

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP251

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 publish applicant price-maker/ price-taker status on register

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

Proposal relates to the option for a Capacity Provider to submit a Price Maker memorandum for an existing CMU without any form of external verification

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 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

To provide greater transparency of these arrangements, and to ensure that the price-maker memorandum is being used in line with policy intent, the Price Maker/Price Taker status of a CMU should be made public on the Capacity Market Register. This will allow the consumer and the market to determine that Capacity Providers have made a correct declaration in their Price-Maker memorandum if one has been submitted, and whether the clearing price is reflective of the true cost of new entry

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

After rule 7.4.2 (b) add

7.4.2 (c) *If such Bidding CMU is as an Existing CMU, whether or not that CMU has submitted a Price-Maker Memorandum*

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 create further transparency around the Capacity Market Process, consumer with information as to how their money is spent. It will give the Authority information as to whether Auction participants are fully compliant with Capacity Market rules and policy intent

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