

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP249

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

Date Submitted:
17/10/2017

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

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

[Click here to enter text.](#)

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

Proposal to require Existing CMUs with Price-Maker status to submit Exit Bid at Price-Taker Threshold or higher.

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

Proposal is to ensure that genuine Capacity Providers submit Price-Maker memorandums only when genuine Price-Maker status is required for Existing Plant.

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

Currently, the Rules make the provision for a Capacity Provider of an Existing CMU to submit a memorandum requesting that their CMU be regarded as a Price-Maker in the Capacity Market Auction if the economics of their plant are such that they cannot afford to take a clearing price below the Price-Taker threshold. However, the option still remains for the Capacity Provider to enter an exit bid below the Price-Taker Threshold.

Further, whilst the Price-Maker memorandum must be signed by two directors of the company, there remains no verification process to ensure that forecasted economics of the plant are such that Price-Maker status is required, and indeed, it is not feasible that the provider's economic forecast should be subject to an independent due-dilligence process for this purpose.

By allowing the present arrangements to continue, however, there exists the opportunity for Capacity Providers of Existing CMUs to submit Price-Maker memorandums for CMUs that do not require them, therefore allowing them a free-bid on their units. This effectively allows them to accrue a significant competitive advantage, as they can opt to bid out an Existing CMU above the Price-Maker threshold, where the margin of capacity is short, in order to cause the auction close and providing a more lucrative clearing price for their remaining CMUs.

Alternatively, if the volume of capacity remains long at the Price Maker threshold, the Capacity Provider can opt to keep their Existing CMUs in the Capacity Auction and take a clearing price below the Price-

Taker threshold, contradicting their initial statement that they require a clearing price higher than the threshold to remain open.

This clearly creates a situation whereby the Price-Maker Memorandum effectively can act as an option and not a necessity, Doing so presents a situation detrimental to the consumer, as a existing capacity can effectively act as a price-maker in auction, and can potentially distort the auction clearing price to a level far above the true cost of new entry, unfairly rewarding capacity providers and financially penalising the end consumer.

In order to address this issue, in order to ensure that the Price-Maker memorandum is being used accordingly an Existing CMU that has successfully submitted a Price-Maker memorandum must not be allowed to submit an exit bid at a price below the Price-Taker threshold.

This will ensure that the policy intent is met by ensuring Capacity Providers are making accurate forecasts when submitting price-maker memorandums, and ensure that the clearing price is reflective of the cost of new entry. It will also level the playing field, as providers will have to take a definitive view prior to auction as to whether or not their plant requires price-maker status; It will ensure that the use of a Price-Maker memorandum remains in line with policy intent.

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

After rule 5.8.3 (b) add

5.8.3 (c) *In the case of an Existing CMU that is a Price-Maker, be lower than the Price-Taker Threshold*

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:

This proposal will incentivise Capacity Providers of existing CMUs to make as accurate a forecast as possible when choosing whether or not to submit a Price-Maker Memorandum; This will allow the capacity market clearing price to be further reflective of the cost of new-entry.

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