Making a positive difference
for energy consumers

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

Capacity Market participants,
prospective participants and
other interested parties

Email: EMR_CMRules@ofgem.gov.uk
Date: 29 April 2016

Dear colleague

Statutory consultation on changes to the Capacity Market Rules (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

Summary

- We are inviting your views on our proposed amendments to the Rules.
- We have considered the 70 proposals submitted to us by stakeholders, 26 of which we are minded to take forward or partially take forward. We set out in the consultation our proposed decisions on whether to accept or reject each of these and our reasons.
- We are also publishing a copy of the Rules showing our proposed changes.
- The Department of Energy and Climate Change (DECC) consulted on Capacity Market (CM) policy changes in October 2015 and March 2016.[1,2] It intends to make the resulting amendments to the legislation ahead of the prequalification period for the 2016 CM auction. It anticipates that these will include changes to the Rules. We are not proposing to make changes to the Rules on issues which are covered by DECC's October 2015 or March 2016 consultations.
- We are holding a **stakeholder workshop** to discuss the proposed changes. It will be on **Tuesday 24 May 2016 am** at our Millbank office. Please email EMR_CMRules@ofgem.gov.uk by Wednesday 11 May to register.
- The **deadline for responding to this consultation is 5pm on 27 May 2016.** Please reply to EMR_CMRules@ofgem.gov.uk

Regulatory context

The CM is governed by a combination of the Regulations[3] and the Rules. The Regulations

[1] DECC, *Consultation on Reforms to the Capacity Market, Autumn 2015* ("DECC's October 2015 consultation") https://www.gov.uk/government/consultations/2015-consultation-on-capacity-market-supplementary-design-proposals-and-changes-to-the-rules-and-regulations
[2] DECC, *Consultation on Reforms to the Capacity Market, March 2016* ("DECC's March 2016 consultation") https://www.gov.uk/government/consultations/consultation-on-reforms-to-the-capacity-market-march-2016
[3] The Electricity Capacity Regulations 2014 came into force on 1 August 2014 http://www.legislation.gov.uk/ukdsi/2014/9780111116852/

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permit us to amend, add to, revoke or substitute any provision of the Rules other than to confer functions on the Secretary of State or additional functions on ourselves. When changing the Rules, we must have regard to our principal objective and general duties,[4] and the specific objectives set out in the Regulations (the "CM Rules objectives")[5]:

- promoting investment in capacity to ensure security of electricity supply
- facilitating the efficient operation and administration of the Capacity Market
- ensuring the compatibility of the Capacity Market Rules with other subordinate legislation under Part 2 of the Energy Act 2013.

The Regulations require us to consider any proposal we receive for a Rule change. We must also consult on amendments to the Rules before making our final decision; this includes both where we have identified the potential change and where a stakeholder has raised the matter. We published guidance in August 2014 on our process for making changes to the Rules (the "CM Rules Guidance").[6] The Secretary of State also has the power to change the Rules, subject to consultation. We note that DECC anticipates making Rule changes ahead of the prequalification for the 2016 four year ahead (T-4) auction (see below).

Rule change proposals

We published an open letter on 19 November 2015[7] (the "open letter") which invited stakeholders to submit proposals for Rules changes by 15 January 2016. We included our initial views on priority areas in advance of the 2016 T-4 CM auction. These priorities were simplifying arrangements for prequalification and amendments to make the Rules clearer. We also sought views on issues relating to connection capacity, DSR components and the definition of stress events. We held stakeholder events 20 November 2015 and 7 January 2016 as part of this consultation process.

We would like to thank all those who proposed changes and those who came to our stakeholder event. We received 70 rule change proposals before the deadline. These are published on our website.[8] Many of these proposals relate to areas raised in our open letter, including changes to simplify prequalification, clarify the rules, amend the connection capacity methodology and provide more flexibility in relation to DSR components.

We have considered the proposals in accordance with the Regulations and our published guidance. We have also identified nine additional changes from our monitoring of the CM and issues raised at our stakeholder event. We have not included in this consultation any proposals which we received after the deadline. We will consider them as part of our ongoing review of the Rules. This is due to the volume and complexity of the proposals we received within the timeframe.

We are rejecting a significant number of proposals and our reasons are explained in Annex A. In rejecting these proposals we have considered how the proposal aligns with our statutory duties and the CM Rules objectives. In some instances, we are minded to reject a proposal because it overlaps with another which we are proposing to take forward. We have indicated in Annex A where this applies.

[4] Ofgem's principal objective and general duties can be found on our website https://www.ofgem.gov.uk/publications-and-updates/powers-and-duties-gema
[5] Regulation 78 sets out these objectives. Regulation 77(3)(a) states that the Authority must not make any provision in capacity market rules which is inconsistent with the Regulations.
[6] Ofgem, *The Change Process for the Capacity Market Rules,* August 2014 https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules
[7] Ofgem, *Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules*, November 2015 https://www.ofgem.gov.uk/publications-and-updates/electricity-market-reform-open-letter-and-consultation-changes-capacity-market-rules
[8] https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-market-reform/capacity-market-cm-rules

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We recognise that a lot is happening in and around the CM this year. DECC is proposing changes to the Regulations and Rules. It is also proposing an additional capacity auction takes place for delivery in 17/18 with prequalification taking place concurrently with the T-4 and Transitional Arrangements auctions this year. In this context we are particularly concerned that any changes to the CM are well-justified and consider the implications for the EMR delivery partners; NGET (in its role as EMR delivery body) and the CM Settlement Body, the Electricity Settlements Company (" the ESC").

We are therefore minded to reject proposals where we have not received substantive reasons for making the change(s) or where further work is needed to understand the potential benefits of the modification which is not possible within these timescales. We are also minded to reject proposals which relate to areas covered by DECC's October 2015 or March 2016 consultations. We have noted in our decisions where this applies.

We invite your views on whether you agree with our decisions and we ask you to **provide evidence to support your reasons where possible.** In addition, we have asked specific questions on a number of proposals. These are listed in Annex D.

In our open letter we asked for views on the current methods for determining connection capacity. Annex C contains our updated position on generator connection capacity and includes some additional questions for consultation.

We are discussing with the CM delivery partners and DECC arrangements for metering testing under the Rules. We are aware of concerns that the current Rules may not allow the ESC to undertake the testing in the most efficient manner. There may be a need for further Rules changes on metering testing arrangements to clarify requirements on the ESC. We note that our CM Rules Guidance allows us to consult on and make urgent changes to the Rules outside of our annual process should this be required.

List of annexes

- Annex A summarises each Rule change proposal, our minded to decision and reasoning. Proposals are referred to by the 'CP' reference number allocated on our website; our own nine proposals are labelled as Proposals Of1-9.
- Annex B provides a table summary of our decisions the proposals.
- Annex C set out our updated position on generator connection capacity.
- Annex D lists the questions we've asked on individual proposals and connection capacity.
- Annex E (published alongside this document) provides a marked up draft copy of the Rules. Our proposed changes are shown in blue with the proposal reference number.

Next steps

We are holding a stakeholder workshop to discuss the proposed changes on **Tuesday 24 May 2016 am** at our Millbank office. Please email EMR_CMRules@ofgem.gov.uk by Wednesday 11 May to register. Spaces will be limited to one delegate per organisation.

Please send your response to the consultation to EMR_CMRules@ofgem.gov.uk by 5pm on 27 May 2016.

We intend to publish our final decision and the final amendments to the Rules in summer 2016 before the next prequalification round opens.

We are also considering the timetable for Rule changes in future years and may move away from an annual cycle of Rule changes.

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Yours faithfully

Philippa Pickford

Associate Partner, Wholesale Markets
For and behalf of the Gas and Electricity Markets Authority

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Annex A: Proposals and decisions (by Rules chapter)

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1. General Provisions

Proposed amendments

Of1 – Ofgem

This proposal would extend the definition of Defaulting CMU to include a Capacity Market Unit (CMU) that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, and participated in the auction, but was not awarded a capacity agreement.

