

# Report

## Report on the Operation of the Capacity Market in 2018/19

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### Overview:

The Electricity Capacity Regulations 2014 (as amended) require Ofgem to provide the Secretary of State for Business, Energy and Industrial Strategy ("Secretary of State") with an annual report on the operation of the Capacity Market.

As per Regulation 83(5), annual reports must be published within six months following the completion of each T-4 Auction, if no T-4 Auction is held, by no later than six months after the end of that capacity delivery year.

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## Contents

<b>Executive Summary</b> .....	<b>5</b>
Prequalification.....	5
2018 T-1 Capacity Auction (Delivery Year 2019/20).....	6
CM Suspension.....	6
<b>1. Background</b> .....	<b>7</b>
Purpose of report.....	7
Scope of report.....	7
Capacity Market Background.....	8
Overview of the Capacity Market.....	8
Overview of the prequalification process.....	9
A high-level summary of the prequalification process.....	9
Classification of CMUs.....	9
Overview of the auction process.....	9
Overarching auction design.....	9
Historical overview: Auction timelines.....	11
T-4 Auctions.....	11
T-1 Auctions.....	11
Transitional Arrangement (TA) Auctions.....	12
Early Auction.....	12
<b>2. Capacity Market Suspension</b> .....	<b>13</b>
Overview.....	13
<b>3. Prequalification and appeals process</b> .....	<b>15</b>
Prequalification outcomes for the 2018 T-4 Auction (Delivery Year 2022/23).....	15
Prequalification results for the 2018 T-4 Auction.....	15
Prequalification outcomes for the 2018 T-1 Auction (Delivery Year 2019/20).....	17
Prequalification results for the 2018 T-1 Auction.....	17
CMUs that did not prequalify for the T-1 Auction.....	19
Appeals process review.....	21
<b>4. 2018 T-1 &amp; T-4 Auction Results</b> .....	<b>23</b>
2018 T-4 Auction (Delivery Year 2022/23) outcomes.....	23
2018 T-1 Auction (Delivery Year 2019/20) outcomes.....	23
Clearing price and volume.....	23
Results by CMU category.....	24
Results by technology and fuel type.....	25
Results by company.....	28

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Further observations .....	29
Clearing price significantly lower than in the 2016 Early Auction (Delivery Year 2017) & 2017 T-1 Auction (Delivery Year 2018/19) .....	29
Resource mix and cleared volumes for the 2017 T-1 Auction (Delivery Year 2018/19) & 2018 T-1 Auction (Delivery Year 2019/20) .....	30
Bidding Behaviour .....	32
Background.....	32
Capacity auction bidding rules .....	32
Our monitoring.....	33
Summary of bidding behaviour in the 2018 T-1 Auction .....	33
<b>5. Delivery Milestones .....</b>	<b>36</b>
Delivery milestones for T-4 Auctions (2014-2018) .....	36
2014 T-4 Auction .....	37
2015 T-4 Auction .....	38
2016 T-4 Auction .....	38
2017 T-4 Auction .....	39
Delivery milestones for the 2016 Early Auction and 2017 & 2018 T-1 Auctions .....	39
<b>6. Satisfactory Performance Days for the 2017/18 &amp; 2018/19 Delivery Year .....</b>	<b>41</b>
Testing and Pre-Delivery Year Capacity Providers .....	41
Delivery Year performance .....	41
<b>7. Next steps .....</b>	<b>47</b>

## Executive Summary

This is the fifth report on the operation of the Capacity Market (“CM”), covering the Capacity Market Delivery Year (“Delivery Year”) 1 October 2018 to 30 September 2019. Of the two CM auctions (2018 T-4 Auction Delivery Year 2022/23 and 2018 T-1 Auction Delivery Year 2019/20) scheduled, only the 2018 T-1 Auction took place. This report analyses auction outcomes for the 2018 T-1 Auction, prequalification and appeals processes for both scheduled auctions, and reports on delivery milestones and performance. The report also includes information on the CM suspension in November 2018. Due to the CM suspension the 2018 T-1 Auction was postponed, a replacement T-1 Auction was held summer 2019, and the 2018 T-4 Auction was suspended and rearranged as a T-3 Auction in early 2020.

### Prequalification

The Electricity Market Reform Delivery Body (“Delivery Body”) received a total of 1,115 CM Unit (“CMU”) applications for the 2018 T-4 Auction, totalling 78 GW of de-rated capacity. The final number of prequalified CMUs for the T-4 Auction was 396, totalling approximately 58 GW of de-rated capacity.<sup>1</sup> A total of 545 CMUs submitted applications to enter the 2018 T-1 Auction<sup>2</sup> totalling approximately 14.5 GW of de-rated capacity.<sup>3</sup>

The Delivery Body received 152 requests for a reconsidered decision<sup>4</sup> (“Tier 1 dispute”) for the 2018 T-4 Auction and 131 for the 2018 T-1 Auction. Tier 1 disputes for the 2018 T-4 Auction had 65% of prequalification decisions overturned, similarly the 2018 T-1 Auction had 66% overturned.<sup>5</sup> A total of 21 CMUs submitted an Appeal to the Authority<sup>6</sup> (“Tier 2 dispute”) for the 2018 T-1 Auction, 47 CMUs entered Tier 2 disputes for 2018 T-4 Auction. Three CMUs submitting Tier 2 disputes in the 2018 T-1 Auction had prequalification decisions overturned and five CMUs had prequalification decisions overturned for the 2018 T-4 Auction.

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<sup>1</sup> CMR 2018 T-4 Auction data (published 18 February 2020), includes post-refurbishing de-rated capacity volumes and de-rated capacity.

<sup>2</sup> CMR 2018 T-1 Auction data (published 18 February 2020) shows a total of 412 CMUs prequalified for the T-1 Auction however only 129 secured a capacity agreement.

<sup>3</sup> CMR 2018 T-1 Auction data (published 18 February 2020).

<sup>4</sup> Electricity Capacity Regulations 2014 (as amended), Regulation 69.

<sup>5</sup> Data provided by the Delivery Body and Ofgem.

<sup>6</sup> Electricity Capacity Regulations 2014 (as amended), Regulation 70.

## **2018 T-1 Capacity Auction (Delivery Year 2019/20)**

The 2018 T-1 Auction cleared at a price of £0.77/kW/year, the lowest ever recorded. The target capacity was 3.68 GW and of the 9.42 GW of capacity entering the auction, 3.63 GW was awarded capacity agreements.<sup>7</sup> This is a decrease in volume of approximately 2.2 GW from the 2017 T-1 Auction (Delivery Year 2018/19).

More than half (56%) of the capacity acquired through this CM auction was gained by Combined Cycle Gas Turbines ("CCGTs"), totalling approximately 2 GW. Interconnector capacity accounted for 1 GW (28%), this was followed by generation from waste at 265 MW (7%) and Demand Side Response ("DSR") capacity at 195 MW (5%). Bio-fuel, coal mine methane, diesel and storage battery accounted for approximately 110 MW (approximately 3%).<sup>8</sup>

## **CM Suspension**

The General Court of the Court of Justice of the European Union ruled in favour of Tempus Energy in *Tempus Energy Ltd and Tempus Energy Technology Ltd v European Commission*.<sup>9</sup> This judgment effectively annulled the European Commission's State aid approval for the Great Britain CM scheme and a "standstill" period was introduced by the U.K. Government. During the standstill, the Secretary of State postponed the 2018 T-1 Auction for Delivery Year 2019/20; the auction was subsequently held in the summer of 2019, and the 2018 T-4 Auction for Delivery Year 2022/23 was suspended and rearranged as a T-3 Auction in 2020. On 25 January 2019, the Commission appealed the General Court's judgement.

During the standstill period, aid was not granted under the CM and as a result all CM payments were suspended. Following an in-depth assessment of State aid, the CM was reinstated on 25 October 2019. In early 2020, capacity providers received full settlement of deferred capacity payments for the standstill period totalling over £1 billion.<sup>10</sup>

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<sup>7</sup> [National Grid Final Auction Report 2018 year ahead Capacity Auction \(T-1\) Delivery Year 2019/20](#)

<sup>8</sup> Data provided by the Delivery Body.

<sup>9</sup> (Case T-793/14).

<sup>10</sup> [Low Carbon Contracts "Capacity providers paid over £1 bn in full settlement of CM standstill period"](#)

## 1. Background

### Purpose of report

1.1. This report covers the operation of the CM since our last report, published in August 2018. The report provides factual information of the CM auction process including participation, prequalification and auction results. The report also includes information on delivery milestones and performance. An overview of the CM suspension is included to provide context for rescheduled and suspended auctions during the reporting period.

1.2. The report is one of two<sup>11</sup> Ofgem is required to provide to the Secretary of State after each T-4 Auction, under the Electricity Capacity Regulations 2014 (the “Regulations”).<sup>12</sup> The second report is on the performance of the National Grid Electricity System Operator’s (“NGESO’s”) functions as the Delivery Body for the Capacity Market.<sup>13</sup>

### Scope of report

1.3. The report analyses the CM auction process, including prequalification, participation and auction outcomes covering the Capacity Market Delivery Year (“Delivery Year”) 1 October 2018 to 30 September 2019. The report also provides information on delivery milestones and performance.

1.4. Specifically, the CM Operation Report includes:

- an overview of the CM suspension in November 2018;
- prequalification results and appeals process for the 2018 T-4 Auction for delivery of capacity in 2022/23 and 2018 T-1 Auction for delivery of capacity in 2019/20;
- participation outcomes and bidding analysis for the 2018 T-1 Auction;

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<sup>11</sup> [Ofgem, Electricity Market Reform Publications](#)

<sup>12</sup> [The Electricity Capacity Regulations 2014.](#)

<sup>13</sup> On 1 April 2019, National Grid Electricity System Operator became a legally separate entity within the National Grid Group. If the Delivery Body is referred to in this report, it refers to the National Grid Electricity System Operator carrying out its function as the Electricity Market Reform Delivery Body.

- an update of delivery against milestones of Capacity Agreements won in earlier auctions; and
- an overview of Satisfactory Performance Days (“SPDs”) data illustrating availability of capacity for the 2017/18 and 2018/19 Delivery Years.

1.5. The Secretary of State may instruct us to report on any particular matter as part of this report. No such instruction was received for this edition.

## Capacity Market Background

### Overview of the Capacity Market

1.6. The CM was introduced in 2014 to maintain sufficient levels of capacity to ensure security of electricity supply.

1.7. The CM provides revenue in the form of capacity payments to potential capacity providers. In return, participants must commit to delivering electricity at times of system stress and face penalties if they fail to do so.

1.8. Capacity payments are determined via competitive auctions, held four years (T-4 Auction) and one year (T-1 Auction) before each delivery period. The T-1 Auctions are used to ‘top-up’ the target capacity for the Delivery Year, and spread the risk. Prospective Capacity Providers must meet certain eligibility requirements and prequalify before they can participate in the CM auctions.

1.9. CM auctions allow different technology types to participate, including: generation, DSR, interconnectors and some renewables.<sup>14</sup>

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<sup>14</sup> Except for the Transitional Arrangement Auctions which are only for DSR CMUs.



## Overview of the prequalification process

### A high-level summary of the prequalification process

1.10. To participate in a CM auction, a CMU must prequalify by meeting the requirements set out in the Capacity Market Rules 2014 (as amended) (the “Rules”) and Regulations.<sup>15</sup> The prequalification process is run by the Delivery Body, who review applications submitted by CMUs and determine whether they are eligible.

1.11. Applicants can ask the Delivery Body to reconsider its initial prequalification decision (a “Tier 1 appeal”). Following an unsuccessful Tier 1 appeal, an applicant may submit an appeal to the Authority (a “Tier 2 appeal”).

### Classification of CMUs

1.12. CMUs are classified as follows: generators and interconnectors that are currently operational (“Existing”), generators investing in an existing asset (“Refurbishing”) and new generators and interconnectors (“New Build”). Demand side response<sup>16</sup> (“DSR”) may also participate. They may have completed a DSR Test (“Proven DSR”) or not (“Unproven DSR”).

1.13. Existing CMUs and all DSR CMUs are eligible for agreements that last for one year. Refurbishing and New Build CMUs are eligible to receive agreements up to three and 15 years respectively in the T-4 Auctions.

## Overview of the auction process

### Overarching auction design

1.14. The CM auctions have a descending clock format, with bidders exiting the auction when the price drops below the level at which they are willing to take on a capacity obligation. There are multiple ‘rounds’, starting at a price cap and reducing incrementally.

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<sup>15</sup> [The Electricity Capacity Regulations 2014](#) and [the Capacity Market Rules](#).

<sup>16</sup> Demand Side Response is provided by customers who lower or shift their electricity use at peak times, which may be done by those customers utilising backup generation.

1.15. Existing CMUs are by default “Price Takers”, which means they can only place bids below a certain threshold (£25/kW/year). In order to bid above this threshold, they must become ‘Price Makers’ by submitting a Price Maker Memorandum, outlining why they may need to bid above the threshold. All other CMUs are Price Makers and can bid up to the Auction Price Cap (£75/kW/year).

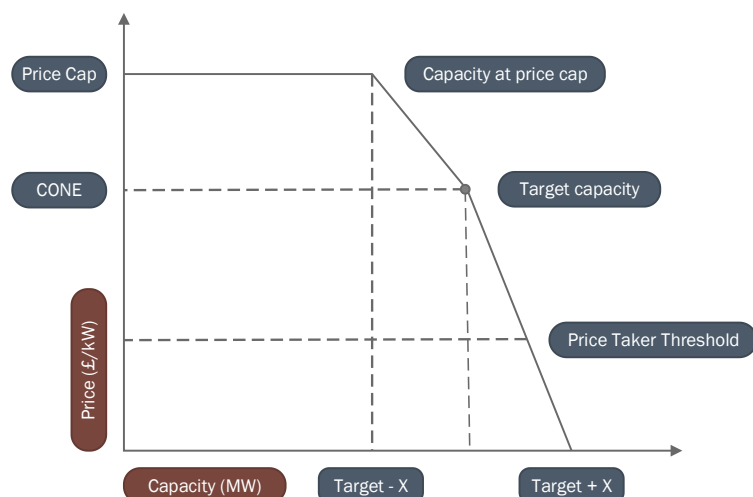
1.16. As well as placing bids to exit the auction, Refurbishing and New Build CMUs may place a bid at the price at which they would like to switch from a 3-year or 15-year agreement to a one-year agreement. Refurbishing CMUs can also specify a price at which they would like to switch to a ‘Pre-refurbishing’ state, where they would instead receive an Existing CMU contract for one year, with no obligation to invest in the asset.

