

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP255

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

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)

Introduce a requirement that for all Delivery Years from 2022 onwards, all generating units participating in T-4 Auctions meet the Emissions Performance Standard of 450 g/kWh of CO2 emissions proposed by BEIS as a means of ending coal generation in the UK.

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

In its consultation dated 9 November 2016 ("*Coal generation in Great Britain*"),¹ BEIS set out two alternative proposals for achieving the end of unabated coal in Great Britain by 2025. Each of these proposals would impose a form of Emissions Performance Standard on all solid fuel plants with a capacity above 300 MWth, whilst the first of the two proposals would also have required such plants to implement CCS technology.

The current version of the Rules does not impose any similar obligation on coal (or other) generating units that bid for capacity agreements to meet an Emissions Performance Standard.

¹ Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577080/With_SIG_Unabated_coal_closure_consultation_FINAL_v6.1_.pdf.

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

This proposal seeks to address the clear inconsistency between

- a. the Government's policy, as set out in the BEIS consultation, to end unabated coal by 2025 whilst improving the investment climate for new, lower-carbon, flexible replacement capacity; and
- b. a Capacity Market that actively encourages investment in large combustion plants, including coal generating units, in the run up to (and beyond) 2025.

The Prime Minister has recently re-affirmed the Government's intention to implement this coal phase-out by 2025. We expect the detail of how this will be achieved to be published this Autumn. We expect these proposals will show that the Government intends to achieve this goal by implementing an Emissions Performance Standard, likely to be similar or identical to the second proposal in the BEIS consultation.

We propose addressing this inconsistency by amending the Rules to introduce an equivalent Emissions Performance Standard applicable to all generating units bidding in T-4 Auctions. This would prevent the Capacity Market from excessively promoting investment in the very plants that BEIS is seeking to shut down, whilst sustaining the option to procure capacity from such plants through T-1 Auctions where it is absolutely necessary to ensure security of supply.

We propose that this requirement apply to all generating units seeking Capacity Agreements under T-4 Auctions for each Delivery Year from and including 2022. This is consistent with the proposal in the BEIS consultation to constrain generation in the years ahead of the date for implementing the Emissions Performance Standard in 2025. Whilst introducing such a requirement from 2022 would not necessarily lead to the end of unabated coal generation, it would likely function as a constraint to ensure there is a glide path from the present situation to implementation of the Emissions Performance Standard in 2025.

A further difference between our proposed amendment to the Rules and the BEIS proposal is that whereas the BEIS proposal is targeted at solid fuel plants of more than 300 MWth - which captures the UK's existing coal fleet - our proposed amendment would be applied on a technology neutral basis.

This slight difference in approach is intended to reflect the broader principle of technology neutrality that underpins the design of the Capacity Market. However, we would not expect this proposal to have a significant impact on the ability of gas power plants to bid for capacity agreements: as BEIS stated in its consultation, "*by dispatching gas ahead of coal, the average carbon intensity in 2014 would have reduced from around 450g/kWh to 250g/kWh.*"

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

This proposal could be implemented in a number of different ways. One possible route could be as follows:

- a. insert a new defined term: "*EPS Criteria*", defined as "*means the requirement that for each Delivery Year from and including 2022, a Generating CMU will not emit more than 450g/kWh of carbon dioxide in the course of meeting its obligations under a Capacity Agreement*";² and

- b. insert into Rule 3.3.3 a new paragraph (aaa) which states " *the CMU is a generating CMU applying for a T-4 Auction and does not meet the EPS Criteria*".

² This assumes that BEIS implements the EPS proposed in option 2 of the 2016 consultation. If it imposes a stricter EPS as some groups have recommended in their consultation responses, these stricter requirements should be reflected in the definition of EPS Criteria in the Rules.

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 are not in a position to commission or provide independent analysis or evidence on the impact of this change on industry or consumers. However, as this proposal is designed to ensure consistency with the proposals set out in BEIS's 2016 consultation, we refer to the analysis conducted by BEIS in the course of this consultation. The results of that analysis are set out both in the consultation document and in the Impact Analysis published alongside that consultation.³

³ The Impact Analysis is available here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/567057/WITH_SIG_Unabated_coal_closure_consultation_Impact_Assessment_FINAL.pdf.

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

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