Proposed Decision

We have decided to make this change as it will ensure that a CMU that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, but has not won a capacity agreement, is treated the same as a CMU that did win an agreement. We consulted on this proposal in our November 2015 Open letter and it received broad support. Some respondents were concerned that the term 'Defaulting CMU' would apply to *any* CMU that was unsuccessful in an auction. We can confirm that it would only apply to CMUs that were unsuccessful *and* had engaged in actual or Prohibited Activities under the Rules.

Of2 – Ofgem

This proposal would amend the definition of Legal Right in Rule 1.2 to make it consistent with Rule 3.7.1. The current definition defines Legal Right only with regard to land upon which a relevant CMU "is situated". Rule 3.7.1 (a) allows the Legal Right to land upon which a CMU "is, or will be located".

Proposed Decision

We propose to amend the definition of Legal Right to make it consistent with Rule 3.7.1 and therefore accommodate occasions when the Legal Right refers to the future location of the CMU. This will clarify the rules and help prevent New Build CMUs from unnecessarily failing to prequalify.

CP112 – E.ON

This proposal seeks to amend the definition of Mandatory CMU in Rule 1.2 so that Generating Units which are in receipt of low carbon support are not included.

Proposed Decision

We agree that the definition of Mandatory CMU should exclude ineligible CMUs which are receiving low carbon support. This rule change is in line with Regulation 16 (Excluded capacity: low carbon support scheme CMUs) and Regulation 17 (Excluded capacity: NER 300 and CCS grant scheme CMUs).

CP126 – Energy UK

This proposal would amend the Rules so that when a Refurbishing CMU's connection capacity is equal to its Pre-Refurbishment connection capacity, it does not have to be issued with a Final Operational Notification (FON) or an Interim Operational Notification (ION) for it to be classed as 'Operational'. This is because a generator may not be issued with an ION or FON when its refurbishment work does not affect the network it is connected to (e.g. work to install emissions abatement equipment). It would also remove

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the requirement for this type of CMU to notify the Delivery Body when an FON or ION is issued.

Proposed Decision

We propose to take this change forward as it would promote the efficient operation of the CM. Specifically, it would ensure that Refurbishing CMUs that are not increasing their connection capacity as part of their refurbishing works are not unnecessarily prevented from completing all the necessary steps required before the start of a Delivery Year.

CP161 – VPI Immingham

This proposal seeks to add a definition of 'Officer' as an Authorised Signatory of the Applicant. This is to prevent Applicants that are not companies (such as partnerships) from failing to prequalify because they do not have directors to sign the relevant prequalification certificates.

Proposed Decision

We are minded to take this proposal forward by adding a definition of 'Director' to the Rules and, in the case of a body other than a company, including 'officers' and 'authorised signatories' within this definition. Under Rule 3.12 (Declaration to be made when submitting an Application), references to 'directors' or the 'board of directors' can already be read as references to the officers of that person. However, this does not apply to the certificates, nomination form and declarations in the Exhibits, which resulted in at least one firm failing to prequalify last year according to the proposal. We believe that adding a definition of 'Director' for the purposes of Exhibits A to I will clarify the Rules and help prevent unnecessary prequalification failures.

Proposals rejected

CP111 – E.ON

This proposal would narrow the definition of Generating Unit to make it clear that it only applies to equipment which is physically connected to, and capable of exporting to, a distribution or transmission network.

Proposed Decision

We do not propose to take this forward because we believe it is an unnecessary clarification. The context is sufficient to be clear that for the purposes of the Capacity Market (CM) the definition does not include unconnected equipment like a car alternator, bicycle dynamos or portable generators.

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2. Auction Guidelines and De-rating

Proposals rejected

CP94 – Association of Decentralised Energy (ADE)

This proposal seeks to amend Rule 2.3 so that de-rating factors for DSR CMUs would be set to reflect performance in the CM, rather than being based on performance in Short Term Operating Reserve (STOR).

Proposed Decision

We are minded to reject this proposal because it is not sufficiently clear about how a new de-rating factor for DSR CMUs would be calculated. Specifically, it does not provide calculations for how reliability in the CM would be measured.

However, we can see that the reliability of DSR CMUs could be different from the reliability of STOR providers. We would be interested to see a proposal from industry following the 2016 prequalification process which explains precisely how a new de-rating factor for DSR CMUs would be calculated.[9]

CP146 & CP158 – National Grid Electricity Transmission (NGET) & Scottish Power

These proposals would introduce a new formal 'verification' stage into the prequalification process. This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body. The intention of this is to minimise the amount of Applicants that have to go through a Tier 1 disputes process because they have made unintentional errors.

Proposed Decision

We are proposing to reject these proposals because we believe they would undermine the efficient operation and administration of the CM. While we support their aims (reducing the number of easily resolved Tier 1 disputes), we believe they introduce more risks than benefits.

In particular, the proposals would result in a shorter window for initial applications. This could lead to more rushed and poorer quality applications, and therefore there is a risk that burden could be shifted onto the Delivery Body. It could also prevent some Applicants from prequalifying at all as they could miss what would be a very brief prequalification window. This could reduce liquidity in the auction.

We also do not believe that the proposals work with the Government's proposals in relation to disputes and prequalification timings.[10] The combination of these proposals with the Government's proposals could effectively create a 'three-stage' prequalification process, which could significantly reduce incentives to submit carefully checked applications in the first place and therefore increase administrative costs.

[9] Please see our guidance for submitting rule change proposals: https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules

[10] Section 2.3 of DECC's March 2016 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504217/March_2016_Consultation_Document.pdf
And section 2.7 of DECC response to its October 2015 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504050/Govt_response_to_the_consultation.pdf

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3. Prequalification Information

Proposed amendments

Of3 - Ofgem

In our 2015 decision on changes to the Rules in relation to Opt-out Notifications, we clarified that in the case of receiving both an Opt-out Notification and a prequalification application, the Delivery Body should use the document submitted last. The change we made to achieve this inadvertently excluded parties who voluntarily Opt-out of the T-4 auction but who intend to remain operational in the Delivery Year and participate in the corresponding T-1 auction. This was not our policy intention. We published a commitment in our FAQ in January 2015 and Open Letter in July 2015 that we would amend the Rules to correct this before the first T-1 prequalification round in 2017.

Proposed Decision

We propose to amend Rule 3.3.3(b) to fix this problem. CMUs which choose to Opt-out of the T-4 auction but remain operational in the Delivery Year will be able to participate in the prequalification process for the T-1 auction. This rule change will not have an impact on CMUs which have opted-out and will be closed down, decommissioned or otherwise non-operational at the commencement of the Delivery Year.

Of4 – Ofgem

Applicants currently have the option of using TEC to determine a generating unit's connection capacity. Where a site is split into multiple CMUs, the power station's TEC is split between each unit in proportion to that unit's share of the total CEC. Currently, the total CEC used is the maximum of the station level CEC or the sum of individual units' CEC. However, using the station level CEC could result in a connection capacity that is not equal to the total station TEC, which we don't believe is the intention of the formula. This proposal seeks to correct the TEC formula by removing the option to use station level CEC under Rule 3.5.5(a)(i).

Proposed Decision

We are minded to make this change as we believe it will result in a more accurate calculation of TEC for each generating unit. We consulted on this change in our November Open Letter and most respondents were supportive.

Of5 – Ofgem

Under Rules 3.6.1(b) and 3.6.1(c), Non-CMRS[11] Distribution CMUs must provide confirmation of the Line Loss Factor (LLF) values applicable to the three periods identified to demonstrate historical output. This requires a letter from either a DNO or supplier (depending on the CMU's meter type). Failure to submit this will lead to the CMUs not prequalifying.