1.17. The auction continues until the total capacity offered by remaining participants falls below the demanded capacity at that price (the ‘clearing round’). CMUs still in the auction will receive a capacity agreement at this price.

1.18. The demand curve for the auction, as shown in figure 1, is sloped downwards, reflecting the benefit in securing more capacity when the price is low. A variability from the target (“X”) defines the slope of the curve.

1.19. As established by the demand curve parameters, the auction price cap is set at £75/kW-yr and the price floor is £0/kW-yr. In addition to these parameters, net-CONE (net Cost of New Entry) represents gross CONE less expected energy and ancillary services revenues. The demand curve design in itself mitigates exercises of market power, in addition to the design, price thresholds are established for participants classifying as Existing Generation CMUs.

**Figure 1: Capacity market auction demand curve**



## Historical overview: Auction timelines

### T-4 Auctions

1.20. Since 2014, there have been five capacity market T-4 Auctions. The most recent T-4 Auction in 2018 was suspended and was rearranged as a T-3 Auction for delivery of capacity in 2022/23.

**Table 1: Capacity market T-4 Auctions**

Year	Delivery Year	Auction Conclusion / Cleared <sup>17</sup>	Clearing Price
2014	2018/19	02-Jan-15	£19.40/kW/year
2015	2019/20	10-Dec-15	£18.00/kW/year
2016	2020/21	08-Dec-16	£22.50/kW/year
2017	2021/22	08-Feb-18	£8.40/kW/year
2018	2022/23	Suspended <sup>18</sup> (rearranged as T-3 Auction Jan 30 & 31, 2020)	N/A

### T-1 Auctions

1.21. There have been two capacity market T-1 Auctions. The most recent T-1 Auction in 2018 was postponed from January 2019 as previously scheduled, to June 2019 for delivery of capacity in 2019/20.

**Table 2: T-1 Auctions**

Year	Delivery Year	Auction Conclusion / Cleared	Clearing Price
2017	2018/19	01-Feb-18	£6.00/kW/year
2018	2019/20	12-Jun-19	£0.77/kW/year

<sup>17</sup> Auction information retrieved from EMR Delivery Body Final Auction Results reports.

<sup>18</sup> [T-3 Auction Monitor Report](#)

### Transitional Arrangement (TA) Auctions

1.22. The TA Auctions involved two additional auctions designed to encourage growth in specific categories of capacity, to enable them to participate in the main CM in future.<sup>19</sup> TA Auctions offered targeted support to demand-side response (DSR), to encourage enterprise, and increase levels of participation in the two years preceding full Capacity Market delivery in 2018 to 2019.<sup>20</sup>

**Table 3: Transitional Arrangement (TA) Auctions**

Year	Delivery Year	Auction Conclusion / Cleared	Clearing Price
2015	2016/17	27-Jan-16	£27.50/kW/year
2016	2017/18	22-Mar-17	£45.00/kW/year

### Early Auction

1.23. The Secretary of State introduced an additional one-year ahead CM auction in 2017 as an Early Auction. This was held in January 2017 to procure capacity for delivery in 2017/18.<sup>21</sup>

**Table 4: Early Auction**

Year	Delivery Year	Auction Conclusion / Cleared	Clearing Price
2017	2017/18	03-Feb-17	£6.95/kW/year

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<sup>19</sup> [BEIS, Evaluation of the Transitional Arrangements](#)

<sup>20</sup> [Gov.uk, Transitional Arrangements Auction](#)

<sup>21</sup> [Gov.uk, Transitional Arrangements Auction](#)

## 2. Capacity Market Suspension

### Overview

2.1. On 15 November 2018 the General Court of the Court of Justice of the European Union found in favour of Tempus Energy in Tempus Energy Ltd and Tempus Energy Technology Ltd v European Commission.<sup>22</sup> This judgment had the effect of annulling the European Commission's State aid approval for the GB CM scheme and a standstill period was introduced, during which time aid was not granted under the CM. On 25 January 2019, the Commission appealed the General Court's judgement.

2.2. Following the judgment, the Secretary of State postponed the T-4 and T-1 Auctions for Delivery Years 2022/23 and 2019/20 respectively. Furthermore, all CM payments were suspended for the duration of the standstill period. In February 2019, the Commission opened an in-depth investigation with the aim of reassessing the compatibility of the GB CM scheme with EU State aid rules.

2.3. Secondary legislation was laid on 28 February 2019 that allowed the postponed T-1 Auction, which was originally planned for early 2019, to be rearranged. In addition, 'conditional capacity agreements' were granted pending the Commission decision. The rearranged T-1 Auction for delivery in 2019/20 concluded on 12 June 2019. The planned T-4 Auction, postponed due to the standstill period, was replaced with a T-3 Auction held in January 2020 for delivery year 2022/23.

2.4. For the entirety of the CM standstill period, the Government were unable to make capacity payments, or grant capacity agreements conferring a right to receive capacity payments until the reinstatement of the CM. This meant that capacity providers had to deliver in the absence of revenue.

2.5. On 24 October 2019, the European Commission declared the approval of the CM scheme under EU state aid rules.<sup>23</sup>

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<sup>22</sup> (Case T-793/14).

<sup>23</sup> [State aid: Commission approves the British Capacity Market scheme](#)

2.6. On 25 October 2019, the Secretary of State issued a letter to the CM Settlement Body<sup>24</sup> (the Electricity Settlements Company (“ESC”)) and NGESO<sup>25</sup> confirming the European Commission’s decision to reinstate the CM. The Secretary of State instructed ESC to complete the necessary requirements for the restart of the CM. ESC were required to calculate and collect post-standstill payments from suppliers, and in accordance with the Regulations, make capacity payments in respect of the standstill period. Capacity providers were paid in January 2020 for the CM standstill period.

2.7. Since the standstill collection period covers the period from 1 October 2018 until the last day of the month following the month that the reinstatement was made, 30 November 2019, it spanned across Delivery Year 2018/19 and 2019/20. The first month where the CM operated in the usual state, where monthly payments were collected from suppliers and made to Capacity Providers, was December 2019.<sup>26</sup>

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<sup>24</sup> [Letter from Secretary of State to Electricity Settlements Company \(ESC\), October 2019](#)

<sup>25</sup> [Letter from Secretary of State to National Grid ESO \(NGESO\), October 2019](#)

<sup>26</sup> [EMRS Guidance G22 - Capacity Market Settlement Restart](#)

### 3. Prequalification and appeals process

3.1. This section covers prequalification results for the 2018 T-4 Auction (Delivery Year 2022/23) and 2018 T-1 Auction (Delivery Year 2019/20). This section provides an overview of the prequalification results, as well as a summary of the appeals processes.

#### **Prequalification outcomes for the 2018 T-4 Auction (Delivery Year 2022/23)**

##### **Prequalification results for the 2018 T-4 Auction**

3.2. Prequalification for the 2018 T-4 Auction (Delivery Year 2022/23) commenced 23 July 2018 and ended 14 September 2018. A total of 1,115 CMU applications were made during the prequalification window, totalling 78 GW of de-rated capacity.<sup>27</sup> The final number of prequalified CMUs for the T-4 Auction was 396, totalling 57.6 GW of de-rated capacity.<sup>28</sup>

3.3. A total of 11 CMUs with 4.9 GW of anticipated de-rated capacity, opted out of participating in the auction. Of these, seven intended to be closed down, decommissioned or otherwise non-operational by the start of the Delivery Year. The remaining CMUs opted-out despite their intention to remain operational throughout the Delivery Year.<sup>29</sup>

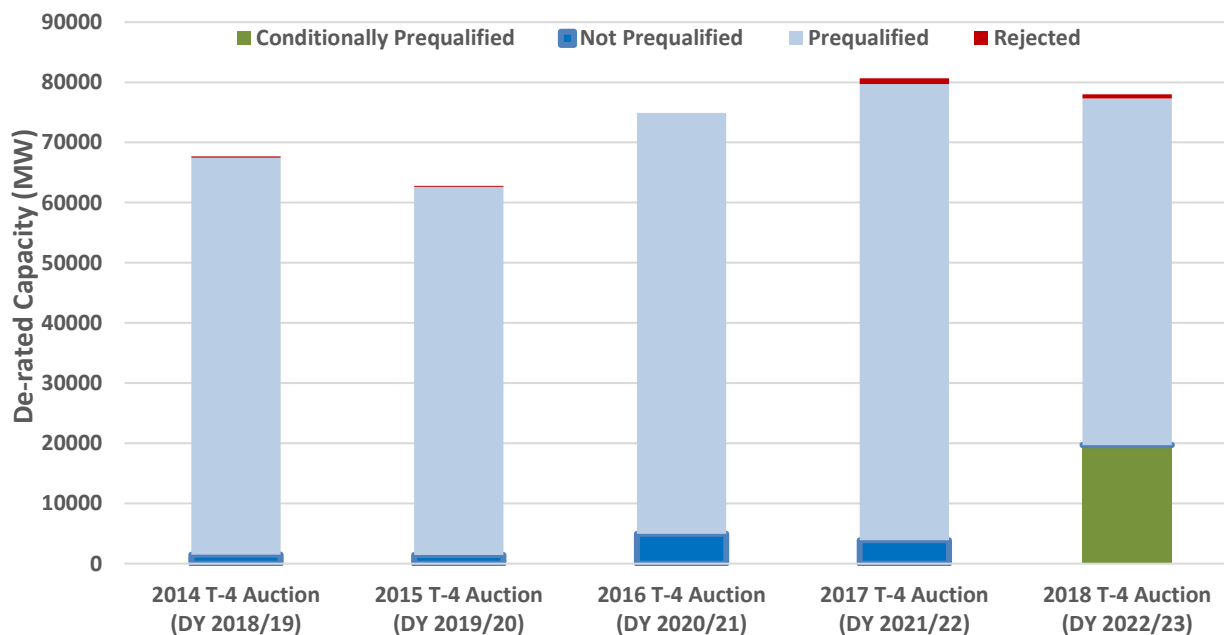
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<sup>27</sup> Volume includes total de-rated and post-refurbishing de-rated capacity amounts for all prequalification decisions (rejected, conditionally prequalified, prequalified, not prequalified). These are illustrated in figure 2.

<sup>28</sup> CMR 2018 T-4 Auction (February 11, 2020), amount only includes prequalified CMUs.

<sup>29</sup> CMR 2018 T-4 Auction (February 11,2020), opt out status & reason.

Figure 2: Historical overview of T-4 prequalification decisions



3.4. Figure 2 illustrates prequalification outcomes in T-4 Auctions over a five year period. The 2017 T-4 Auction (Delivery Year 2021/22) had the most volume submitted for prequalification. De-rated capacity volumes submitted at prequalification have gradually increased from the 2015 T-4 Auction up to the 2018 T-4 Auction where volumes reduced slightly by 3%.<sup>30</sup>

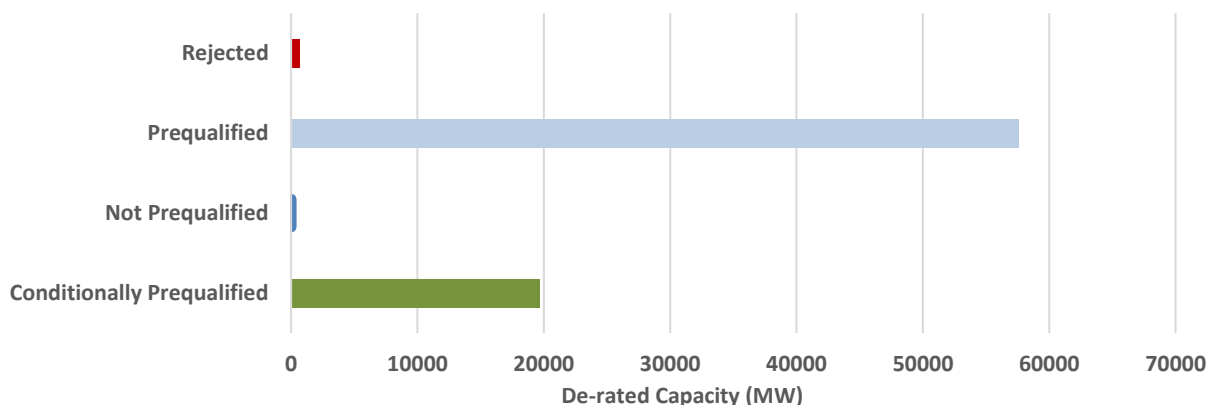
3.5. Figure 3 below illustrates in further detail the prequalification outcomes for the 2018 T-4 Auction.<sup>31</sup>

<sup>30</sup> CMR 2014-2017 T-4 Auction data (2014/15 T-4 CMR published on February 13, 2020 and 2016/17/18 T-4 Auction data published on February 18, 2020) does not include conditionally prequalified CMUs as the auction has passed. As the 2018 T-4 Auction was suspended CMUs for this year remained as conditionally prequalified as from the date of the CMR February 11, 2020.

<sup>31</sup> At prequalification, three decisions are made at the outset: 'Prequalified', 'Rejected', or 'Conditionally Prequalified'. If a unit has conditional prequalification status, it must meet the conditions of its status to become 'Prequalified'.



