Proposal for a Capacity Market Rules Change

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Reference number *(to be completed by Ofgem)*: **CP239**

Name of Organisation(s) / individual(s): **ScottishPower**	**Date Submitted:** 14 February 2017
Type of Change: ☒ **Amendment** ☐ **Addition** ☒ **Revoke** ☐ **Substitution**	**If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:**

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

This proposal would amend the rules relating to Unproven DSR so that Unproven DSR cannot use Generating Units unless they already exist and have been notified as part of the prequalification process. It would also introduce new progress reporting requirements to monitor delivery.

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 amending the Rules that relate to Unproven DSR. These changes would mean that participants would have to identify during prequalification any existing generating units that they intend to use as part of their Unproven DSR Capacity. In particular, this would mean that Unproven DSR would need to specify in the application for prequalification the location and any relevant metering details of any existing generating unit that it intends to use. Participants would also be required to declare, to the best of their knowledge, that the use of the generating unit is exclusive to them, in the relevant delivery year.

As a result of this proposal new generating units would not be able to participate as Unproven DSR and would therefore have to participate as new Generating Units and therefore be subject to the associated milestones and information requirements.

This proposal would also introduce new reporting requirements in order to mitigate risks to security of supply associated with Unproven DSR projects. The reporting requirements would provide transparency of what is being developed under the Unproven DSR category and allow the Delivery Body to track the progression of new projects.

This change would apply to all agreements awarded after 1 September 2017.

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

When developing the Capacity Market it was recognised that DSR was relatively immature and in need of further support in order to compete effectively and realise its potential. Significantly greater flexibility was therefore allowed for Unproven DSR compared to other technologies. This flexibility includes (1) not having to identify where the CMU will be located (2) not having to provide evidence of planning permission or provide metering details (3) no obligation to indicate the primary fuel type (4) a more generous timeframe for demonstrating that it can operate. However, this greater flexibility has also been extended to generating units, and we do not believe that this is merited.

The lack of transparency resulting from this flexibility makes it difficult to ascertain the potential level of true turn-down DSR versus generating units, and it is therefore difficult for stakeholders to form a view on, and respond to, any risks to security of supply.

In addition, the more generous timeframe to specify the nature of the Unproven DSR, and demonstrate that it can operate, provides a commercial advantage relative to Generation Units. If market conditions are favourable closer to delivery, and no true turn-down capacity comparable in costs can be found, generating units could be deployed as an alternative to turn-down (or vice/versa). This optionality puts Unproven DSR participants at an unwarranted competitive advantage when compared to Generating Units. By prohibiting new generating units from participating as Unproven DSR a more level playing field is created.

Our proposal to require the identification of existing generating units also addresses the risk associated with two or more participants speculating over the use of the same generating unit for the same delivery year.

As noted above, new generation can still participate as a new Generating Unit. However, if such new generation is to be located on a site that already participates as DSR, appropriate metering and settlement arrangements would be required, to ensure there was no double counting and that an appropriate baseline for the existing DSR was established.

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

The following sections have been identified as potentially requiring amendment or removal (proposed changes highlighted in red):

Unproven DSR Capacity

Means, with respect to an Unproven DSR CMU, the estimated capacity (in MW), that an Applicant or Capacity Provider (as applicable) anticipates (acting in good faith) will be evidenced by a DSR Test for that Unproven DSR CMU. Such capacity cannot include generating units, other than those declared in accordance 3.10.4.

3.10.4 Declaration of Permitted On-Site Generating Units

Each Applicant for an Unproven DSR CMU must include in the Application the following information and declaration in respect of all Existing Permitted On-Site Generating Units which it intends to use:

(i) The connections from or through which electricity is or could be supplied to the site of the Existing Permitted On-Site Generating Units and/or generation equipment through which the DSR will be effected.
(ii) The fuel type of the Existing Permitted On-Site Generating Units.
(iii) The full postal address with postcode and the two letter prefix and six-figure Ordnance Survey grid reference numbers of the Existing Permitted On-Site Generating units.
(iv) A director declaration stating to the best of their knowledge that they have an exclusive relationship with the Existing Permitted On-Site Generating Unit for the delivery year.

The information supplied under 3.10.4 would be published in the CM register.

12.6 Monitoring of Unproven DSR

12.6.1 The Capacity Provider of any Unproven DSR must, no less frequently than every six months from the date of the Capacity Auction until such time as a DSR Test has been completed, or the Capacity Agreement terminates, deliver to the Delivery Body a progress report for each CMU Component including:

(i) Details of the ongoing relationship between DSR provider and CMU Component;
(ii) The forecast installation date of all CMU Components;

(iii) The status of any identified Generating Unit under rule 3.10.4 (and if the Generating Unit is not currently operational, the business plan to ensure operation in the delivery year);
(iv) Any planned DSR Tests;
(v) Forecast total expenditure, and expenditure to date.

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:

The current rules do not provide the transparency required to ascertain the true level of the turn-down DSR that is being developed under the current frameworks. We believe the majority of Unproven DSR will be either existing or new behind-the-meter generation. It is in the interests of the industry and wider stakeholders to be able to understand what technologies the current frameworks are encouraging as we work towards delivering low carbon goals.

The evidence from the 2016/17 Delivery Year demonstrates a high failure rate in the delivery of Unproven DSR. Of the 475MW procured in the first transitional auction, only 329MW (69%) was actually delivered, with 71MW being terminated and a further 75MW being lost as a result of DSR Test results being lower than the capacity procured. If a similar failure rate were to be repeated for 2020/21, this would equate to circa 420MW of failed delivery, which creates unjustifiable security of supply risks. Accordingly, we believe that a balance needs to be struck, as regards reporting and progress requirements, between protecting against non-delivery risk, and providing sufficient flexibility to accommodate the uncertainty inherent in DSR business plans 4 years ahead of delivery. Moreover, additional transparency is required to allow stakeholders to form a view on, and respond to, any risk to security of supply.

The status of Unproven DSR facilitates a degree of flexibility required to aid an immature technology and associated business plans that are less certain when compared to conventional generation four years ahead of delivery. However, as currently written, the rules allow for generating units to be deployed in place of true turn-down DSR if the market conditions are favourable closer to delivery. This optionality puts Unproven DSR at a competitive advantage when compared to Generating Units.

In summary:

- We do not believe that the flexibility which may be justifiable for true turn-down DSR business plans should extend to behind-the-meter generation. This places behind-the-meter generation DSR at an unwarranted competitive advantage to Generation Units.
- Rule changes are required to ascertain a clear picture of how much behind-the-meter generation and true turn-down DSR is coming to market, and to ensure that multiple parties are not speculating over the same generating unit for the same delivery year. This additional transparency will allow stakeholders to form a view on, and respond to, any risk to security of supply. Knowing what technologies the current framework is fostering is also in the interest of consumers and industry as we work together to deliver low carbon targets.
- As regards demonstration of progress and reporting requirements, a balance needs to be struck between protecting against non-delivery risk, and providing an appropriate degree of flexibility to accommodate DSR business plans 4 years ahead of delivery.

This proposal is therefore in accordance with Ofgem's principal objective to protect the interests of consumers, including in respect of security of supply. It is also aligned with the CM rule change objectives in facilitating efficient operation and administration of the Capacity Market and promoting security of supply.

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

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