The policy intent of these provisions is to ensure that line loss factors are applied consistently; in particular to ensure that non-CMRS Distribution CMUs are able to benefit from the additional capacity they are due as a result of line losses. However, the current Rules seem to unnecessarily prevent some of these CMUs from prequalifying, even if they

[11] CMRS is the Central Meter Registration Service: https://www.elexon.co.uk/glossary/central-meter-registration-service/

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do not wish to claim Line Loss Adjustments (for example, because they are unable to get a letter from a supplier, DNO or Unlicensed Network owner confirming the LLF values).

Last year there was also a lack of clarity from some parties about what the DNO letter required under 3.6.1(c)(i)(aa) should include, in particular, about the contents of the 'LLF methodology statement'. We confirmed in our August 2015 FAQ[12] that this only needs to include LLF values, not the calculations behind the LLF values.

Proposed Decision

We propose to amend Rules 3.6.1(b)(i)(bb) and 3.6.1(c)(iii) so that Non-CMRS Distribution CMUs which have not provided LLF values are still able to prequalify based on their non-adjusted historical output. We also intend to clarify what is required in the DNO letter.

Of6 - Ofgem

Rule 3.7.1 requires Applicants to provide planning consents for New Build CMUs. We are concerned that the current drafting makes it possible for a CMU to prequalify with planning consents which include an explicit expiry date which is earlier than the end date of the Capacity Agreement. This could create risks for security of supply if generators have to close down within their capacity agreement period because their planning permissions have expired.

Proposed Decision

We propose to amend Rule 3.7.1 so that, where planning permissions for New Build CMUs contain an explicit expiry date, that expiry date must not be within the period of the Capacity Agreement that the CMU is applying for. We note that most of the planning permissions we have seen do not have any expiry date. Where this is the case this Rule change will not have any impact.

Of7 – Ofgem

This proposal would ensure that a Prospective CMU can only claim a given item of capital expenditure for the purposes of one prequalification application. The existing Rules potentially enable a CMU which has gained a capacity agreement to cite the same capital expenditure within a subsequent application in order to qualify for a second multi-year agreement. This may be possible where the periods for qualifying expenditure overlap.

Proposed Decision

We propose to amend Rule 3.7.2(c) and add Rule 8.3.6(aa) to prevent CMUs from citing the same capital expenditure in more than one multi-year capacity agreement. This would be done by specifying that the Capital Expenditure that can be included in Total Project Spend cannot have been considered for a previous application.

It was not the original policy intent that CMUs should be able to claim a given item of Capital Expenditure for more than one capacity agreement. Such a possibility, although unlikely, remains feasible without the amendments in this proposal.

[12] https://www.ofgem.gov.uk/sites/default/files/docs/2015/08/20150824_capacity_market_faqs.pdf

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CP99 – ADE

This proposal would amend Rule 3.6.1(b) to make it easier for Non-CMRS Distribution CMUs to prove their physically generated output. In particular, it would enable these CMUs to provide evidence that they delivered a Metered Volume when discharging a balancing services obligation as an alternative to providing a letter from a supplier or former supplier.

Proposed Decision

We are minded to accept this proposal. Under current Rules, a supplier letter stating the Non-CMRS Distribution CMU's physically generated output is required in order to pass pre-qualification. The proposed Rule change can streamline the pre-qualification process by providing another option for the Non-CMRS Distribution CMUs to demonstrate output.

In addition to changing Rule 3.6.1(b), we are minded to extend the change to Rule 3.6.1(c) as it involves the same issue for non-CMRS CMUs, but with different types of metering configuration solutions. The proposed solution provides flexibility for both situations.

CP109 & CP142 - DECC & NGET

These proposals from DECC and NGET would amend the Rules so that applicants are only required to complete a Metering Assessment and provide metering related information (with the exception of MPANs) after a Capacity Auction rather than during prequalification.

In addition, NGET proposes that metering information could be provided directly to the Settlement Body rather than via the Delivery Body (effectively moving the current responsibility of collecting and verifying metering information onto the Settlement Body).

Proposed Decision

We are proposing to take forward DECC and NGET's suggestion to move the provision of metering related information and the completion of a Metering Assessment into the post-auction period. We believe this amendment would significantly simplify prequalification and is therefore in line with our objective to promote the efficient operation of the CM and our priorities for this year's Rules changes.

We agree with NGET that a Metering Assessment is not needed to determine the prequalification status of a CMU. Mandating a Metering Assessment before the auction (as is required under Rule 3.6.4(a) and Rule 3.9.4(a)) is unnecessary and adds undue burden to the prequalification process.

In order to implement this change with minimal disruption to parties and systems, our proposed Rules drafting contains two options for Applicants. The first is to submit information and conduct a Metering Assessment during Prequalification (as is required under the existing Rules). The other is to defer the assessment and complete it later. Under the second option, Applicants would not have to provide any metering related documentation at the prequalification stage (except for MPANs).

We are not proposing to take forward the second element of NGET's proposal as this would effectively change the roles and responsibilities of the Delivery Body and the Settlement Body. We do not believe that this is sensible at this point in time given the volume of changes being made to the CM this year and the preparation required for the first Delivery Year. We believe this change requires further discussions between the delivery partners.

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CP114 – E.ON

This proposal seeks to simplify the Opt-out process by removing the requirement for an accompanying statement signed by two directors to say that they are able to correctly sign a Certificate of Conduct (Rule 3.12.5).

Proposed Decision

We agree that Rule 3.12.5 does not appear to have any benefit. The directors' ability to sign correctly a Certificate of Conduct is implicit in their signing a Certificate of Conduct (as required under 3.11.5). We therefore propose to take forward this change as it removes an unnecessary requirement.

CP117 – Eggborough Power Limited

For the first two Capacity Auctions, New Build CMUs were able to declare in their prequalification applications that they would obtain all Relevant Planning Consents and would have the Legal Right to use the land by no later than 17 Working Days prior to the commencement of the Capacity Auction (Rule 3.7.1(a)). This was an alternative to making these declarations at the time of the prequalification application. However, as it only applied to the first two auctions, this provision has now expired.

This proposal would make Rule 3.7.1(a) applicable to all future Capacity Auctions, not just the first two Capacity Auctions.

Proposed Decision

We propose to take CP117 forward with a small amendment. We agree that extending this flexibility for New Build CMUs will help maximise the quantity of new generation that can participate in CM auctions, boosting liquidity and lowering costs for consumers.

However, we note that the time limit set out in the Rules for the first two auctions potentially allowed the Delivery Body only one day to assess all the relevant documents (if the documents were submitted on the deadline).[13]

We therefore propose amending Rule 3.7.1(a) to extend it indefinitely and to change the deadline for obtaining consents and legal right from 17 Working Days to 22 Working Days prior to the commencement of a Capacity Auction. This continues to support new build participation in the CM while allowing the Delivery Body a more reasonable time frame in which to accurately assess the planning consents.

CP122 – Energy UK

This proposal would clarify in the Rules that a six-figure ordnance survey grid reference means all eight digits of the alphanumeric code (two letters and six numbers).

Proposed Decision

We propose to take this change forward as we agree that it would clarify requirements and therefore reduce the scope for prequalification failures due to unintentional mistakes. This supports the efficient operation of the CM.

[13] Rule 4.7.1 sets out the deadline for the Applicants to submit a declaration pursuant to Rule 3.7.1(a) to be 17 Working Days prior to the commencement of the first Bidding Window for Capacity Auction. Rule 4.7.2 requires that the Delivery Body must notify each CMU of the result of the prequalification 16 Working days prior to the first Bidding Window.

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CP136 – Moyle Interconnector

This proposal would base the Connection Capacity of an Interconnector CMU on its Connection Entry Capacity (CEC) or, if different, its maximum technical capacity, as opposed to its Transmission Entry Capacity (TEC). It would also cap the De-rated Capacity for Interconnector CMUs at TEC to prevent them from failing to prequalify as a result of 3.6A.2

Proposed Decision

We are minded to accept an amended version of this proposal.