**Figure 3: 2018 T-4 Auction (delivery year 2022/23) prequalification decisions**



## Prequalification outcomes for the 2018 T-1 Auction (Delivery Year 2019/20)

### Prequalification results for the 2018 T-1 Auction

3.6. This section covers the prequalification and auction outcomes of the 2018 T-1 Auction. This auction was originally scheduled for January 2019, however, it was postponed and then held 11-12 June 2019, for delivery of capacity in 2019/20.<sup>32</sup>

3.7. A total of 545 CMUs submitted applications to enter the auction, totalling approximately 14.5 GW of de-rated capacity.<sup>33</sup> The target capacity was 3,684 MW, indicating considerable competition and liquidity in the auction (Figure 4).<sup>34</sup>

3.8. A total of eight CMUs selected to opt out of the auction. Of these, six due to closing down, decommissioning or otherwise non-operational by the start of the relevant Delivery Year. The two remaining opted out regardless of being operational throughout the relevant Delivery Year.<sup>35</sup>

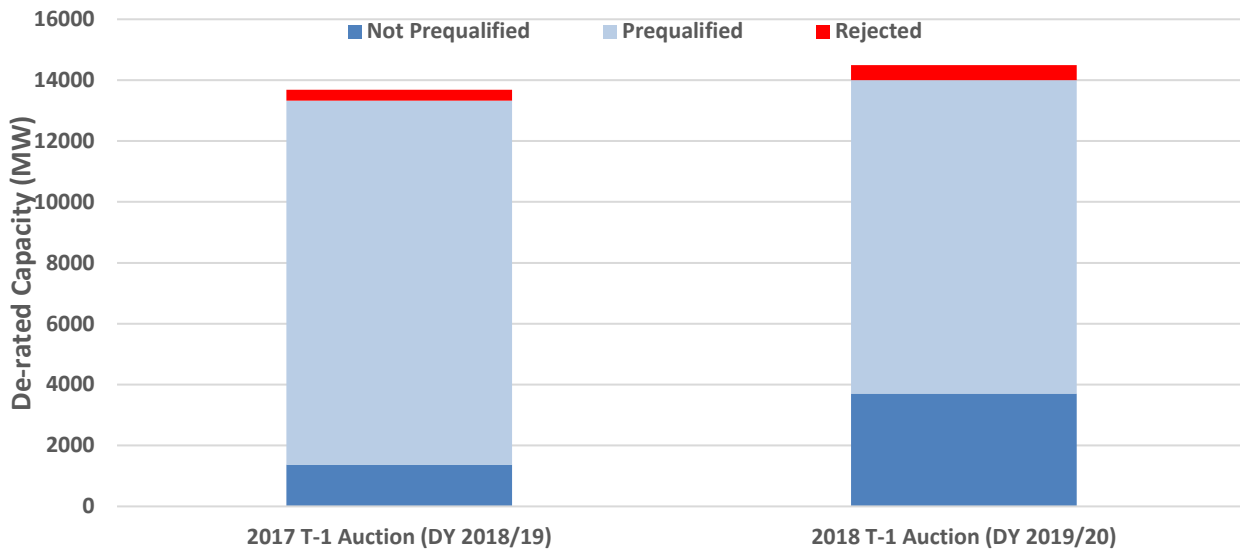
<sup>32</sup> [Auction Monitor Report](#)

<sup>33</sup> CMR 2018 T-1 Auction (published on February 18, 2020). Volume includes total de-rated and post-refurbishing de-rated capacity amounts for all prequalification decisions (rejected, conditionally prequalified, prequalified, not prequalified). In total, 412 CMUs prequalified for the T-1 Auction however only 129 secured a capacity agreement.

<sup>34</sup> [2018 T-1 Final Auction Report \(Delivery Year 2019/20\)](#)

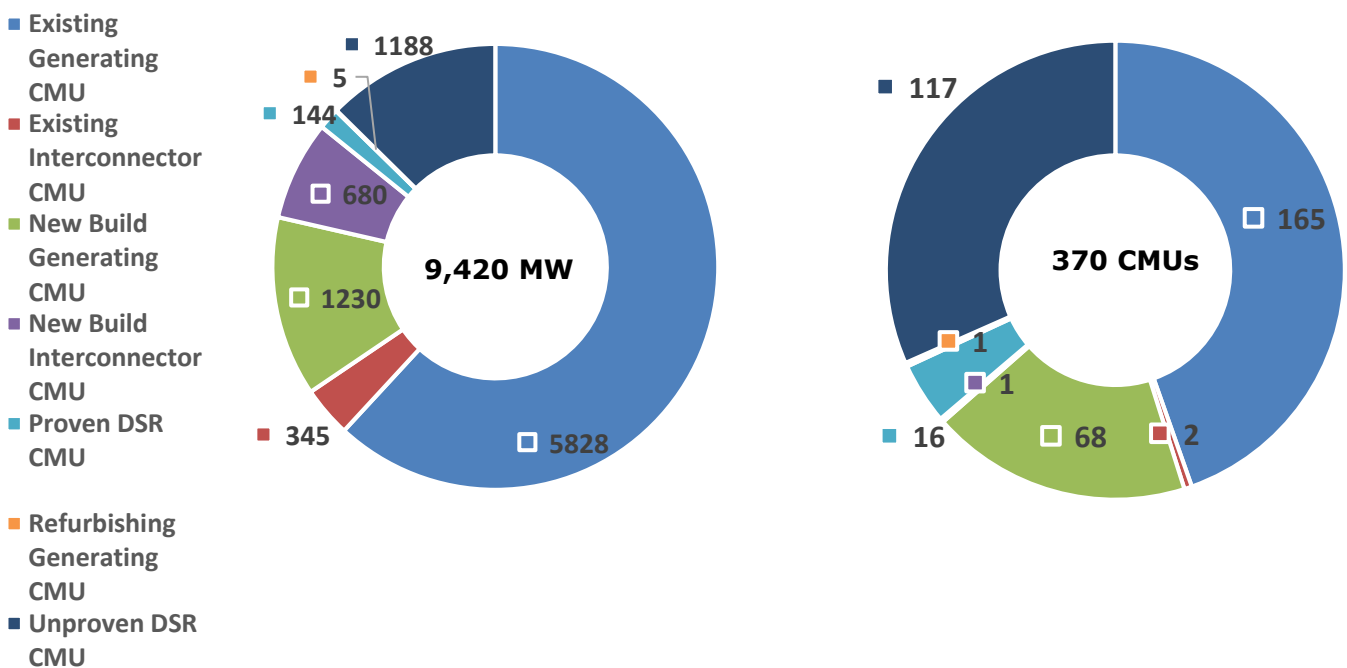
<sup>35</sup> Opt out status and reason retrieved from CMR 2018 T-1 Auction (published on February 18, 2020).

Figure 4: Historical overview of T-1 prequalification decisions



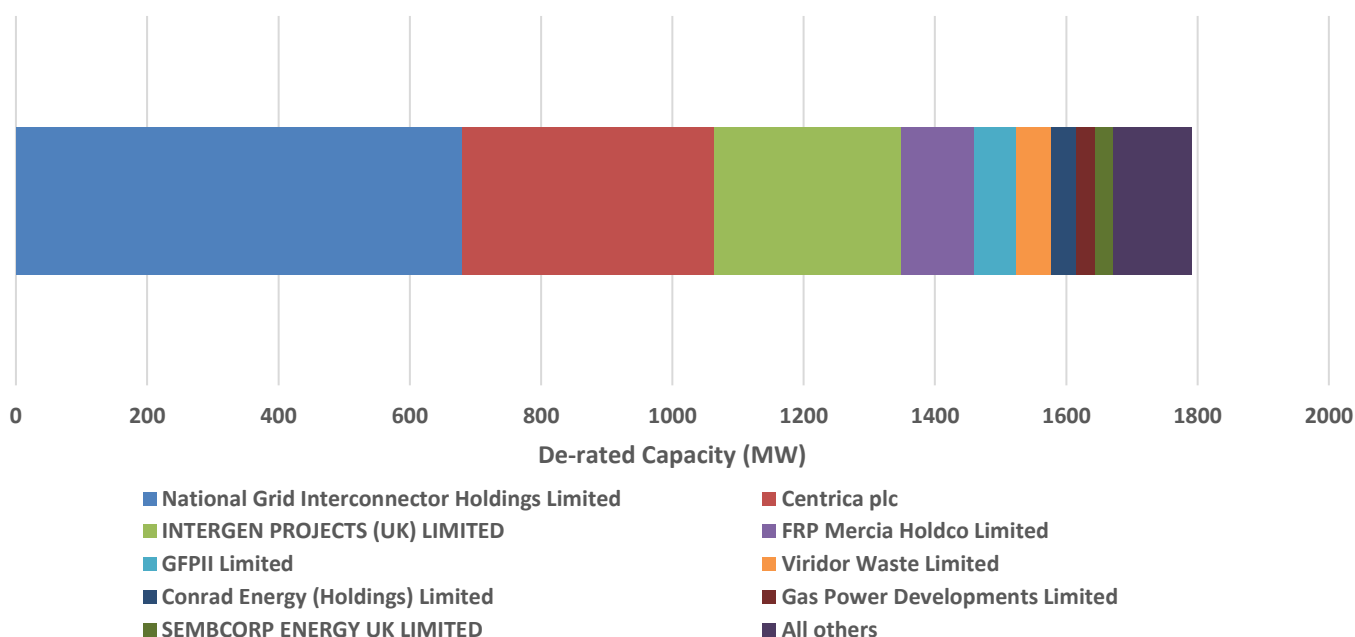
3.9. Figure 5 illustrates prequalified and participating capacity by CMU category. A total of 370 CMUs prequalified and participated in the T-1 Auction, offering a total de-rated capacity of 9,420 MW.

Figure 5: Prequalified capacity by CMU category for the 2018 T-1 Auction (Delivery Year 2019/20)



3.10. A total of 91 parent companies entered at least one CMU to prequalify in the 2018 T-1 Auction.<sup>36</sup> Figure 6 shows 1.8 GW of prequalified New Build Generating and New Build Interconnector capacity by company. One company participated with approximately 680 MW large scale new interconnector capacity and three companies participated with new large scale CCGT projects that made up approximately 780 MW of New Build capacity.<sup>37</sup>

**Figure 6: 2018 T-1 Auction New Build Generating and New Build Interconnector prequalified capacity by parent company**



### CMUs that did not prequalify for the T-1 Auction

3.11. Figure 7 shows the majority of prequalified CMUs were Existing Generating, however, they also accounted for the largest volume receiving not prequalified status. New Build Generating CMUs contributed to the largest share of rejected de-rated capacity totalling approximately 300 MW.<sup>38</sup>

<sup>36</sup> 2018 T-1 CMR (published on February 18, 2020), includes parent companies receiving prequalified, rejected, conditionally prequalified, and not prequalified status.

<sup>37</sup> 2018 T-1 CMR (published on February 18, 2020), includes prequalified parent companies for New Build Generating CMUs and New Build Interconnector CMUs.

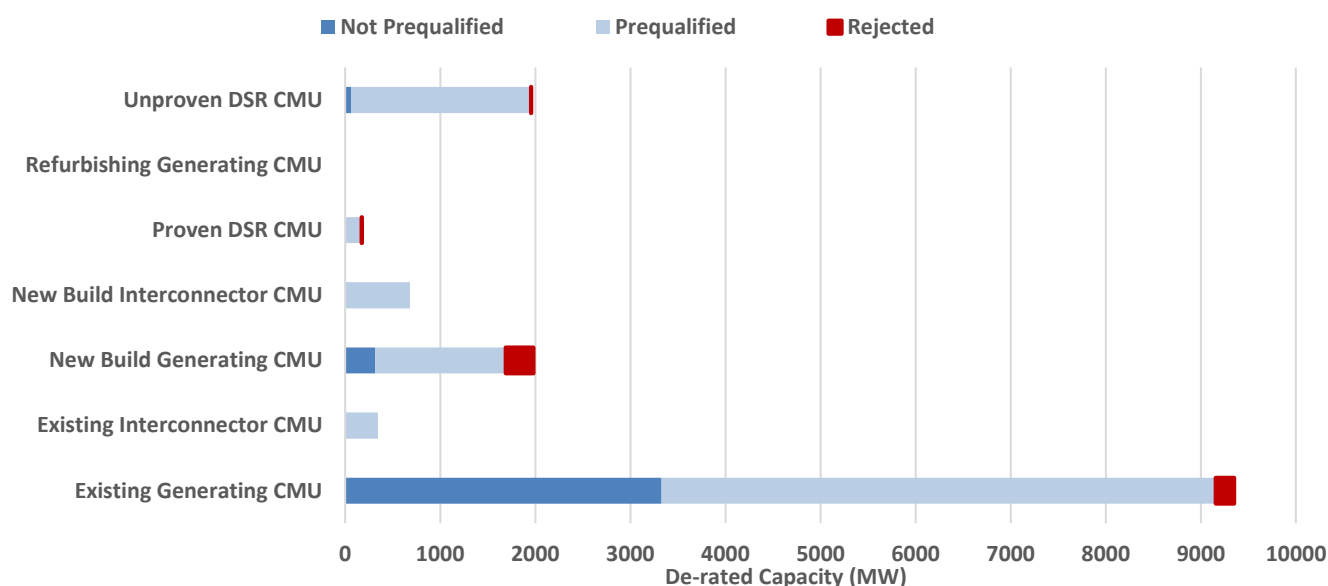
<sup>38</sup> CMR 2018 T-1 Auction (published on February 18, 2020). These CMUs did not prequalify for the auction following the Prequalification window and received a 'Rejected' or "Not Prequalified" status.

3.12. Figure 8 below illustrates 2018 T-1 success rates of prequalification decisions by fuel type.<sup>39</sup> Bio-fuel, coal mine methane, distillate, interconnectors, and pumped storage fuel types received a prequalification success rate of 100%. Closely followed by DSR at 97% and Waste at 91%. No hydro plants/stations qualified.

3.13. The largest fuel and technology type receiving conditional prequalification and failing to provide sufficient information to prequalify for the 2018 T-1 Auction was coal with approximately 3 GW of de-rated capacity. This was followed with gas at approximately 530 MW, battery storage at 82 MW and diesel with 37 MW of de-rated capacity.

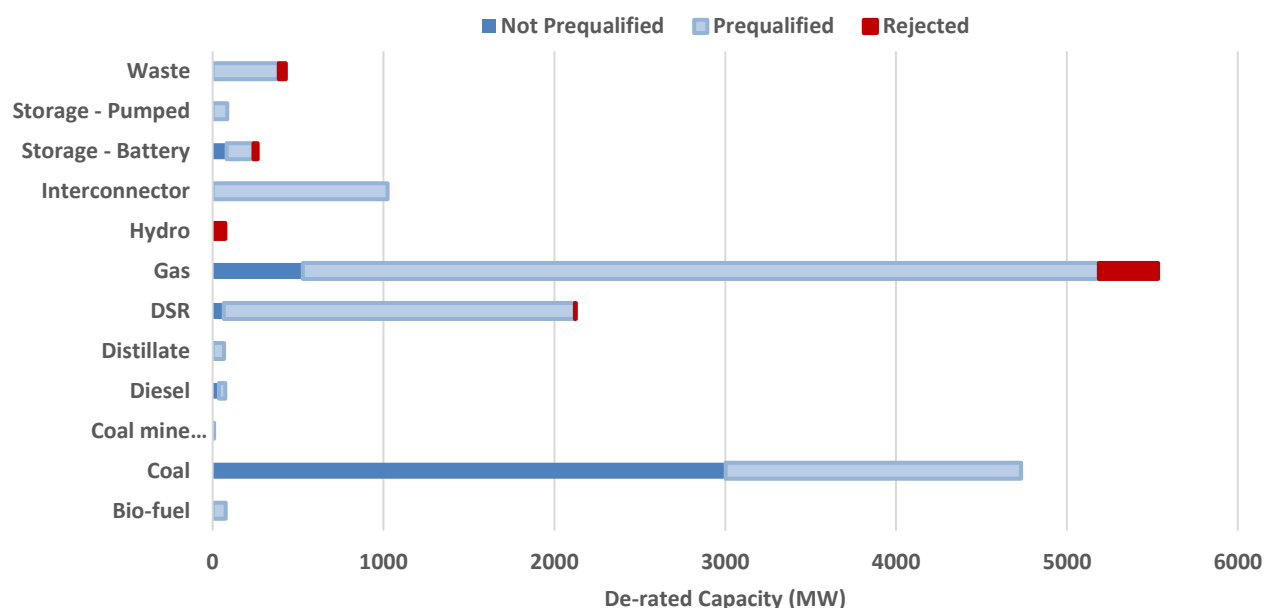
3.14. Three unsuccessful DSR CMUs with approximately 31 MW of de-rated capacity were initially granted a conditional prequalification status following the Prequalification Results Day, but later failed to provide sufficient satisfactory information to become prequalified before the auction.

