Proposal for a Capacity Market Rules Change

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Reference number *(to be completed by Ofgem)*: CP327

Name of Organisation(s) / individual(s):	**Date Submitted:**
National Grid Interconnector Holdings Ltd	17th October 2017

Type of Change:	**If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:**
☐ **Amendment** ☒ **Addition** ☐ **Revoke** ☐ **Substitution**	This proposal was highlighted in the last Rule Change process (November 2016)

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

Information in Capacity Market Warnings

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

Rule 8.4.6

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

We would propose that the information calculated by the GB System Operator in determining if a Capacity Market Notice (CMN) is to be issued or published. This increased transparency would potentially allow market participants to make better informed decisions about how they operate should a capacity market warning be published, or even in advance of publication. This will lead to more efficient decisions being taken by the market.

For a CMN to be triggered the available generation in any given settlement period (4 hours out) is less than Demand + Operating Margin + 500MW margin tolerance. Although a CMN is not a dispatch/operational tool we believe that the publication of the results of the System Operator's (SO's) calculations relating to the CMN in each half hour period will allow more optimal decisions to be taken by the market. This could include an insight into determining whether the situation is improving or not over the course of a CMN period.

This will provide a signal to show the extent/scale of the situation to drive efficient behaviours in the market. Under the present rules, only the calculated figures for the very first period in a CMN period are published, with the only further information being that the margin has not recovered sufficiently to cancel the warning, or alternatively that it has.

This means that important information about whether the margin situation is getting worse or better is not available to CM participants. This could be crucial in determining a CMU's and the wider markets reaction to a CMN.

The diagrams below illustrate an example of an improving situation vs. a situation that is worsening regarding system margins in GB. In both cases the CMN would remain in force, but the two circumstances could require radically different actions from CM participants.

Accurate calculations, updated every half hour throughout the duration of an active CMN, indicating the amount of MW under (or over) the 500MW margin tolerance for a CMN to be triggered should be published. This would be useful for market participants enabling them to act accordingly depending on the situation *(represented by the blue arrows),* whilst also utilising other market signals such as Electricity Margin Notices (EMNs).