We consider that the Connection Capacity of an Interconnector CMU should reflect the maximum potential output it can deliver during a stress event. The likelihood that it is able to deliver its maximum potential output is then reflected in its De-rating Factor. This approach should lead to the most accurate calculation of the capacity provided by interconnectors and therefore drive efficient auction outcomes.

We agree that CEC is a more accurate reflection of the maximum potential output of an Interconnector CMU during stress than TEC. This is because:

- Interconnectors can go above TEC during an emergency (but not above CEC); and
- The relevance of using TEC to measure future maximum output is questionable given current European energy market developments (in particular the Guideline on Congestion Management and Capacity Allocation (CACM)).

We are of the view that the intention of including "or if different, maximum technical capacity" is to account for situations where the interconnector is physically incapable of delivering its CEC. However, we consider that including this term could result in ambiguity as it is not defined parameter. Instead, we believe it would be preferable for longer term technical issues to be accounted for in the Interconnector's De-rating Factor. We are therefore minded to take forward this proposal without the 'maximum technical capacity' term (i.e. setting connection capacity always equal to CEC).

Although this change could have implications for the Interconnector de-rating calculations, we do not believe it would create significant complications due the flexibility in the existing methodology.

We are also minded to include the suggestion to cap the De-rated Capacity of Interconnector CMUs at their TEC, to ensure they are not unnecessarily prevented from prequalifying under Rule 3.6A.2. However, we are interested in views on whether removing the TEC requirement in 3.6A.2(a) altogether would be a better solution to this, as the need for this requirement is not as clear for interconnectors as it is for generators.

Question 1 - CP136: Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the De-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?

CP149 - RWE

This proposal would remove the requirement on applicants to submit De-rating Factors and Anticipated De-rated Capacity (Rules 3.4.5(c) and 3.4.5(d)). As the De-rating Factors are automatically calculated by the Delivery Body's portal, RWE believes that the Rule imposes an unnecessary prequalification condition on applicants.

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Proposed Decision

We propose to accept this change. We agree it would clarify and simplify the Rules as parties do not actually have to submit De-rating Factors in practice.

CP150 - RWE

This proposal would amend Rule 3.5.4 to clarify how the Average Highest Output of a Generating Unit should be determined when calculating connection capacity - that it should be converted to MW and stated to three decimal places.

Proposed Decision

We are proposing to take forward this change as we agree it would be a useful clarification. We consulted on clarifying that connection capacity should be stated in MW to three decimal places in our November Open Letter and no concerns were raised.

CP157 – Scottish Power

This proposal seeks to ensure that the Rules explicitly recognise the potential for Connection Capacity to be higher than the capacity stated in a Relevant Planning Consent, and would require participants to provide documentary evidence to explain and justify any difference in order to prequalify.

Proposed Decision

We are minded to accept this proposal. We agree that connection capacity can justifiably be higher than the capacity stated in the Relevant Planning Consents. As the proposal highlights, for CCGTs in particular, ambient temperature can have an effect on the amount a generator can produce. However, consents could be issued on the basis of output at an ambient temperature which is higher than the likely temperature during a stress event.

The current Rules prevent such a Generating CMU from prequalifying (or force it to prequalify with a connection capacity lower than its maximum capacity). The proposed Rule change in 3.7.1 would allow CMUs in this situation to provide extra supporting technical evidence for the Delivery Body to verify their higher capacity. It should therefore help ensure that capacity is not wrongly excluded (or included) and lead to more efficient auction outcomes.

Proposals rejected

CP92 – ADE

This proposal recommends the introduction of line loss estimates on the basis of periods of system stress, rather than annual averages, to better reflect the line losses that would occur in a stress event.

Proposed Decision

Although we agree there could be merit to adjusting line loss factors to more accurately reflect the conditions in place during a stress event, the proposal does not provide quantifiable evidence of a significant problem in the current line loss methodology. The proposal asserts that the line loss factors are significantly higher during times of system stress, but this assertion is not justified with any data to establish a quantifiable scale of impact. The proposal also did not submit a methodology to calculate line losses on this

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basis. We therefore do not have evidence available to enable us to progress this proposal at this point.

CP105 – ADE

This proposal seeks to reduce the administrative burden for applicants involved with obtaining letters from suppliers and DNOs under Rule 3.6.1(c). In particular, it would:

- remove the requirement for Non-CMRS Distribution CMUs using the Balancing Services Metering Configuration Solution or Bespoke Metering Configuration Solution to provide a letter from the Distribution Network Operator (DNO);
- add a definition of 'Electricity Supplier' under Rule 1.2 and impose a timeline for the Electricity Supplier to provide a letter within 15 working days; and
- add a new requirement under Rule 3.6.1 that if the relevant Electricity Supplier has ceased trading, no supplier letter is required.

Proposed Decision

We are minded to reject all parts of this proposal.

We are rejecting the first part as we believe it would be incompatible with the amendments made to Rule 3.6.1 last year to include Line Loss Factors for non-CMRS distribution CMUs. Under ADE's proposal, applicants would be allowed to provide a supplier letter (instead of one from their DNO) as proof of evidence for both physical output and the Line Loss Factor values. However, we understand that suppliers may not always be able to provide Line Loss Factor information for CMUs using the Balancing Services Metering Configuration Solution or the Bespoke Metering Configuration Solution.

In addition, we are bringing forward our own changes to the DNO letter requirements in Rule 3.6.1. Firstly to clarify what should be contained in the letter, and secondly to prevent CMUs from failing to prequalify if they are unable to provide a DNO letter (see Of5). This should help resolve issues faced by applicants in this area.

Regarding the second part of the proposal, we do not consider it necessary to add a definition for the term 'Electricity supplier'. This already has the meaning given in Regulation 3(2). We are also not intending to impose a timeline on suppliers as we do not have the authority to impose obligations on suppliers under the Rules.

We are also minded to reject the last part of the proposal, as we believe it is the applicant's responsibility to make the necessary arrangements when a supplier ceases trading, and because there is insufficient evidence to suggest this is currently causing significant issues.

CP120 – Energy UK

This proposal seeks to simplify the prequalification process for CMUs that opt-out over multiple consecutive years. It proposes to either allow participants to submit an 'evergreen' opt-out which only expires once the CMU opts-in, or to enable providers to submit a declaration that the information from a previous opt-out remains the same.

Proposed Decision

We propose to reject this proposal. It is vital that Opt-out information is accurate as this impacts CM procurement recommendations. We therefore consider it to be appropriate for CMU Opt-outs to be submitted for each relevant auction. We also understand that the Delivery Body's changes to its prequalification system last year have already

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simplified the process to resubmit an Opt-out notification. We therefore do not agree that there is a need for this proposed Rule change.

CP121 – Energy UK

This proposal would introduce the option for Applicants to submit Metering System Identifiers (MSIDs) instead of Meter Point Administration Numbers (MPANs) throughout the Rules in order to reduce the burden involved in providing explanations when an MPAN is not unique to a CMU.

Proposed Decision

We are minded to reject this proposal for two main reasons. Firstly, the ESC has said that MPANs are always needed for CM settlement purposes and that MSIDs would be inadequate. Secondly, there is little evidence that current requirements are a significant hurdle for Applicants.

CP125 – Energy UK

This proposal seeks to clarify how Connection Entry Capacity (CEC) should be stated for the purposes of calculating a Transmission CMU's Connection Capacity. In particular it would:

- require applicants to declare whether a CMU's CEC is set net of Auxiliary Load or as a gross figure;
- if it is the latter, require the CMU to submit an outline of the methodology used to calculate Auxiliary Load and then subtract it from CEC;
- explicitly state that the Delivery Body must not prequalify a CMU if the above information is not provided;
- amend the formula in Rule 3.5.5 to ensure it is compatible with the Auxiliary Load requirement in Rule 3.5B.1(c).