**Figure 7: 2018 T-1 Auction (Delivery Year 2019/20) prequalification status by CMU category**



<sup>39</sup> CMR 2018 T-1 Auction (published February 18, 2020). These figures include prequalification decisions for all fuel and technology types. Success rates for are calculated as the share of capacity receiving a prequalification status over the total amount of capacity entered at prequalification for each fuel and technology type.

**Figure 8: 2018 T-1 Auction (Delivery Year 2019/20) prequalification by fuel and technology type**



## Appeals process review

3.15. The Delivery Body received 152 appeals for reconsideration for the 2018 T-4 Auction and 131 for the 2018 T-1 Auction.

3.16. Appeals submitted to the Delivery Body for reconsideration for the 2018 T-4 Auction, saw 65% of prequalification decisions overturned, similarly 66% were overturned for the 2018 T-1 Auction.<sup>40</sup>

3.17. The five most common reasons for applicants disputing reconsidered prequalification decisions or the parameters of the reconsidered decision for the 2018 T-1 Auction and 2018 T-4 Auction are listed below:<sup>41</sup>

- General Applicant details missing (e.g. Parent Company details missing)

<sup>40</sup> Data provided by the Delivery Body.

<sup>41</sup> Data provided by the Delivery Body.

- Errors in the submitted Certificate of Conduct form (Exhibit C)
- Inconsistencies or missing Component Address information
- Errors in the submitted Prequalification Certificate (Exhibit A)
- Missing Exhibits on Despatch Controller Reference was invalid

3.18. A total of 21 CMUs submitted appeals to the Authority for the 2018 T-1 Auction, 47 CMUs entered appeals to the Authority for the 2018 T-4 Auction. In total, three CMUs submitting appeals in the 2018 T-1 Auction had prequalification decisions overturned and five CMUs had prequalification decisions overturned for the 2018 T-4 Auction.

3.19. No participants submitting appeals for reconsideration and appeals to the Authority missed the deadline for confirmation of entry. As all determinations for the 2018 T-1 Auction were made in February 2019 prior to the commencement of the auction June 2019, again no deadlines were missed by participants.

## 4. 2018 T-1 & T-4 Auction Results

### 2018 T-4 Auction (Delivery Year 2022/23) outcomes

4.1. As mentioned in Chapter 2, due to the CM suspension the 2018 T-4 Auction did not take place. This was replaced by a T-3 Auction held on January 30 and 31, 2020.<sup>42</sup>

### 2018 T-1 Auction (Delivery Year 2019/20) outcomes

#### Clearing price and volume

4.2. The 2018 T-1 Auction price cap was £75/kW/year. The price decrement per round was £5/kW/year, resulting in a maximum of 15 rounds for the auction. The initial target volume of capacity was 4.6 GW.<sup>43</sup> This was updated closer to the auction such that the final target capacity was 3.68 GW.

4.3. Of the 9.42 GW of capacity that participated in the T-1 Auction, approximately 3.63 GW of capacity was awarded a Capacity Agreement<sup>44</sup> through the auction that cleared at £0.77/kW/year. This amount is slightly less than the final target capacity.<sup>45</sup>

4.4. The CM auction applies a net welfare algorithm in the event that the clearing volume awarded to participants does not exactly match target capacity (demand at clearing price). The net welfare algorithm was applied in the 2018 T-1 Auction, determining that procuring an amount slightly less than the target capacity amount achieved a higher degree of market efficiency.

4.5. The majority of cleared capacity was Existing Generation (49%), as demonstrated in Figure 9. This is followed by New Build Interconnectors and New Build Generating CMUs (19% and 18% respectively), Existing Interconnectors (10%), Unproven DSR (5%) and Proven DSR (0.34%).<sup>46</sup>

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<sup>42</sup> [Auction Monitor Report](#)

<sup>43</sup> [Target capacity outlined in the July 2018 Auction Guidelines, Section 1.2 Auction Parameters](#)

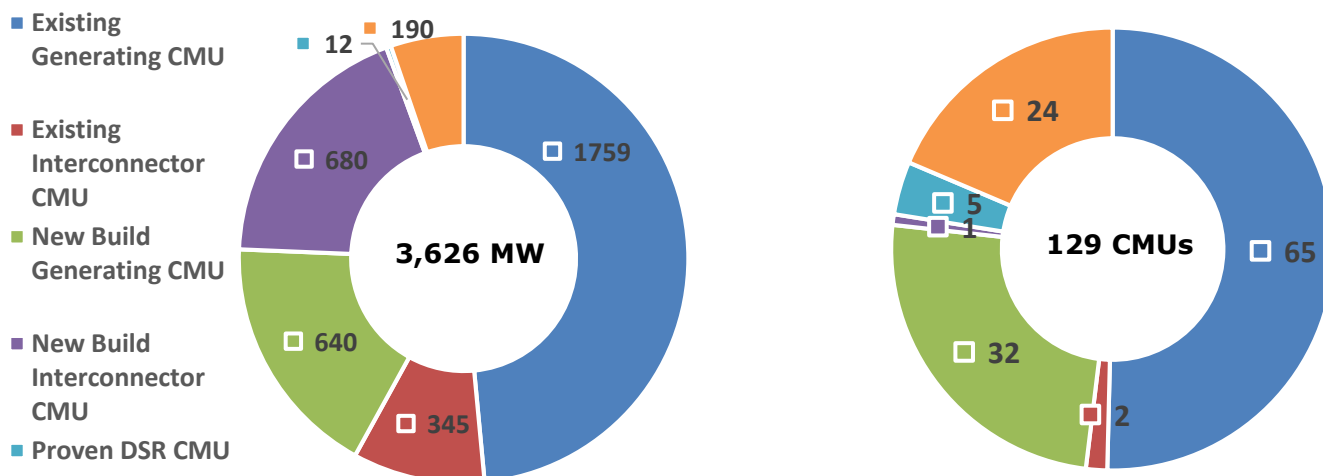
<sup>44</sup> Data provided by the Delivery Body.

<sup>45</sup> [2018 T-1 Final Auction Report \(Delivery Year 2019/20\)](#)

<sup>46</sup> Data provided by the Delivery Body.

4.6. A total of approximately 1.3 GW of New Build Interconnector and New Build Generating CMU capacity won capacity agreements. Approximately 2.1 GW of Existing Interconnector and Existing Generating CMUs won capacity agreements. Proven and unproven DSRs won approximately 200 MW of capacity agreements.<sup>47</sup>

**Figure 9: 2018 T-1 Auction (Delivery Year 2019/20) cleared volume by CMU category<sup>48</sup>**



### Results by CMU category

4.7. Figure 10 illustrates the proportion of CMU capacity failing to secure capacity agreements by CMU category. A total of approximately 5.8 GW of capacity did not win capacity agreements: 70% is attributed to Existing Generating CMUs, 17% to Unproven DSR CMUs and 10% to New Build Generating CMUs.<sup>49</sup>

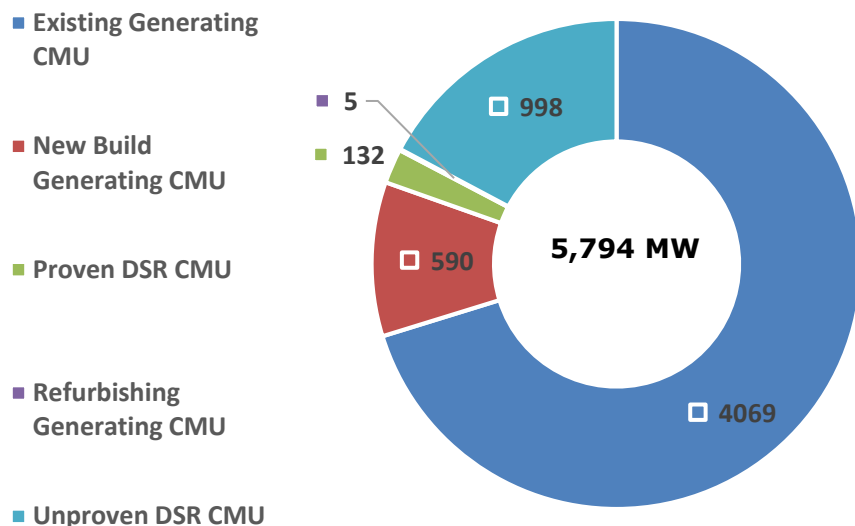
<sup>47</sup> Data provided by the Delivery Body.

<sup>48</sup> [National Grid Final Auction Report 2018 T-1 Auction \(Delivery Year 2019/20\)](#)

<sup>49</sup> Data provided by the Delivery Body.



**Figure 10: 2018 T-1 Auction (Delivery Year 2019/20) volume of uncleared capacity by CMU category**



### Results by technology and fuel type

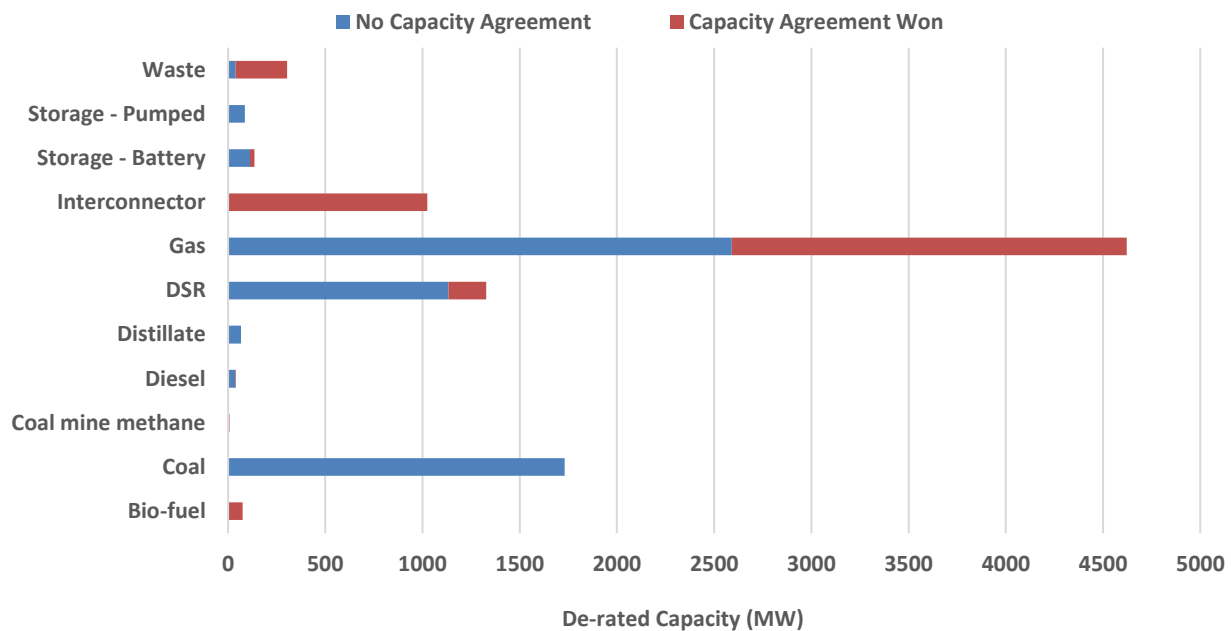
4.8. Figure 11 illustrates that more than half (56%) of the capacity acquired through the 2018 T-1 Auction was gained by CCGTs, which totalled approximately 2 GW. Interconnector capacity accounted for approximately 1 GW (28%), this was followed by waste capacity at 265 MW (7%) and DSR capacity at 195 MW (5%). Bio-fuel, coal mine methane, diesel and storage battery accounted for approximately 110 MW (~3%).<sup>50</sup>

4.9. Bio-fuel, coal mine methane, interconnectors achieved 100% success in the auction. Success is measured as a percentage of cleared capacity by total volume offered. Coal, pumped storage, and distillate had 0% success, waste units 87% followed by gas units at 44%. Battery storage and diesel CMUs had success rates of 17% and 12% respectively.<sup>51</sup>

<sup>50</sup> Data provided by the Delivery Body.

<sup>51</sup> Data provided by the Delivery Body.