Figure 1: Decreasing shortfall in margin

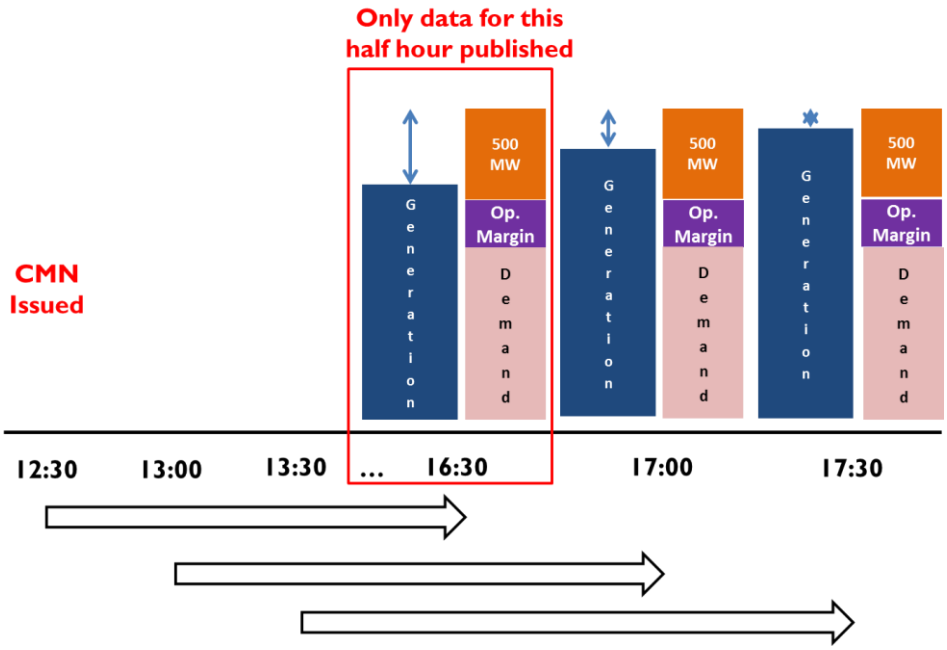
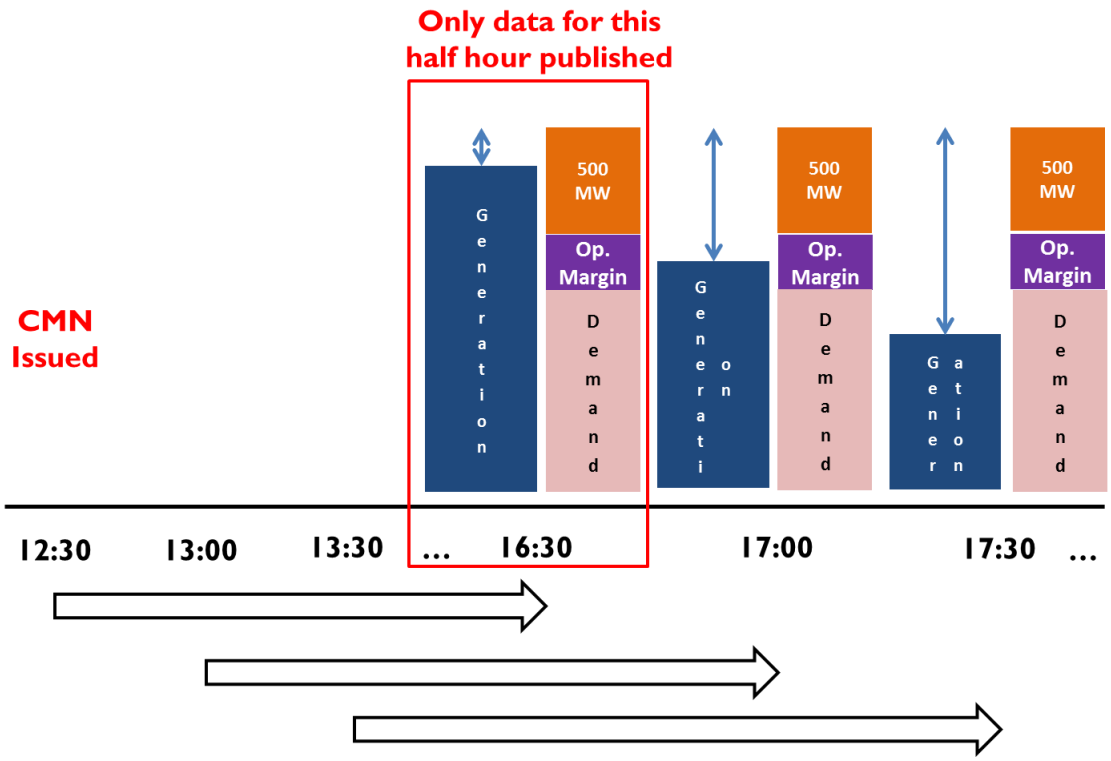


Figure 2: Increasing Shortfall in Margin



The information and the way it is processed by the SO in generating the CMN are not publically available and so could not be recreated by CM Participants. It is important therefore that the results of the SO's calculations are made public. As can be seen in the examples described by Figures 1 and 2 above, the more benign scenario of a decreasing shortfall in margin appears to be worse than the more sinister scenario of increasing shortfalls, when only the first half hour period is published. This could lead to inefficient market reactions to a CMN.

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

We would propose that the results of the calculation showing the difference between Available Generation and the (Demand + Operating Margin + 500MW) figure be published for each half hour in real time. Parties can use this as an additional information resource that can allow them to take better judged decisions in response to a CMW, or judge the potential likelihood of a CMW. We are aware that there are other information resources available in the market, such as Electricity Margin Notices, and other Grid Code warnings. However these are issued only on a best endeavors basis by the Electricity National Control Centre. The advantage of publishing the suggested calculations feeding the process to issue a CMW (or not) is that the calculation is automated and consistent throughout the year and therefore can give a reliable signal to the market. It is also the case that the only change being proposed is that the information be published. The information is already being calculated every half hour, we are requesting that it be published on a website that is publically available as soon as reasonably practicable after it is calculated.

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: Potential implications for how capacity providers respond to changing market conditions as a result of a Capacity Market Warning/Notice.
Details of Proposer *(please include name, telephone number, email and organisation)***:** Joshua Coomber | 07874010307 | joshua.coomber@nationalgrid.com | National Grid Interconnector Holdings Ltd.