Proposed Decision

We propose to reject this proposal. It is already clear in Rule 3.5B.1(c) that Applicants should specify CEC net of Auxiliary Load. Adding a requirement to submit a declaration and statement in relation to Auxiliary Load would introduce additional burden and costs into the prequalification process with little clear benefit.

However, we agree with the need to review the formula in Rule 3.5.5 to ensure it works as intended. We are addressing this through our proposal Of4.

CP143 – NGET

This proposal seeks to clarify the requirement for applicants to provide evidence of their Relevant Planning Consents during prequalification. In particular, it suggests specifying in the Rules the following:

- that these consents must permit construction of a generating unit whose size is at least equal to the CMU's connection capacity;
- that they should be valid at the point of prequalification;
- they should be specific as to what the consents are granted for; and
- that any range in size must be supported by accompanying evidence.

Proposed Decision

We are minded to reject this proposal in its entirety for two reasons. Firstly we believe the current rule drafting is sufficiently clear and we are concerned that making further

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restrictions would be unnecessary and could have unintended consequences. In particular, it should already be clear to parties that consents need to be valid and not for something other than the generating unit. Secondly, we've not received any specific evidence of where there have been significant problems in this area.

However, we agree that generators should be able to submit technical evidence to the Delivery Body in order to justify why their connection capacity is higher than the MW volume specified in a planning consent (for example because of differences in the baseline ambient temperature used). We are therefore proposing to accept a related rule change CP157.

CP151 - RWE

This proposal would amend Rule 3.5.4 so that a Generating Unit's Average Highest Output would be determined using the three periods where that unit generated its highest output, rather than the three periods where the overall CMU delivered its highest output.

Proposed Decision

We are minded to reject this proposal for two main reasons. Firstly we are concerned that it could create additional complexity and burden in administering the CM. This is because, where a CMU contains many generating units, a large number of periods would need to be submitted, increasing burden for parties and complicating calculations for the Delivery Body. Secondly we do not think sufficient evidence has been provided to suggest that there is currently a significant issue in this area. In particular, the assertion that the current Rules lead to out of merit running and associated emissions is not supported.

In addition, we note that we are conducting a wider review of the connection capacity methodology (see Annex C). We believe it is important to reach a final conclusion in this area before making any related changes which could conflict with this.

CP152 - RWE

This proposal would amend the Connection Capacity calculation methodology for Distribution CMUs which hold Transmission Entry Capacity (TEC). In particular, it would amend the definition of 'STEC' for Distribution CMUs so that it refers to the lower of Maximum Export Capacity and TEC.

Proposed Decision

We are proposing to reject this proposal. RWE argue that the current situation may result in overstated deliverable capacity, thereby threatening security of supply. However, they have not supplied any evidence of this issue causing an actual impact as opposed to a hypothetical risk. It is also unclear from the proposal what the scale of the potentially overstated capacity is.

In addition, we note that we are conducting a wider review of the connection capacity methodology (see Annex C). We believe it is important to reach a final conclusion in this area before making any related changes which could conflict with this.

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CP153, CP154 & CP155 - RWE

We understand that these three proposals are interlinked:

CP153 would amend Schedule 3 so that Wind and Solar are included as Generating Technology Classes, enabling de-rating factors to be published for these technologies. This has the intention of enabling Solar and Wind CMUs to participate in the CM and allowing them to be taken into account when assessing the connection capacity at shared connections.

CP154 would amend the rules by removing the word 'Anticipated' in all references to the term 'Anticipated De-rated Capacity'. This is intended to enable Applicants to take into account the output from units which are part of a shared Connection Agreement but do not participate in the CM (and therefore do not have anticipated capacity).

CP155 seeks to amend the definition of Distribution Connection Agreement so that Applicants for CMUs with shared connections, where the counterparty to the Distribution Connection Agreement is not responsible for that CMU, can participate in the Prequalification process.

We believe that their intention is to ensure that CMUs which co-locate with non-CM generators (such as wind and solar farms) are not over rewarded for their capacity. This could occur because a CMU receives a connection capacity equal to the maximum capacity of that connection site, despite the probability that the non-CM generator could provide output during a stress event. This would mean the CMU would not actually be able to provide the full capacity stated in its agreement.

Proposed Decision

We agree that this is an issue that potentially needs addressing (although arguably not a major one given the low likelihood that a solar or wind farm would be providing a significant volume of output during a stress event). However, we are minded to reject these proposals. We believe that, in their current form, they are insufficient to address this issue and that they have not given full consideration to the implications these changes will have. We would also like to see more evidence of the extent of the issue. We therefore invite parties to submit a more developed proposal to address this issue after this year's prequalification process.[14]

CP160 – UK Power Reserve

This proposal seeks to clarify the definition of 'Legal Right' to minimise the risk of different interpretations by Applicants. It would also make additions to Rules 3.7.1 and 4.7.1 to specify that the Legal Right to land should be for a time period equal to or greater than the duration of the Capacity Agreement. In addition, it would require applicants to provide documentary evidence of a Legal Right.

Proposed Decision

We are minded to reject this proposal for two main reasons. Firstly, the requirement to provide documentary evidence would add burden for both applicants and the Delivery Body, which is against our objective to simplify the Rules. Secondly, we do not believe the proposal has provided sufficient substantive evidence that the current requirements are contributing to project delivery failures or resulting in CMUs bidding for capacity agreements that would not be able to be fulfilled.

[14] Please see our guidance for submitting rule change proposals: https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules

4. Determination of Eligibility

Proposed amendments

Of8 - Ofgem

This proposal would amend Rule 4.6.2 so that when the CM Settlement Body provides a credit cover approval notice to an applicant it also provides a copy to the Delivery Body. This would remove the need for applicants to provide a copy of this notice to the Delivery Body.

Proposed Decision

We propose to make this change as it would promote the efficient operation of the CM by simplifying the credit cover process for applicants and removing an unnecessary step.

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5. Capacity Auctions

Proposed amendments

CP137 – NGET

Currently there are no clear rules about when a clearing price and capacity volume should be provided to bidders and made public following a Capacity Auction. This proposal would change Rule 5.10 to specify that the Delivery Body should publish a provisional clearing price and volume by 8pm on the day a CM auction clears.

Proposed Decision

We propose to take this forward as it will ensure the market and other stakeholders have certainty about when they will know provisional CM auction clearing prices and volumes.

Proposals rejected

CP96 – ADE

This proposal would either delete Rule 5.3.2(b), which excludes bidders unless they have complied with "the terms of any continuing Capacity Agreement in relation to any CMU", or replace it with a paragraph which states the specific Rules and Regulations where it would be appropriate to exclude Bidders from a Capacity Auction for non-compliance.

Proposed Decision

We are proposing to reject this proposal. Removing this rule or specifying exactly where non-compliance would result in bidders being excluded from an auction is not appropriate in our view. The impacts and seriousness of non-compliance with a Capacity Agreement term is likely to vary depending on the specific circumstances. It is not straightforward to specify which terms are more important than others.

It is also important that bidders take the terms of their Capacity Agreement seriously. Specifying, in effect, what is and is not important could lead to parties making trade-offs and disregarding certain terms as 'not serious'. This would not be in consumers' interests.

Ofgem's enforcement guidelines[15] describe how we will use our enforcement powers if businesses breach their obligations, how we will provide redress and remedies for consumers, and how breaches or infringements will be punished or deterred. It also sets out a number of enforcement tools we may use as an alternative to exercising our statutory enforcement powers.

[15] https://www.ofgem.gov.uk/ofgem-publications/89753/enforcementguidelines12september2014publishedversion.pdf

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CP102 – ADE

This proposal would require details of the capacity which has exited each Bidding Round to be published after each Bidding Round and as part of the Capacity Market results.

Proposed Decision

We are not proposing to take this forward as we do not believe it would be in consumers' interests. It would significantly increase the ability for parties to exert market power in Capacity Auctions and raise costs for consumers. It would also be discriminatory to reveal the exit bid price range for exited capacity but not for successful capacity.