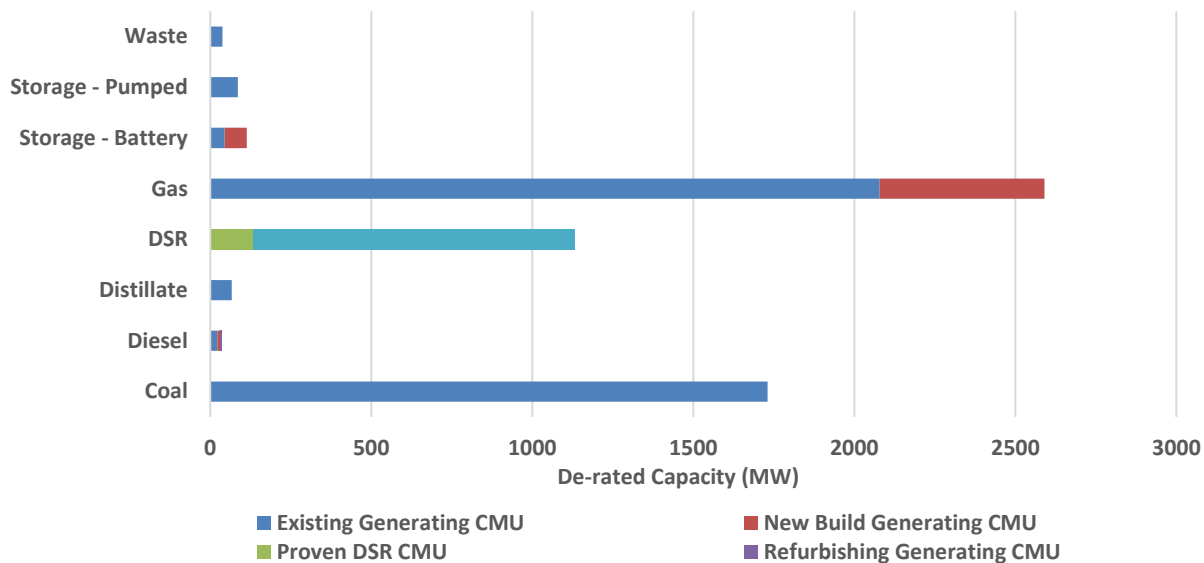
**Figure 11: Cleared and exited capacity by technology and fuel type**



4.10. Figure 12 below focuses on the capacity that exited the auction without an agreement. Existing gas and coal generating CMUs accounted for the largest amount of capacity that exited the auction, accounting for 36% and 30% respectively. CMUs accounting for approximately 1% of capacity exiting the auction comprised Existing Generating CMUs with pumped storage and distillate, and New Generating CMUs with battery storage. The remaining fuel type categories accounted for less than 1% of exited capacity.<sup>52</sup>

<sup>52</sup> Data provided by the Delivery Body.

**Figure 12: Exited capacity by fuel and technology type**



4.11. Approximately 6.2 GW of capacity entered into the T-1 Auction was from existing capacity,<sup>53</sup> DSR capacity accounted for approximately 1.3 GW of capacity<sup>54</sup> and one company submitted approximately 5 MW of refurbishing capacity.<sup>55</sup>

4.12. Capacity offered by Existing and New Build Interconnector CMUs had 100% success in the auction securing capacity agreements. Existing Generating CMUs offering waste capacity had 84% total submitted de-rated volume succeed in winning capacity agreements. Existing Generating CMUs offering bio-fuel and coal mine methane capacity had 100% success. Existing Generating CMU units for coal, diesel, distillate, DSR, and pumped storage had 0% success exiting the auction without agreements. Existing Generating CMUs saw 24% of de-rated capacity offered from battery storage succeed in winning capacity agreements, similarly, Existing Generating CMUs offering gas capacity saw 41% of de-rated capacity win capacity agreements.<sup>56</sup>

4.13. Of the New Build Generating CMUs entering gas capacity into the auction, 52% of the capacity offered was successful in securing a capacity agreement. New Build Generating CMUs entering storage capacity had 11% success in securing capacity agreements, New Build

<sup>53</sup> Existing Generating CMUs and Existing Interconnector CMUs.

<sup>54</sup> Proven and Unproven DSR CMUs.

<sup>55</sup> Data provided by the Delivery Body.

<sup>56</sup> Data provided by the Delivery Body.

Generating CMUs offering waste capacity had 100% of submitted volumes secure capacity agreements, and all New Build Generating CMUs entering diesel capacity exited without an agreement.<sup>57</sup>

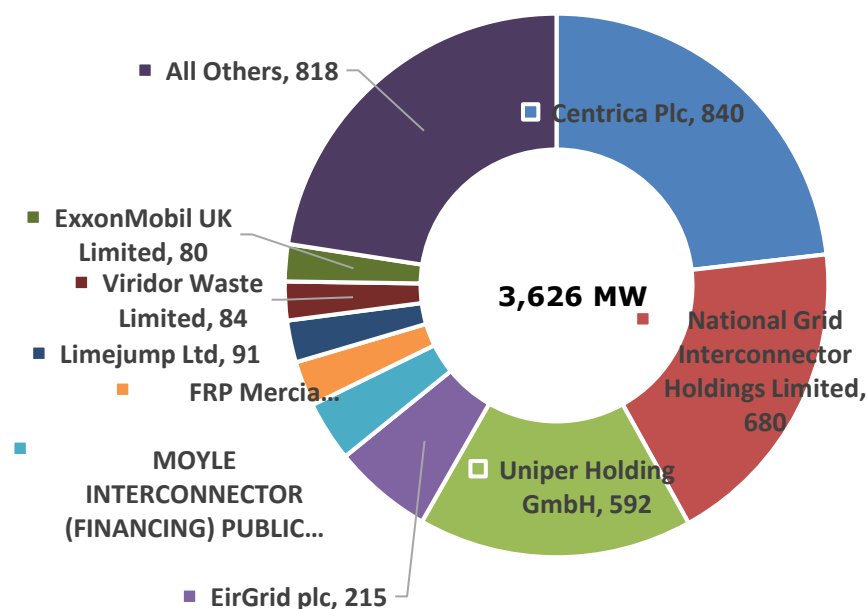
4.14. Diesel units for Proven and Unproven DSR CMUs secured 100% of capacity agreements. Refurbishing Diesel Generating CMUs had a 0% success rate in the auction.<sup>58</sup>

### Results by company

4.15. Out of a total of 116 different parent companies that prequalified and participated in the 2018 T-1 Auction, 58 secured capacity agreements for at least one of its constituent CMUs (a success rate of 50%).<sup>59</sup>

4.16. In volume terms, Centrica, National Grid Interconnector, and Uniper secured the most de-rated capacity, totalling approximately 2.1 GW. Collectively they gained over 58% of the total successful auction capacity (Figure 13).

**Figure 13: Volume of cleared capacity (MW) by parent company**



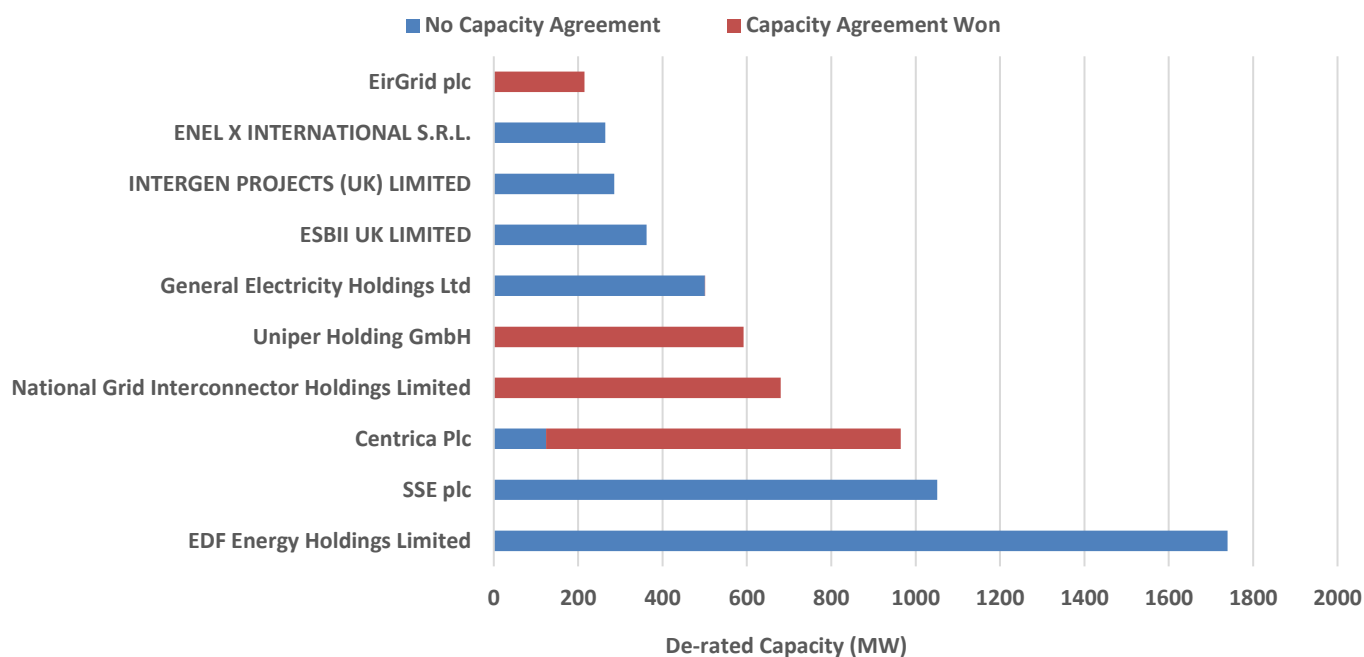
<sup>57</sup> Data provided by the Delivery Body.

<sup>58</sup> Data provided by the Delivery Body.

<sup>59</sup> Data provided by the Delivery Body.

4.17. Comparing the largest volumes cleared by the top ten parent companies, all but three companies securing capacity agreements had an auction success rate of 100%. The three remaining companies had success rates between 73% and 88%. The figure below illustrates the top 10 companies success rates by total submitted capacity volumes.<sup>60</sup>

**Figure 14: Success rates of largest 10 companies by capacity participating in the T-1 Auction**



## Further observations

### Clearing price significantly lower than in the 2016 Early Auction (Delivery Year 2017/18) & 2017 T-1 Auction (Delivery Year 2018/19)

4.18. The 2018 T-1 Auction clearing price of £0.77/kW/year was significantly lower relative to the 2016 Early Auction and 2017 T-1 Auction, which had clearing prices equal to £6.95/kW/year<sup>61</sup> and £6.00/kW/year<sup>62</sup> respectively.

<sup>60</sup> Data provided by the Delivery Body.

<sup>61</sup> [National Grid Early Capacity Market Auction for 2017/18 Final Auction Results](#)

<sup>62</sup> [National Grid T-1 Capacity Market Auction for 2018/19 Final Auction Results](#)

**Resource mix and cleared volumes for the 2017 T-1 Auction (Delivery Year 2018/19) & 2018 T-1 Auction (Delivery Year 2019/20)**

4.19. A total of 3.6 GW of capacity was awarded capacity agreements in the 2018 T-1 Auction (Delivery Year 2019/20). This is a decrease in volume of approximately 2.2 GW from the 2017 T-1 Auction (Delivery Year 2018/19).<sup>63</sup>

4.20. In the 2018 T-1 Auction 62% of volume failed to clear (5.8 GW). In comparison, the 2017 T-1 Auction 46% failed to clear (4.9 GW). The 2018 T-1 Auction had 16% more failed capacity volumes.

4.21. The 2018 T-1 Auction had 9.4 GW of prequalified capacity and the 2017 T-1 Auction had 10.7 GW of prequalified capacity. Therefore, the 2018 T-1 Auction had less capacity from CMUs that prequalified.

4.22. Figure 15 illustrates successful capacity volumes by CMU category and figure 16 shows successful capacity volumes by CMU fuel and technology type and category for the T-1 Auctions for delivery years 2018/19 and 2019/20.<sup>64</sup> It appears that the 2018 T-1 Auction (Delivery Year 2019/20) introduced a greater resource mix, and specifically, greater participation from Interconnector capacity.

4.23. New Build Generating CMUs were 7% more successful in gaining capacity agreements in 2018 T-1 Auction (Delivery Year 2019/20) in comparison to the 2017 T-1 Auction (Delivery Year 2018/19). Conversely, Existing Generating CMUs decreased by almost 33% in 2018.

4.24. In the 2017 T-1 Auction, Existing Generating capacity accounted for just under 81% of cleared capacity (approximately 4.7 GW).<sup>65</sup> Of the total capacity procured in the 2018 T-1 Auction (3.6 GW), Existing Generation cleared approximately 48% of the total capacity procured.

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<sup>63</sup> CMR 2017 & 2018 T-1 Auction (published on February 18, 2020).

<sup>64</sup> Figure 17 uses data from the CMR 2017 & 2018 T-1 Auction (published on February 18, 2020).

<sup>65</sup> CMR 2017 & 2018 T-1 Auction (published on February 18, 2020).

Figure 15: Successful capacity CMU category in the 2017 and 2018 T-1 Auctions<sup>66</sup>

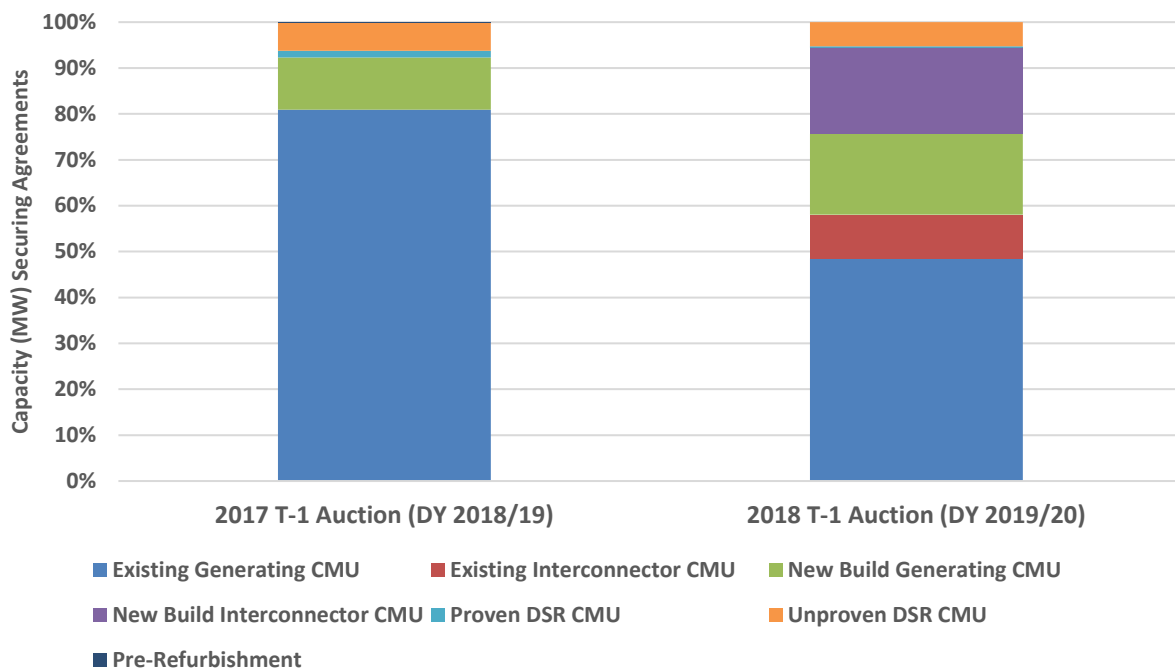
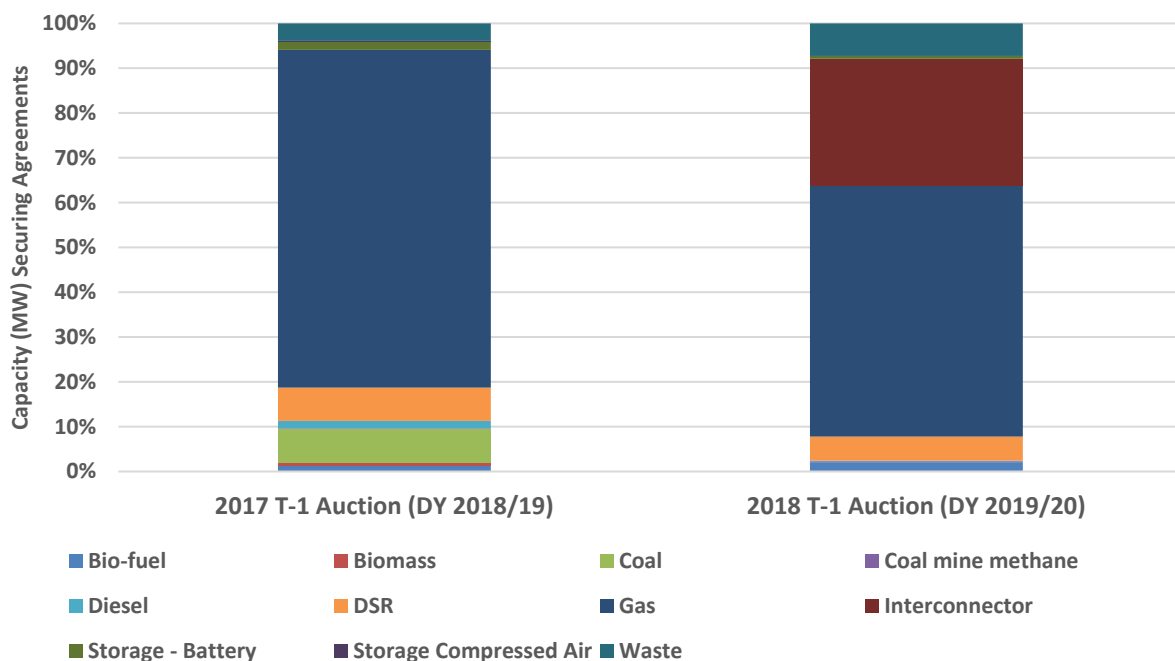


