

# Proposal for a Capacity Market Rules Change



Making a positive difference  
for energy consumers

Reference number (to be completed by  
Ofgem): CP257

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)

The Rules should be amended to allow all types of CMU to bid for Capacity Agreements of up to at least 3, and potentially 15, Delivery Years. This will ensure that the capacity market achieves its goal of technology neutrality.

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

In respect of the T-4 Auctions, the Rules currently allow:

- a. operators investing in building new Generating CMUs to bid for Capacity Agreements for up to 15 Delivery Years, so long as their capital expenditure exceeds the 15 year investment threshold; and
- b. operators investing in the refurbishment of existing Generating CMUs to bid for Capacity Agreements for up to 3 Delivery Years, so long as their capital expenditure exceeds the 3 year investment threshold.

All other operators, including operators of DSR CMUs and of other Generating Units not falling within (a) or (b) above, can only bid for Capacity Agreements for one Delivery Year.

In respect of the T-1 Auctions, the Rules allow all operators to bid for one Delivery Year only. The T-1 Auctions are not the subject of this proposal, as they already achieve technology neutrality.

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

The current Rules do not achieve technology neutrality. We explain this by reference to the example of DSR operators, although a similar point could be made in respect of other technologies.

The Rules treat DSR operators as though they are in a situation similar to existing Generating CMUs (such as existing large combustion plants) that do not require investments to be made to allow them to provide capacity - regardless of the levels of investment actually required by a particular DSR CMU operator.

However, unlike existing Generating CMUs, DSR operators and new DSR customers may need to make significant investments to ensure they are able to meet their Capacity Agreement obligations.

Upfront capital investments may be required to install the necessary technical equipment on customers' premises. Multiplied by the total number of customers required for a DSR operator to make a meaningful contribution to the Capacity Market, the overall level of capital investment required could be significant.

DSR customers may also face material operational costs when implementing DSR, such as operating its business at a different time of day, etc. The customer may be unwilling to make these investments if it can only benefit from a Capacity Agreement for one Delivery Year.

Allowing DSR operators to bid for Capacity Agreements for multiple Delivery Years could allow them to plan appropriately to meet these costs, and would achieve the technology neutrality that is the goal of the capacity market.

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

There are a number of primary and consequential amendments that could be made to the Rules to enable all CMU operators to participate fully in the Capacity Market.

One straightforward change would be to replace the references in the definition of Maximum Obligation Period to "*a Prospective Generating CMU*" with references to "*a CMU*". Additional changes would be required, in particular to the definitions of "*Extended Years Criteria*", "*Fifteen Year Minimum £/kW Threshold*", and "*Three Year Minimum £/kW Threshold*", to ensure that this amendment had the intended effect of opening up the Capacity Market to participation of DSR CMUs and other innovative technologies.

The precise nature of these additional required changes should be considered in the course of the consultation.

**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 sufficiently incentivise investment in innovative technologies such as DSR.

Greater participation of DSR CMUs in the Capacity market would benefit the environment - as DSR CMUs are much less environmentally harmful than the combustion plants that currently receive a disproportionate share of the Capacity

Agreements. It would also benefit consumers, since DSR participation would be likely to bid down prices for the highest energy peaks.

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

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