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6. Capacity Agreements

Proposals rejected

CP159 – Multifuel Energy Ltd

This proposal seeks to amend the rules so that Renewables Obligation (RO) eligible technologies other than biomass (such as energy from waste with CHP) can voluntarily terminate a CM Contract in order to transfer to the RO scheme.

Proposed Decision

We have reviewed this proposal as we are of the view that it is inconsistent with the Regulations. We are therefore rejecting it but have notified DECC of the issues raised.

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7. Capacity Market Register

Proposed amendments

CP116, CP123 & CP135 – E.ON, Energy UK & InterGen

These three proposals made very similar suggestions to amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued this is reflected on the CM Register.

Proposed Decision

We propose to accept these changes. Under current Rules, the CM Register is only updated once termination is finalised. This can take up to 120 days after the initial notice was issued. Updating the Register at the point of a Termination Notice being issued, withdrawn or extended would increase transparency. For example, parties considering secondary trading would know that another party has been issued with a termination notice.

CP144 – NGET

This proposal seeks to simplify the CM Register by removing certain requirements. It suggests removing:

(1) 7.4.1(a)(iv) Meter Point Administration Numbers;
(2) 7.4.1(a)(vi) the Anticipated De-rated Capacity of the CMU;
(3) 7.4.1(a)(vii) the responses submitted in the Metering Assessment (if completed);
(4) 7.4.1(a)(viii) the identity of any Agent nominated for that CMU by the relevant Applicant;
(5) 7.4.1(d)(xi) the results of the Metering Assessment for the CMU;
(6) 7.4.5(i) the relevant Delivery Years; and
(7) 7.5.1(o) the value of beta.

Proposed Decision

We propose to take forward the suggestion to remove items (2), (4) and (6) as we do not believe this information is needed by stakeholders. Removing unnecessary information would simply the register. However, we reject the suggestion to remove (1), (3), (5) and (7) as we believe this would affect the ESC's ability to carry out its functions and create unnecessary complications at this time.

On (2), we agree that Anticipated De-rated Capacity does not provide useful information. This is because the Delivery Body calculates and publishes on the register a De-rated Capacity value based on the Connection Capacity selected by Applicants. We are also proposing to remove the requirement for Applicants to submit Anticipated De-rated Capacity in the first place (see CP149). We also do not believe (4) is useful information for stakeholders, whilst (6) is a duplicate of Rule 7.4.5(e).

We are minded to reject (1) as we believe that maintaining this information on the register is important for monitoring purposes. In addition, we understand that this information is needed by the ESC for the purposes of CM settlement.

We are minded to reject (3), (5) and (7) as these relate to Metering Information which is needed by ESC. The current rules set out the requirements for the Delivery Body to collect data on metering, and pass it on to the Settlement Body if a metering test is required. The ESC have told us that these suggested changes could have a direct impact on its ability to perform its roles, which we do not believe would be pragmatic

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at this time given the amount of other changes that are being made to the CM this year. Instead, we encourage the ESC and NGET to carry out a joint review of the metering information on the register to identify whether there are further changes we should consider.

Proposals rejected

CP101, CP110 & CP156 – ADE, E.ON and Scottish Power

CP101 from ADE seeks to amend Rule 3.4.3 so that applicants must specify a CMU's generation type and fuel type in its prequalification application.

CP110 and CP156 from E.ON and Scottish Power seek to amend Rule 7.4.1 to include 'Generating Technology Class' in the Capacity Market Register. CP110 would also amend Schedule 3 so that Generating Technology Class differentiates between OCGTs, gas reciprocating engines and diesel reciprocating engines. CP156 suggests amending Schedule 3 by splitting up the 'OCGT and reciprocating engines' class into four separate classes.

Proposed Decision

We are rejecting these proposals because the Government has proposed making similar changes to the CM Register as part of its amendments (including the addition of fuel type).[16]

CP106 – Alkane

This proposal seeks to ensure that, if 'Fuel Type' becomes a requirement on the Capacity Market Register, it is clear in the Rules that a participant is able to change its Fuel Type. Alkane suggests Rule 7.4.1(d) could be amended to include Fuel Type and that Rule 7.5.1(r) could be extended so that a participant is required to notify any changes in Fuel Type to the Delivery Body.

Proposed Decision

We are rejecting this proposal as it relates to the changes to the CM Register which DECC are proposing to make[17]. We have forwarded this proposal to DECC to consider.

CP107 – Alkane

This proposal seeks to allow existing generators to alter the location of generating units. Currently relocation is available only to New Build Generating CMUs, Interconnector CMUs, and DSR.

Proposed Decision

We propose to reject this proposal. We agree that a level playing field between CM participants is crucial. However, there are legitimate reasons for different relocation arrangements according to type of CMU. Permitting relocation by new build generating, new build interconnector, and DSR CMUs accounts for last minute planning changes and the need for flexibility in replacing non-performing components. For most existing

[16] See page 37 of the DECC's response to its autumn 2015 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504050/Govt_response_to_the_consultation.pdf
[17] See above

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generators, however, relocation is functionally impossible as plant is impossible to move.

Where an existing generator is able to move the location of a generating unit, then prequalification information for that component would no longer be valid (the evidence of historical performance, metering information etc). It would therefore effectively need to go through a full prequalification process again. A sole notification would not be sufficient.

DECC has committed to introducing a number of secondary trading arrangements. We expect these to provide an adequate solution for existing generators wishing to move components and should satisfy the discrimination concerns suggested by the proposal. We do not believe this would be any more burdensome for these parties than a separate relocation process because, as highlighted above, they would need to resubmit all prequalification information again anyway.

CP119 & CP133 – Energy UK & Green Frog Power

These proposals would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.

Proposed Decision

While we support the aims of this proposal, we do not believe the Capacity Market Register is the right platform for facilitating secondary trading. We suggest industry develop a bespoke platform for promoting liquidity in secondary trading. We also note that DECC rejected this suggestion in its March 2016 consultation.

CP134 – Green Frog Power

This proposal would amend Rule 7.4.1(c) so that the Capacity Market Register only displays the prequalification status for CMUs after the Tier 1 disputes process.

Proposed Decision

We are minded to reject this proposal because the Government has proposed making a very similar amendment as part of its March 2016 consultation.[18]

[18] See 2.3 of DECC's March 2016 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504217/March_2016_Consultation_Document.pdf

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8. Obligations of Capacity Providers and System Stress Events

Proposed amendments

Of9 - Ofgem

This proposal would include Emergency Manual Disconnections[19] in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction (ILR). It would also take forward CP24[20] from last year (which proposed including Automatic Low Frequency Demand Disconnections within the scope of ILR). We were minded to make this change but decided to consider it alongside the Emergency Manual Disconnection proposal this year.

Proposed Decision

We consulted on the addition of Emergency Manual Disconnection in our November 2015 Open letter. The majority of respondents agreed with the proposal, although two respondents noted that if an Emergency Manual Disconnection was instructed for network fault rather than energy reasons, then this should not count as a System Stress Event.

We consider that making this change would help ensure that all forms of load reduction, which were not exclusively taken for system reasons, would trigger a System Stress Event or Capacity Market Warning. If it later turns out that the event was due to a network fault then these would be excluded by virtue of Rule 8.4.2.

We also still consider that Automatic Low Frequency Demand Disconnection events should be included in the definition of ILR so that this volume is not understated. Making this change, and the change above, would ensure Rule 8.5.3 is consistent with Rules 8.4.2 – 8.4.4.

CP129 & CP141 - EnerNOC & NGET

CP129 would amend Rule 8.3.4 so that DSR aggregators are able to add new components directly to DSR CMUs. EnerNOC believes that a current lack of flexibility to add new components in response to a customer permanently reducing its consumption creates undue risks and costs for DSR providers. CP141 does not make a specific Rules change proposal but supports making it easier for new DSR capacity to be added to CMUs as long as sufficient checks are in place.