Figure 16: Successful capacity by fuel and technology type for the 2017 and 2018 T-1 Auctions<sup>67</sup>



<sup>66</sup> National Grid 2017 & 2018 T-1 Capacity Market Auction Final Auction Results.

<sup>67</sup> National Grid 2017 & 2018 T-1 Capacity Market Auction Final Auction Results.

## Bidding Behaviour

4.25. This section provides an overview of the bidding approaches of participants in the 2018 T-1 Auction for delivery of capacity in 2019/20.

### Background

4.26. The CM was suspended in November 2018 and reinstated in October 2019.<sup>68</sup> Due to the suspension, the 2018 T-4 Auction (Delivery Year 2022/23) was suspended and was replaced with a T-3 Auction in January 2020.

4.27. The CM suspension resulted in the 2018 T-1 Auction (Delivery Year 2019/20) being postponed by the Secretary of State. The auction was originally planned to take place in January 2019 and was subsequently held 11 and 12 June 2019.<sup>69</sup>

4.28. CMUs have the option to submit an exit bid to indicate the minimum price at which it would seek a CM Agreement, alternatively, CMUs that do not place a bid automatically remain in the auction and will be awarded an agreement at the market clearing price.

### Capacity auction bidding rules

4.29. In each round, the following actions are available to auction participants:

- **Exit Bid** – all CMUs have the option to specify the price at which they exit the auction.<sup>70</sup>
- **Proxy Exit Bid** – Price Taker CMUs have the ability to submit Proxy Exit Bids at or below the Price Taker Threshold at any point during the auction. Submitted Proxy Exit Bids become active & take effect in a later round.<sup>71</sup>

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<sup>68</sup> [BEIS, Capacity Market Decision \(25 October 2019\)](#)

<sup>69</sup> [Auction Monitor Report 2018 T-1 Auction \(DY 2019/20\)](#)

<sup>70</sup> Participants may amend or delete any Exit Bids or Duration Bid Amendments that have not yet been realised, [National Grid Capacity Auction User Guide](#)

<sup>71</sup> [National Grid Capacity Auction User Guide](#)



- **Duration Bid** – specifies the duration of the capacity agreement that a bidder requires at any particular price.
- **Duration Bid Amendment (DBA)** – New Build and Refurbishing CMUs that qualify for longer agreements can specify the price at which they want to reduce the length of their agreement, in the event the price falls below a particular level.
- **Continue as Pre-refurbishing** – Refurbishing CMUs can specify a price to switch to an Existing contract (and as a result only receive a one-year agreement)

### **Our monitoring**

4.30. We monitor bidding patterns and behaviour following the CM auctions for several reasons, including our role as a Competition Authority and a National Regulatory Authority, and to monitor compliance with the Rules. We also monitor to inform decisions on whether to make changes to the Rules.

## **Summary of bidding behaviour in the 2018 T-1 Auction**

4.31. Figure 17 illustrates the number of prequalified CMUs entering the auction,<sup>72</sup> of the 370, approximately 84% submitted Exit bids into the 2018 T-1 Auction (Delivery Year 2019/20). The remaining 16% were CMUs that did not submit an Exit Bid. The strategy of not bidding requires that CMUs remain in the T-1 Auction and receive the capacity market auction clearing price, entitling them to a capacity agreement.

4.32. Of the 310 CMUs submitting Exit Bids, 220 CMUs also submitted Proxy Exit Bids. Proxy Exit Bids may be entered for multiple rounds of an auction and take effect in a later auction round. In total, approximately 58% of Proxy Exit Bids were submitted by Existing Generating CMUs. Approximately 23% of submitted Proxy Bids were from Unproven DSR. The balance was made up by New Build Generating CMUs at 15% and Proven DSR CMUs at 4%.

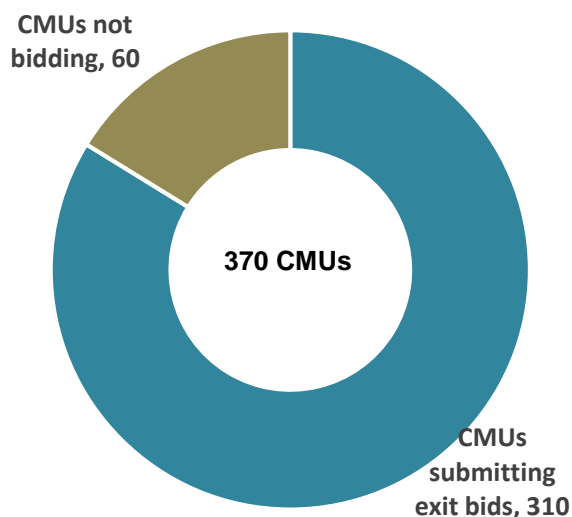
4.33. Figure 18 illustrates the frequency of Proxy Exit Bid price changes by CMUs over the auction period. Approximately 89% of all Proxy Exit Bids were unchanged throughout the

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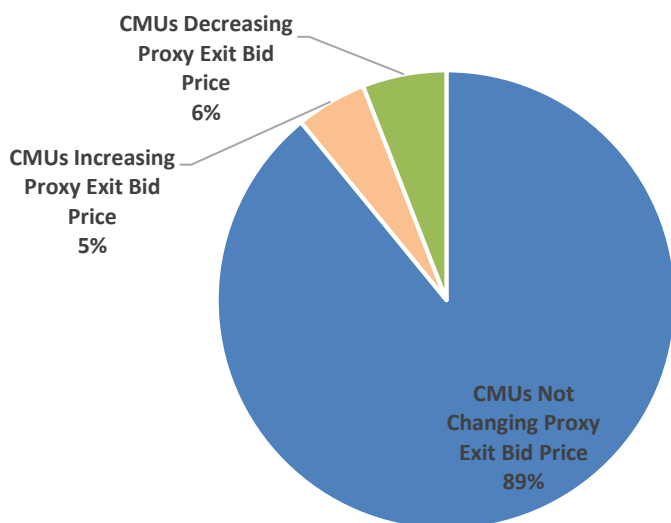
<sup>72</sup> National Grid Final Auction Report 2018 T-1 Auction (Delivery Year 2019/20).

auction. The number of CMUs increasing Proxy Exit Bid prices was approximately 5%, and 6% of CMUs decreased Proxy Exit Bid prices.

**Figure 17: Bidding approaches for CMUs in the 2018 T-1 Auction**



**Figure 18: Proxy exit bid price changes by CMU in the 2018 T-1 Auction**

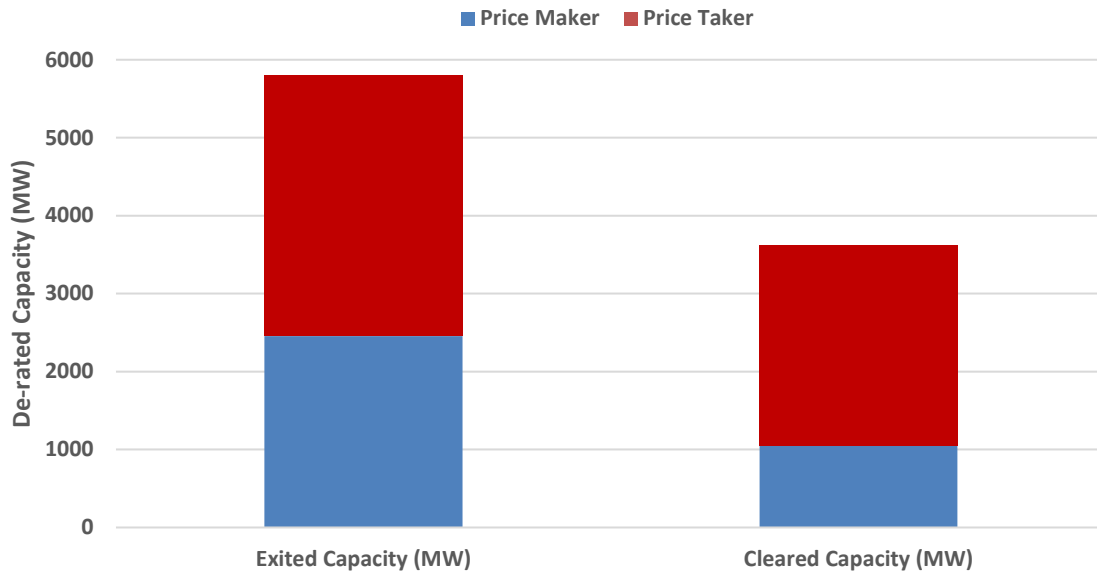


4.34. Price Makers accounted for 37% of total submitted capacity in the 2018 T-1 Auction, totalling approximately 3.5 GW of capacity. Price Takers accounted for largest amount of exited capacity totalling approximately 58% for a total of 3.3 GW of capacity.

4.35. Price Makers cleared approximately 1 GW of total submitted capacity, giving a 30% success rate of winning a capacity agreement. Price Takers had a success rate of approximately

44% and cleared a total of 2.6 GW. Figure 19 illustrates cleared and exited capacity by Price Makers and Price Takers.

**Figure 19: Cleared and exited capacity by Price Makers and Price Takers in the 2018 T-1 Auction**



## 5. Delivery Milestones

5.1. Here we present a summary of the performance of CMUs against meeting their milestones, from obtaining CM Agreements to delivery, including investment, construction and testing. This section details new successful capacity volumes, terminated capacity and capacity volumes meeting financial and construction milestones in order to participate for the Delivery Year.

### **Delivery milestones for T-4 Auctions (2014-2018)**

5.2. Successful New Build, Refurbishing and New Build Interconnector CMUs (i.e. Prospective CMUs) must meet a number of pre-delivery year milestones.

5.3. New Build CMUs are required to achieve the Financial Commitment Milestone ("FCM"),<sup>73</sup> Minimum Completion Requirement and Substantial Completion Milestone ("SCM") by deadlines specified in the CM Rules.<sup>74</sup> A failure to do so can result in a loss of CM payments, and/or a termination of their CM Agreement.<sup>75</sup>

5.4. DSR providers are required to carry out a DSR test to prove that their CMU can achieve the capacity stated in the Capacity Obligation. A failure to meet this requirement may result in a termination of their agreement.<sup>76</sup>

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<sup>73</sup> Financial Commitment Milestone is a requirement on the Capacity Provider to demonstrate that 10% of total project spend for that CMUs has incurred.

<sup>74</sup> Minimum Completion Requirement obligates the Capacity Provider to have an aggregate physical generating capacity de-rated exceeding 50% of its Capacity Obligation. Substantial Completion Milestone requires the CMU to demonstrate an aggregate physical generating capacity de-rated equal or exceeding 90% of its Capacity Obligation. A failure to achieve these milestones by a specified date may result in a loss of CM payments, or a termination of the Capacity Obligation.

<sup>75</sup> Progress towards meeting these milestones is monitored by a requirement on Prospective Capacity Provider to submit construction reports to the Delivery Body until the SCM is achieved.

<sup>76</sup> See Rule 6.8.2 and 6.10.1. DSR Test Certificate is due one month before the start of the Delivery Year as outlined in Rule 3.10.2(a).

**Table 5: T-4 Auction milestones achieved to date (26 February 2020)**

Auction	Capacity met FCM (%)	Capacity met SCM/MCM (%) <sup>77</sup>
2014 T-4 Auction  (DY 2018/19)	91%	99.95%
2015 T-4 Auction  (DY 2019/20)	94%	69%
2016 T-4 Auction  (DY 2020/21)	100%	68%
2017 T-4 Auction  (DY 2021/22)	89%	Due in 2021
2018 T-4 Auction  (DY 2022/23)	No 2018 T-4 Auction (DY 2022/23) due to the capacity market suspension. Replacement T-3 Auction held January 2020.	

## 2014 T-4 Auction

5.1. The 2014 T-4 Auction procured 49.3 GW of de-rated capacity at a clearing price of £19.40/kW/year, approximately 2.7 GW of cleared de-rated capacity was new generating capacity.<sup>78</sup>

<sup>77</sup> As a percentage of the capacity which met FCM.

