

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP346

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

Date Submitted:

15 February 2018

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

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

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

This proposal will require all CMUs to demonstrate during prequalification that they meet all emissions standards.

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

This proposal relates to rules 3.4 (Information to be provided in all applications)

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

There is a loophole existent within the Capacity Market Rules whereby a Capacity Provider can win a Capacity Agreement for a CMU, without having to confirm, or otherwise demonstrate that the CMU is compliant with environmental regulations such as the European Union's Emissions Trading Scheme (EU ETS) (EU Emissions Trading Directive 2003.87.EC). This clearly constitutes a problem with regard to the efficient operation of the Capacity Market, as by not ensuring that all participants are permitted under EU ETS, there is the potential that some participants are not legally compliant with emissions regulations, and will not be permitted to generate in a stress event.

Therefore, it is vital that Ofgem act immediately, and introduce a rule that will require all CMUs to declare at prequalification that they have or will obtain by the start of the delivery year, a valid Greenhouse Gas Emissions Permit, as required under the EU ETS scheme

The reasons for implementing this as soon as possible are twofold

- 1) As the payments under the Capacity Market are ultimately governed by European State Aid legislation, it is therefore of the utmost importance that all participants remain compliant with all other aspects of European Union legislation, including EU ETS. Failure to do so is ultimately harmful to end consumers, as the consumer is effectively paying for capacity that is non-compliant with other regulations, and so therefore is at risk of not generating in a stress event. Similarly, this also impedes the efficient operation and administration of the Capacity Market, as participants may win capacity agreements without remaining compliant with emissions regulations, which is to the detriment of participants who must factor in compliance costs

- 2) There exists a precedent in the rules whereby, capacity providers of long-term new-build units must declare that their plant will be compliant with the Industrial Emissions Directive, BREF and Large Combustion Plant Directive as a precondition to them bidding for and obtaining a long-term agreement. Given the implications of the de-carbonisation regulation in the 2020s, and as the next Capacity Market Auction will be procuring for years 2019-2020 and 2022-2023, it is necessary for this requirement to be extended to all plant bidding into the capacity market. It is necessary for the efficient operation of the capacity market, that all capacity secured for one- and four-years ahead will be compliant with all environmental regulations at the time of delivery.

Therefore, Ofgem must act immediately to incorporate this rule change into the Capacity Market Rules, ahead of prequalification for the next Capacity Market Auction

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

After Rule 3.4.8 add

3.4.9 Emissions Standards

With respect to a CMU comprising of a Generating Unit that is a combustion installation, Each Applicant must declare at the time of making the Application that

(a) The applicant currently holds or will by the start of the delivery year, hold a valid Greenhouse Gas Emissions Permit for all Generating Units comprising the CMU

(b) The applicant will ensure that any Green House Gas Emissions Permits required under Rule 3.4.9 (a) will continue to be valid for the entire period for which the CMU has a capacity agreement

3.4.9A Emissions Standards: Supplementary

For the purposes of Rule 3.4.9

(a) "Green House Gas Emissions Permit" means a Permit Granted under the **Greenhouse Gas Emissions Trading Scheme Regulations 2012 SI 2012 NO.3038**

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:

By implementing this rule change immediately, potential Capacity Market participants from the next Capacity Auction onwards, will be incentivised to ensure that their plant is compliant with all emissions regulations; This will therefore improve security of supply by ensuring that all plant bidding for capacity agreements can continue to generate.

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

Anonymous