Proposed Decision

We agree that it is important for DSR providers to be able to add new components to DSR CMUs. This ensures they can maintain reliable performance in the event, for example, that a component goes out of business.

There is already a process for adding new DSR components via the secondary trading arrangements. However, this process may be burdensome and inflexible for this purpose. We are minded to take forward CP129 as it would allow new components to be added at any time without needing to prequalify a new CMU. It would therefore increase the window available for adding components, reduce the potential of having to submit unnecessary information and ensure components smaller than the minimum capacity threshold can be added. This additional flexibility would reduce costs and risk for DSR providers and help them compete more effectively in the CM.

[19] As covered in section OC6.7 of the Grid Code
[20] CP24: https://www.ofgem.gov.uk/publications-and-updates/e-capacity-market-rules-change-proposal-1

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We believe the requirements suggested in CP129 cover everything needed for this process. In particular we agree that it is only necessary to test the new component and not the entire DSR CMU, as adding a new component can only improve the reliability of the CMU.

We recognise there will be some additional administrative costs for the Delivery Body. We think these will be outweighed by the savings from increased competition in the CM. We do not believe there are any gaming concerns with CP129 as the existing Rules prevent components which are part of a DSR CMU from being added to another DSR CMU in the same Delivery Year.

Question 2 - CP129: Do you agree there are overall benefits to creating a bespoke process for adding new DSR CMU components? (Please provide evidence to support your answer)

CP130 - EnerNOC

This proposal suggests either deleting Rule 8.3.4(d) or amending it so that a component that has been removed from a DSR CMU can be reinstated as part another DSR CMU in a different Delivery Year.

Proposed Decision

We agree that there is no need to prevent a DSR CMU Component from ever being added back to a DSR CMU. This could unnecessarily reduce the amount of DSR capacity competing in future Capacity Auctions and result in increased costs for consumers.

However, we do have concerns about allowing a DSR Component to be reinstated in the same Delivery Year. In particular, that it could give DSR providers the opportunity to use that component to pass DSR Tests or Satisfactory Performance Days for multiple CMUs, and therefore overstate their capacity. We are therefore proposing to take forward the amendment to Rule 8.3.4(d), rather than deleting it altogether.

CP139 – NGET

This proposal suggests placing an obligation on New Build CMUs and DSR CMUs to submit relevant documents when notifying the Delivery Body that it wishes to relocate one or more Generating Units or DSR components. The current rules do not make explicit the documentation required for relocation. As a result, the Delivery Body currently requests that CMUs submit documentation relevant for prequalification. This proposal would formalise this process and require relocating CMUs to submit documentation including planning consents, connection arrangements, financial commitment milestones, metering assessments, metering configuration confirmation, OS Grid Reference for the new location, STOR status, Low Carbon Exclusion and Low Carbon Status, and the new MPAN. The proposal would also extend the Delivery Body's window for assessing relocation applications from 5 working days to 10.

Proposed Decision

We intend to take forward this proposal as we agree the process for relocation should reflect the process for prequalification to ensure that the information held by the Delivery Body remains accurate and of high quality. This is crucial in ensuring security of supply by verifying the validity of the new site. The addition of this step in the process does not reduce the flexibility of CMUs to relocate, it merely formalises the requirements to do so to give more certainty to the delivery partners and parties. Further, any additional administrative burden on the Delivery Body is mitigated by the increase in time to consider any notification.

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Proposals rejected

CP95 – ADE

This proposal seeks to introduce more flexibility for Capacity Providers to add and remove DSR CMU Components to and from DSR CMUs.

Proposed Decision

We believe it is important that DSR is able to compete effectively in the CM. Having reviewed the existing rules, we agree that the current arrangements could be improved to remove unnecessary costs and risk for DSR providers. We are therefore minded to accept three proposals in this area:

- CP124 – allowing the assessment of performance across a portfolio of CMUs for DSR Tests and Satisfactory Performance Days
- CP129 – making it easier for DSR CMUs to add new components
- CP130 – clarifying the consequences of removing DSR CMU components

We believe that the combination of CP124, CP129 and CP130 would be a better solution to these issues than CP95. This is for two main reasons:

- Administrative costs – we believe the component reallocation process put forward in CP95 could be very resource intensive as it would involve the Delivery Body processing a potentially very large number of notifications to add, remove or swap components. This could create a lot of administrative cost. CP124 would significantly lessen the need to swap components around in the first place.

- Security of supply risks – CP95 puts forward checks and requirements to prevent providers overstating the capacity of each CMU by using the 'better' components for every test. However, we still have concerns that this might be possible. In particular, the requirement that "all CMUs affected by the notice remain capable of delivering their Capacity Obligations" could be hard to verify without a full DSR test. We have not identified any risks of this nature with CP124, CP129 and CP130.

We are therefore minded to reject this proposal.

Question 3 - CP95: Do you agree that the combination of CP124, CP129 and CP130 would be a better solution to the issues that CP95 seeks to address?

CP108 – DECC

This proposal suggests that DECC, Ofgem and NGET consider how rules in relation to Capacity Market Warnings operate in practice and interrelate with other system warnings issued by the System Operator (SO) and whether any rule changes are required.

Proposed Decision

We are minded to reject this proposal as no firm proposals have developed at this stage. However, we are considering with DECC and NGET whether there is merit in aligning Capacity Market Warnings with other existing system warnings, and we would be interested in stakeholder views on this suggestion.

Question 4 - CP108: Do you think there is a need to align Capacity Market Warnings with other existing system warnings? If so, how would you suggest this is done? Are there any associated risks?

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CP128 – Energy UK

This proposal suggests amending the Load Following Capacity Obligation (LFCO) formula in Rule 8.5.3 by using a better proxy for demand and for total system capacity.

Proposed Decision

This proposal suggests a review of the LFCO formula but does not make any specific proposals for changing the Rules. We believe the formula will work well for the majority of delivery years. However, we agree that there could be issues during the Delivery Year for the first TA auction, particularly if there is a stress event in summer 2017. A detailed explanation is provided below.

Overview of LFCO formula

The purpose of the LFCO formula is to scale delivery obligations according to demand. It has two components - the basic obligation and the multiplier.

A CMU's basic obligation is calculated from its capacity agreement obligations acquired in the four-year and year-ahead auctions, plus the net results of any physically traded obligations and suspended capacity obligations acquired for the specific settlement periods in which a stress event occurs. This is then scaled into half hourly settlement periods by dividing by two.

$$Basic\ obligation = \frac{AACO_{ij} + PTCO_{ij} - SCO_{ij}}{2}$$

Where
$AACO_{ij}$ is the Auction Acquired Capacity Obligation,
$PTCO_{ij}$ is the Physically Traded Capacity Obligation,
SCO_{ij} is the Suspended Capacity Obligation,
of that Capacity Committed CMU 'i' for Settlement Period 'j'.

The basic obligation is then adjusted according to the multiplier:

$$Multiplier = \min\left(\frac{[2\times\sum_i E_{ij}]+[2\times ILR_j]+RfR}{\sum_i[AACO_{ij}-SCO_{ij}]}, 1\right),$$

Where
$\sum_i E_{ij}$ is the sum of the capacity delivered by a Capacity Committed CMU 'i' during the occurrence of a Stress Event in Settlement Period 'j',
ILR_j is the Involuntary Load Reduction, being the aggregated volume of load shed by Distribution Network Operators in Settlement Period 'j',
RfR is the reserve for response amount (in MW)

The first component of this formula is a ratio of demand over supply in the CM. The purpose of the multiplier is to ensure that the capacity obligation, which a Provider is liable to deliver at times of system stress, is scaled to reflect demand and will not exceed 100% of the basic obligation.

