) for at least **six successive** Settlement Periods (which Settlement Periods may fall within a System Stress Event) during the Winter of a relevant Delivery Year, **save that in relation to Capacity Agreements entered into prior to 1 December 2016, such delivery need only be demonstrated for one Settlement Period.**

13.4.1C DSR CMUs or Non-CMRS Distribution CMUs demonstrating Satisfactory Performance Days in accordance with 13.4.1B, must for the purposes of Rule 13.4.1 demonstrate Satisfactory Performance Days using the same CMU Portfolio.

13.4.1D Where a CMU has, either individually or as part of a CMU Portfolio, demonstrated the requisite number of Satisfactory Performance Days in a relevant Delivery Year, that CMU must not form part of any other CMU Portfolio as defined in Rule 13.4.1B.

13.4.2 The Capacity Provider of a Generating CMU, a DSR CMU or an Interconnector CMU must notify the Delivery Body of the occurrence of the requisite number of Satisfactory Performance Days by the end of Winter and where the Satisfactory Performance Days have been demonstrated in accordance with 13.4.1B, must specify in the notification that this is the case and the DSR CMUs and Non-CMRS Distribution CMUs to which this applies.

13.4.2 The Delivery Body must notify the Capacity Provider if it is aware that any Satisfactory Performance Day notified in accordance with Rule 13.4.2 is not a Satisfactory Performance Day properly notified in accordance with this Rule 13.

13.4.3 Any Satisfactory Performance Day demonstrated on a Winter day during a Delivery Year may be counted towards the obligation in Rule 13.4.1 with respect to that Delivery Year and towards the obligation in Rule 13.4.1(a) with respect to a previous Delivery Year.

13.4.4 If, in two or more months in which System Stress Events occur in a Delivery Year, a Capacity Committed CMU fails to achieve a calculation of  $E_{ij}$  of 1kWh in relation to at least one System Stress Event in each such month, then each obligation pursuant to Rule 13.4.1 that requires the demonstration of three Satisfactory Performance Days during a period shall instead be a requirement to demonstrate six Satisfactory Performance Days in the same such period.

13.4.5 The Delivery Body must notify the CM Settlement Body of:

- (a) any failure by a Capacity Committed CMU to demonstrate three Satisfactory Performance Days during Winter pursuant to Rule 13.4.1;
- (b) any failure by a Capacity Committed CMU to satisfy its obligations (where applicable) pursuant to Rule 13.4.1(a) by the end of the relevant Delivery Year; and

(c) the date on which a Capacity Committed CMU satisfies its obligations pursuant to Rule 13.4.1(a).

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

We believe that our approach of complementing the existing testing regime by requiring an Extended Performance Day each year reasonably balances the cost impact on the CMUs with the need to provide appropriate assurance that eligibility for Capacity Payments is dependent on the CMU being technically capable of providing capacity for the duration of a typical system stress event.

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

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