<sup>78</sup> [National Grid 2014 T-4 Capacity Market Auction Final Auction Results](#)

5.2. Table 5 shows that, for the 2014 T-4 Auction, 91% of capacity which was subject to the FCM, and with capacity obligations for delivery in 2018/19, met their FCM, of which 99.95% went on to meet their SCM.<sup>79</sup>

5.3. The Capacity Market Register for the 2014 T-4 Auction shows that seven CMUs have been terminated to date, four of which were New Build Generating CMUs, totalling around 1.68 GW de-rated capacity. Terminated capacity volume totalling approximately 1.7 GW.<sup>80</sup>

### **2015 T-4 Auction**

5.4. The 2015 T-4 Auction procured 46.4 GW of de-rated capacity at a clearing price of £18.00/kW/year. This included around 1.9 GW of new generating capacity.<sup>81</sup>

5.5. Table 5 shows that approximately 94% of capacity which was subject to the FCM, and with capacity obligations for delivery in 2019/20, met their FCM, of which approximately 69% met the SCM.<sup>82</sup>

5.6. The Capacity Market Register for the 2015 T-4 Auction shows that nine CMUs (out of which six are New Build Generating CMUs) have been terminated since the auction, accounting for approximately 130 MW de-rated capacity.<sup>83</sup>

### **2016 T-4 Auction**

5.7. The 2016 T-4 Auction procured a total of 52.4 GW of de-rated capacity at a clearing price of £22.50/kW/year. New Build Generating CMU capacity accounted for approximately 3.4 GW of cleared capacity.<sup>84</sup>

5.8. One hundred percent of capacity subject to the FCM met its FCM requirement.<sup>85</sup> Of this capacity, approximately 68% has so far completed the SCM for the start of the 2020 delivery

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<sup>79</sup> Data provided by the Delivery Body.

<sup>80</sup> CMR 2014 T-4 Auction data (published on February 13, 2020).

<sup>81</sup> [National Grid T-4 Capacity Market Auction for Delivery Year 2019/20 Final Auction Results](#)

<sup>82</sup> Data provided by the Delivery Body.

<sup>83</sup> CMR 2015 T-4 Auction data (2015 T-4 CMR published on February 13, 2020)

<sup>84</sup> [National Grid T-4 Capacity Auction Results for Delivery Year 2020/21 Final Auction Results](#)

<sup>85</sup> Data provided by the Delivery Body.

year. As of the date of the CMR, there have been no New Build CMUs terminated for this Delivery Year.<sup>86</sup>

### **2017 T-4 Auction**

5.9. The 2017 T-4 Auction procured 50.4 GW of de-rated capacity at a clearing price of £8.40/kW/year. Around 2.9 GW of cleared capacity was New Build Generating and Interconnector capacity.<sup>87</sup>

5.10. Of the total prospective CMUs securing capacity agreements in the 2017 T-4 Auction, approximately 89% have met the FCM.<sup>88</sup> As of the date of the CMR, no capacity has been terminated.<sup>89</sup>

### **Delivery milestones for the 2016 Early Auction and 2017 & 2018 T-1 Auctions**

5.11. The 2016 Early Auction (Delivery Year 2017) procured approximately 54 GW of capacity at a clearing price of £6.95/kW/yr. Of the total capacity procured, 1.7 GW was from New Build Generating capacity.<sup>90</sup>

5.12. Of capacity securing agreements for the 2017/18 Delivery Year, and which was subject to the milestone, 100% met the FCM, of which 99.7% met the SCM.<sup>91</sup>

5.13. The 2017 T-1 Auction procured approximately 5.8 GW of capacity at a clearing price of £6.00/kW/yr. Of the total capacity procured, 658 MW was from New Build Generating capacity.<sup>92</sup>

5.14. Of capacity securing agreements for the 2018/19 Delivery Year, and which was subject to the milestone, 100% met the FCM, of which 97% met the SCM.<sup>93</sup> The Capacity Market

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<sup>86</sup> CMR 2016 T-4 Auction data (published on February 18, 2020).

<sup>87</sup> [National Grid T-4 Capacity Market Auction for Delivery Year 2021/22, Final Auction Results](#)

<sup>88</sup> Data provided by the Delivery Body. The deadline for submitting FCM was June 2019, however, due to the CM suspension, an additional year was granted for CMUs.

<sup>89</sup> CMR 2017 T-4 Auction data (published on February 18, 2020).

<sup>90</sup> [National Grid EA Capacity Market Auction for Delivery Year 2017/18 Final Auction Results](#)

<sup>91</sup> Data provided by the Delivery Body.

<sup>92</sup> [National Grid T-1 Capacity Market Auction for Delivery Year 2018/19 Final Auction Results](#)

<sup>93</sup> Data provided by the Delivery Body.

Register indicates 23 terminated CMUs totalling 194 MW of de-rated capacity for the 2018/19 delivery year, of those terminated, six are New Build Generating CMUs.<sup>94</sup>

5.15. The 2018 T-1 Auction procured approximately 3.6 GW of capacity at an auction clearing price of £0.77/kW/year. New Build Generating capacity accounted for approximately 640 MW.<sup>95</sup>

5.16. Of capacity securing agreements for the 2019/20 Delivery Year, and which was subject to the milestone, 99.5% met the FCM, of which 100% have met the SCM.<sup>96</sup> The Capacity Market Register indicates a total of three CMUs have had capacity agreements terminated, of those one is a New Build Generating CMU with capacity totalling approximately 7 MW.<sup>97</sup>

**Table 6: T-1 milestones achieved to date (26 February 2020)**

	Capacity met FCM (%)	Capacity met SCM/MCM (%) <sup>98</sup>
2016 Early Auction  (DY 2017/18)	100%	99.7%
2017 T-1 Auction  (DY 2018/19)	100%	97%
2018 T-1 Auction  (DY 2019/20)	99.5%	100%

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<sup>94</sup> CMR 2017 T-1 Auction (published on February 18, 2020).

<sup>95</sup> [National Grid 2018 year ahead Capacity Auction \(T-1\) Final Auction Report](#)

<sup>96</sup> Data provided by the Delivery Body.

<sup>97</sup> CMR 2018 T-1 Auction (published on February 18, 2020).

<sup>98</sup> As a percentage of the capacity which met FCM.



## 6. Satisfactory Performance Days for the 2017/18 & 2018/19 Delivery Year

6.1. This section covers Satisfactory Performance Days (“SPDs”) for the 2017/18 and 2018/19 delivery years. Specifically, this section covers the 2016 Early Auction and 2017 Transitional Auction for delivery of capacity in 2017/18. This section also covers the 2014 T-4 Auction and 2017 T-1 Auction for delivery year 2018/19.

### Delivery Year performance

6.2. Capacity providers are required to demonstrate that they are capable of meeting the de-rated capacity outlined in their Capacity Obligation.

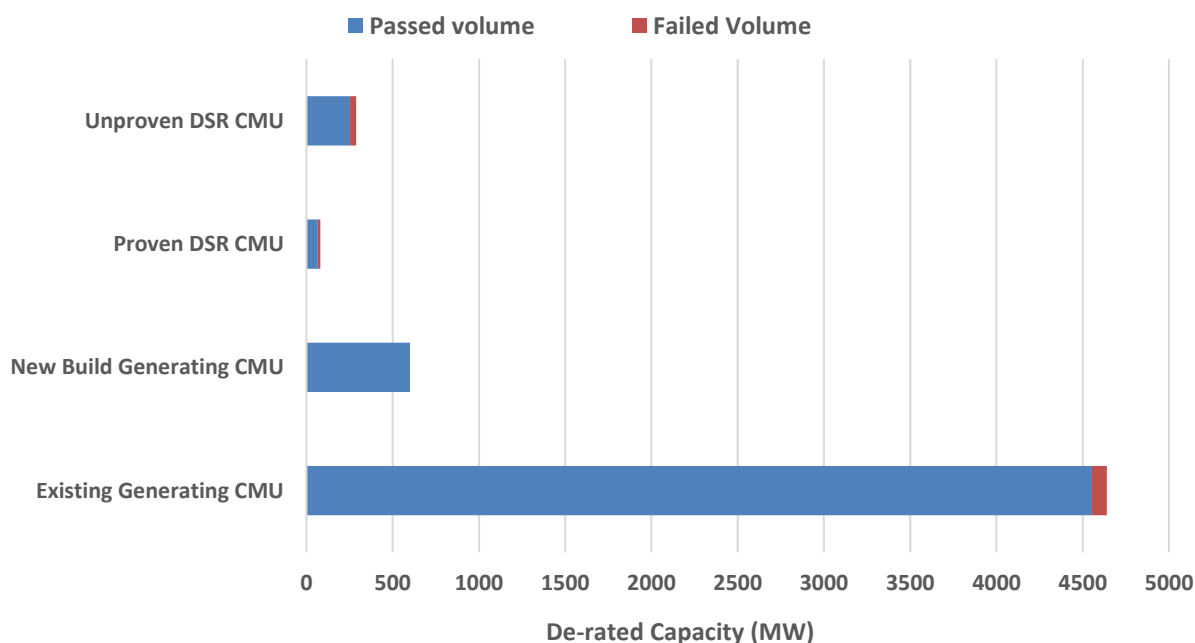
6.3. Approximately 4% of CMUs with capacity agreements failed to meet the Satisfactory Performance Day for T-1 Delivery Year 2018/19 (Figure 20). A CMU underperforming results in a suspension of capacity payments. Existing generation accounted for approximately 90 MW failing to meet satisfactory performance day criteria, followed by Unproven DSR CMU at 36 MW and Proven DSR CMUs at 15 MW.

6.4. One Refurbished Generating CMU met its SPD requirements delivering approximately 5 MW of capacity for the 2018/19 Delivery Year.<sup>99</sup> New Build Generating CMUs also delivered 100% of capacity obligations.

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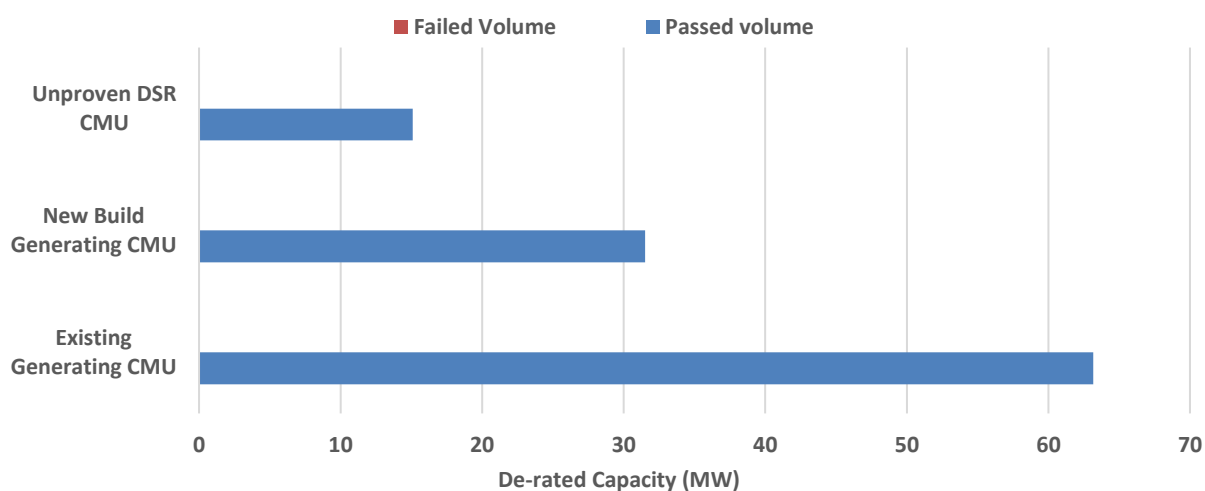
<sup>99</sup> Data provided by the Delivery Body.

**Figure 20: Satisfactory Performance Days by CMU category for the 2017 T-1 Auction delivery year 2018/19 not including secondary trading<sup>100</sup>**



6.5. Figure 21 includes SPD information including secondary trading for the transferee. For the T-1 Auction for Delivery Year 2018/19, a total of 7 CMU transferees passed SPD criteria for a total volume of 110 MW.

**Figure 21: Satisfactory Performance Days by CMU category for the T-1 Auction (Delivery Year 2018/19) secondary trading SPDs transferee<sup>101</sup>**

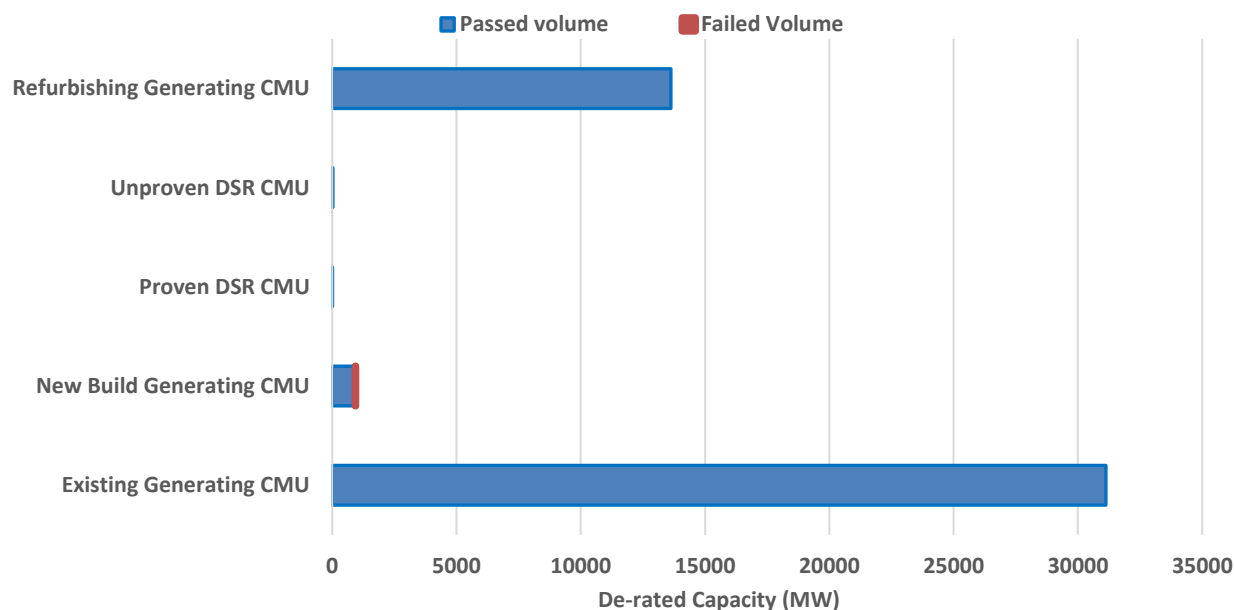


<sup>100</sup> Data provided by the Delivery Body.

<sup>101</sup> Data provided by the Delivery Body.

6.6. Figure 22 below illustrates the T-4 Auction for delivery of capacity in 2018/19, without secondary trading. A total of 277 CMUs entered the delivery year with capacity agreements, and of these only one New Build Generating CMU failed to meet the SPD. The total volume failing to meet SPD was approximately 4 MW and a total 46 GW met SPD requirements.

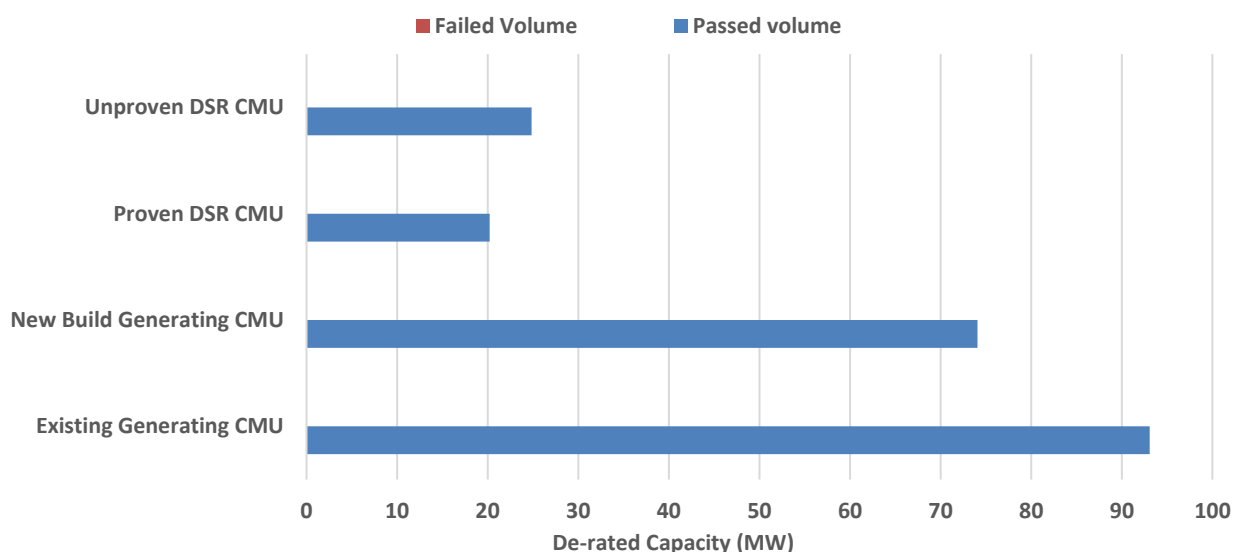
**Figure 22: Satisfactory Performance Days by CMU category for the T-4 Auction (Delivery Year 2018/19)<sup>102</sup>not including secondary trading**



6.7. Figure 23 shows Satisfactory Performance Days, including secondary trading for transferee. A total of 27 CMU transferees passed SPD criteria. Existing Generating CMUs accounted for the largest passed SPD volume totalling of 93 MW, followed by New Build Generating CMUs with 74 MW of delivered capacity.

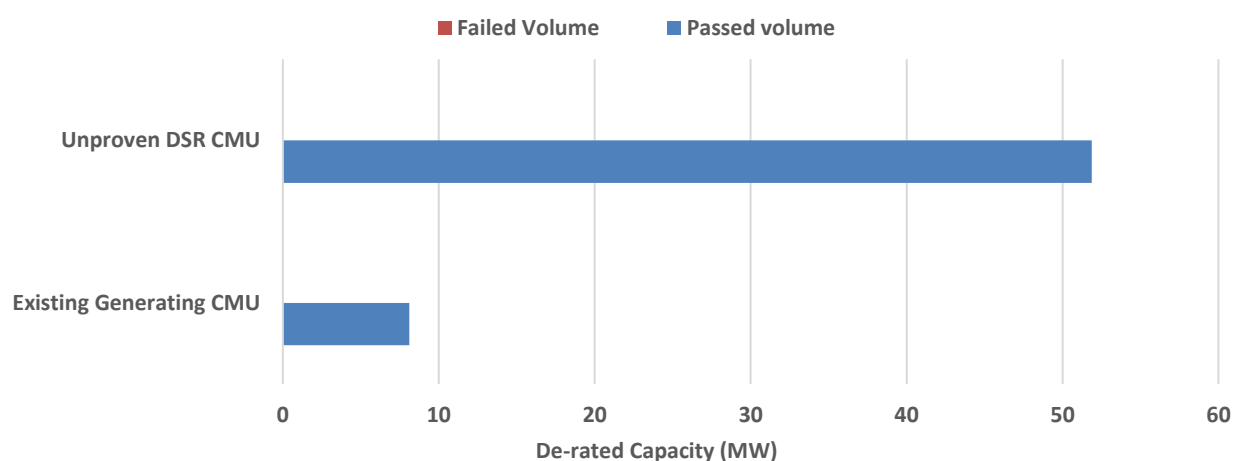
<sup>102</sup> Data provided by the Delivery Body.

**Figure 23: Satisfactory Performance Days by CMU category for the T-1 Auction (Delivery Year 2018/19) includes secondary trading for transferee<sup>103</sup>**



6.8. Figure 24 shows Satisfactory Performance Days including secondary trading where the transferor still had an obligation to delivery capacity for the 2018/19 delivery year. A total of 7 CMUs with 60 MW of capacity passed SPD criteria. Unproven DSR CMUs accounted for the largest share of passed volume (52 MW).

**Figure 24: Satisfactory Performance Days by CMU category for the T-1 Auction (Delivery Year 2018/19) includes secondary trading where the transferor had obligation<sup>104</sup>**

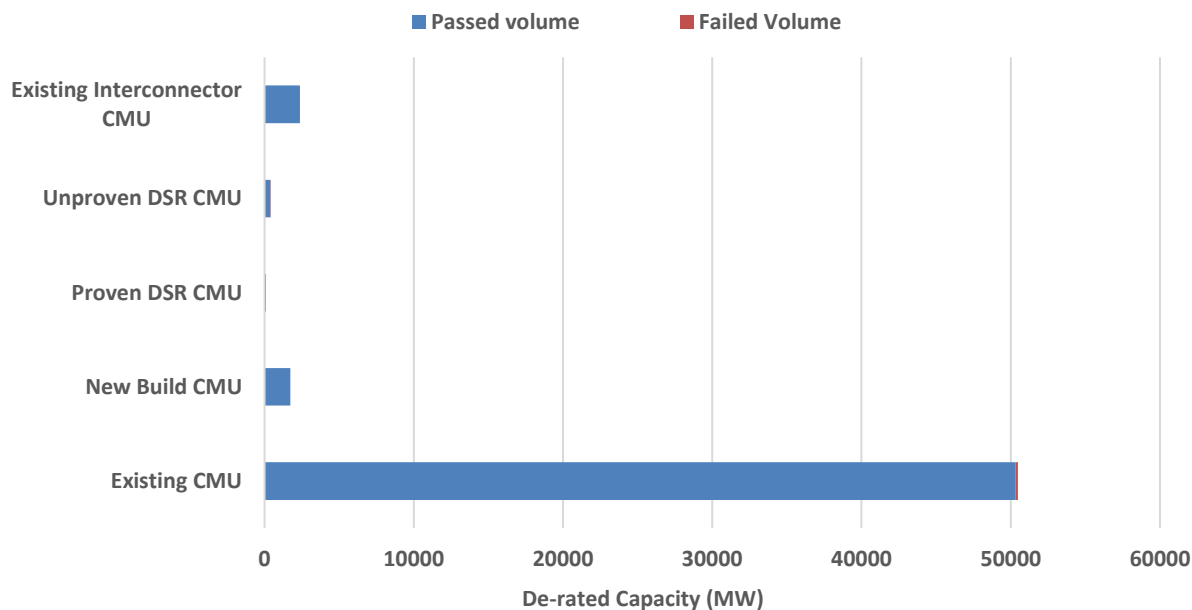


<sup>103</sup> Data provided by the Delivery Body.

<sup>104</sup> Data provided by the Delivery Body.

6.9. Figure 25 below illustrates SPD outcomes for the Early Auction for delivery of capacity in 2017. A total of 403 CMUs entered the delivery year with capacity agreements. Of the CMUs failing to meet SPD criteria, 11 CMUs with approximately 200 MW of capacity failed. Total volume meeting SPD was approximately 54 GW.

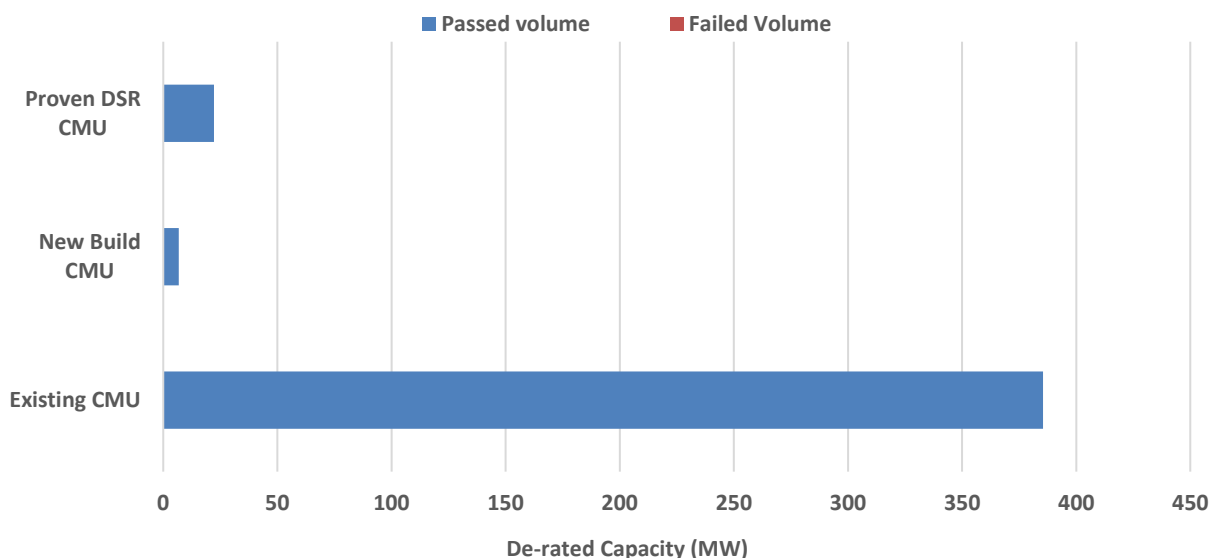
**Figure 25: Satisfactory Performance Days by CMU category for the Early Auction (Delivery Year 2017)<sup>105</sup> not including secondary trading**



6.10. Figure 26 shows SPDs including secondary trading for the transferee by CMU category for the Early Auction. A total of 4 CMUs with approximately 414 MW of capacity met SPD criteria. Existing Generating CMUs accounted for the largest share of passed obligations (385 MW), followed by Proven DSR (approximately 23 MW) and New Build Generating CMU (approximately 7 MW).

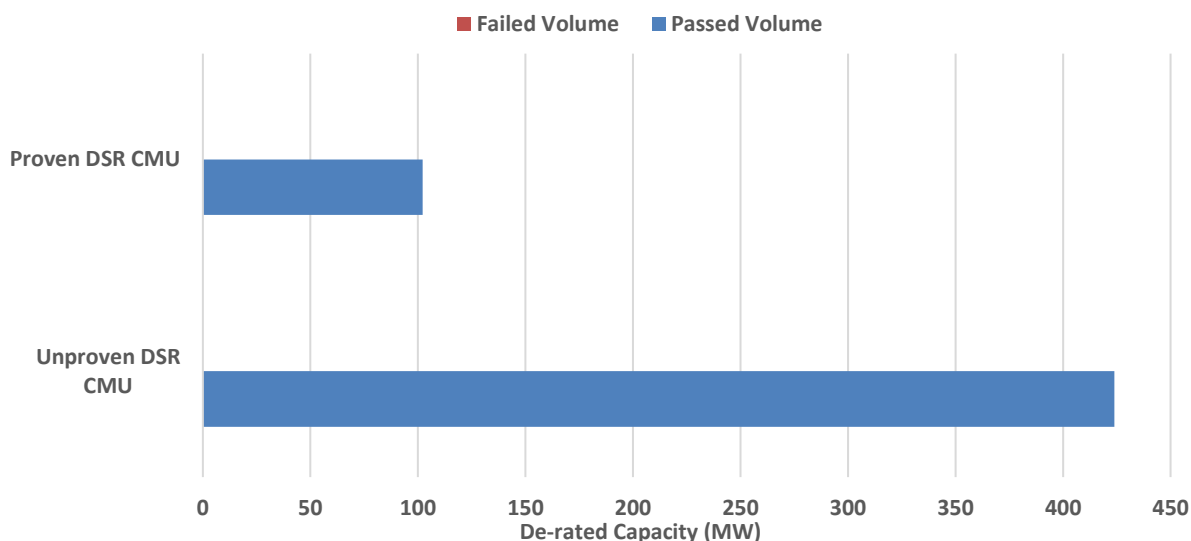
<sup>105</sup> Data provided by the Delivery Body.

**Figure 26: Satisfactory Performance Days by CMU category for the Early Auction (Delivery Year 2017)<sup>106</sup> for transferee**



6.11. The following figure illustrates SPD outcomes for the Transitional Arrangement Auction for delivery of capacity in 2017. A total of 28 DSR CMU participants had 100% success meeting SPD criteria for the 2017 delivery year. Total volume meeting SPD was approximately 526 MW.

**Figure 27: Satisfactory Performance Days by CMU category for the Transitional Arrangements Auction (Delivery Year 2017)<sup>107</sup>**



<sup>106</sup> Data provided by the Delivery Body.

<sup>107</sup> Data provided by the Delivery Body.

## 7. Next steps

7.1. Ofgem will continue to play a key role in the CM, which includes:

- Responsibility for the Rules
- Oversight and enforcement powers over how NGESO and CM participants are complying with the Regulations and the Rules
- Determine disputes where participants disagree with a reviewable decision made by NGESO
- Enforce competition law and compliance with the Rules and the Regulations
- Report on the effectiveness of the CM generally and on NGESO's performance

7.2. We will also be continuing to deliver on our Forward Work Plan, which came out of our Five Year Review of the Rules.<sup>108</sup>

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<sup>108</sup> [Ofgem Five Year Review of the Capacity Market Rules and Forward Work Plan](#)