Conclusions

We agree with Energy UK that the multiplier formula may not work for the first TA auction Delivery Year. The total capacity agreements for the first TA are so small that the sum of RfR, ILR and $\sum_i E_{ij}$ will more than likely always exceed the total supply $\sum_i[AACO_{ij} - SCO_{ij}]$. The formula will therefore not correctly scale delivery obligations

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according to demand, and the LFCO value in a summer stress event will likely be as high as the basic obligation.

We believe this is only a significant issue for the first TA auction Delivery Year. This is because for future Delivery Years, the total capacity supply, $\sum_i [AACO_{ij} - SCO_{ij}]$, will include the majority generators in the market. We also note that whilst the impact would be most significant during a stress event in summer 2017, the likelihood of a stress event occurring in summer is relatively low.

Given the complexity of the issue, and the scope for unintended consequences, we are not proposing to make any changes to the LFCO formula in this round. However, we will consider reviewing a more developed proposal on this point before the first TA Delivery Year (starting in October 2016) if stakeholders believe that this is a significant enough issue.

Question 5 - CP128: Do you agree that the LFCO formula will not scale delivery obligations appropriately during the first TA Delivery Year? Is this issue significant enough to require changes before first TA Delivery Year (starting in October 2016)? If so, how should the formula be amended?

CP131 – ESC

This proposal relates to the treatment of Interconnector CMUs with respect to the obligation and output of the CMU. ESC's view is that the current drafting of the Rules is unclear on how an Interconnector CMU's performance against its obligation. Currently, the Interconnector Scheduled Transfer (IST) is used for determining the output. ESC proposes amending the Rules so that the metered volume is used to calculate an Interconnector CMU's output, consistent with the approach used for other CMUs.

Proposed Decision

We do not intend to take this proposal forward. The Rules currently reflect the policy intent, namely that an Interconnector CMU's output should be based on the IST. This is so the interconnector's performance is measured at the point the market closes rather than reflects any SO actions taken post gate closure. We have not received any argument for why this policy should be changed, nor evidence of the impact of doing so.

However, in CP131 ESC has also proposed an addition to 14.4.2 of the Rules to specify that the SO must provide the Settlement Body with IST data in certain specified circumstances. We agree this change would be beneficial (see Chapter 9).

CP145 – NGET

This proposal would amend Rule 8.4 so that the definition and determination of a System Stress Event is aligned with the cash-out arrangements (i.e. when the System Buy Price has reached or exceeded the Value of Lost Load (VoLL)).

Proposed Decision

We think this is a good suggestion in principle as System Stress Events and the cash-out price reaching VoLL should in theory exactly overlap. We also agree that this could simplify the arrangements, create more certainty for industry and reduce administrative costs for the Delivery Body (although the cash-out price rising to VoLL even in the absence of this change should provide a good degree of certainty that a System Stress Event has occurred.).

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However, we are concerned that in practice there may be situations where the cash-out price doesn't reach VoLL in a stress event, or vice versa. For example, with a cash-out price calculated using a PAR[21] of 50MWh, it could be possible that the price could be below VoLL, even though an energy-related Demand Control action remains in the final cash-out stack. This could be a distinct possibility if the Government goes ahead with its proposals to introduce a Supplementary Capacity Auction in 2017. There is also the possibility that system errors could affect the cash-out calculation.

Even though these risks might be low, given the volume of changes being proposed to the CM currently, we suggest it would be sensible for industry to take more time to evaluate the merits of the proposal before the start of the first main Delivery Year in October 2018. This is particularly the case given the fundamental role the Stress Event Definition plays in the CM.

[21] The Price Average Reference volume (PAR) is the volume of most expensive balancing actions which are averaged to calculate the main cash-out price. This is currently set at 50MWh, but is due to rise to 1MWh in November 2018.

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9. Transfer of Capacity Obligations

Proposed amendments

CP100 – ADE

This proposal seeks to ensure that all CMUs are able to transfer the entire volume of their capacity obligation to another CMU. ADE believes that the existing wording of Rule 9.2.4 may limit the ability of DSR and embedded generation to do this.

Proposed Decision

We agree that the Rules are ambiguous in the treatment of transfer agreements with respect to DSR CMUs and we support the policy intent of CP100. We intend therefore to amend Rule 9.2.4 to remove the requirement that each of the CM Transferor and Transferee must have an aggregate Capacity Obligation at least equal to the Minimum Capacity Threshold. This is to enable any CM Transferor to transfer their entire capacity obligation subject to the relevant Regulations and Rules.

CP131 – ESC

This proposal relates to the treatment of interconnector CMUs with respect to the obligation and the output of the CMU. The majority of the proposal affects chapter 8, Obligations of Capacity Providers and System Stress Events, and is covered above. However, ESC have included in the proposal an additional provision for chapter 14. This provision requires the SO to provide the Settlement Body with an Interconnector CMU's Interconnector Schedule Transfer (IST) in certain circumstances.

Proposed Decision

We agree that this information should be provided to enable the Settlement Body to carry out its settlement functions for Interconnector CMUs efficiently. The Rules currently list the obligations on various parties to provide specific information and data at certain times. There is no clear reason for the omission of the IST information. We intend to amend the Rules to include it.

Proposals rejected

CP97 – ADE

This proposal seeks to clarify a new Rule proposed by DECC[22] (Rule 9.2.8A) to ensure that distribution Generating CMUs and DSR CMUs can engage in obligation trading.

Proposed Decision

We are rejecting this proposal as it relates to a Rule change which DECC is proposing rather than an existing rule. However, we have notified DECC of the issues raised in the proposal.

[22] See DECC's autumn 2015 consultation: https://www.gov.uk/government/consultations/2015-consultation-on-capacity-market-supplementary-design-proposals-and-changes-to-the-rules-and-regulations

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CP127 & CP132 – Energy UK & Green Frog Power

These proposals would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.

Proposed Decision

We can see that there may be arguments for extending the window for secondary trading. For example, it could increase liquidity in secondary trading and provide more opportunity for parties to mitigate the risks involved with taking on a capacity obligation.

However, we do not believe it would be appropriate to make this change now. The system for facilitating secondary trading is still being developed and is currently untested. Allowing secondary trading from July 2016 is therefore risky and may not be technically feasible. We believe that it would be sensible to wait until there has been some experience of the arrangements before there is a fuller consideration of the case for making this change. We also note that DECC rejected this suggestion in its March 2016 consultation.

CP147 - NGET

This proposal would amend Rule 9.2 to prevent the transfer of capacity obligations during the Prequalification Assessment Window for any Capacity Auction. NGET argue that this would increase efficiency by focusing Applicants, Capacity Providers and Delivery Body on the prequalification process during the assessment window.

Proposed Decision

We are minded to reject this proposal. We recognise that such a rule could reduce workload for the Delivery Body during the prequalification assessment period. However, it would also create a barrier to participants carrying out parts of their business for several weeks. A company may wish to undertake a transfer during this period for commercial reasons unrelated to the prequalification process. NGET argues that there is precedent of the Rules preventing other activities during the Prequalification window, namely DSR testing. We are not persuaded that this is an equivalent activity to transfer of capacity obligations, nor of itself provides sufficient justification for the proposed rule change.

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10. Volume Reallocation

Proposals we want to consider further

CP115 – E.ON

Rule 10.4.1 places restrictions on the amount of delivered volume that can be reallocated from one CMU to another following a stress event. CP115 seeks to clarify this Rule and ensure that it reflects its policy intent. E.ON has not provided suggested amendments but it has identified two areas where it believes the restrictions in Rule 10.4.1 are unclear. In particular whether:

- they apply to each individual volume reallocation or to the net aggregate volume which is reallocated to/from a CMU in a Settlement Period;
- they should also apply to CMUs which receive volume ("Transferees"), not only CMUs which give volume away ("Transferors").

Proposed Decision

We consider that there are potential issues with Rule 10.4.1. However, given the complexity involved and the potential for unintended consequences, we want to consider these issues further before making any changes.

We agree with E.ON that Rule 10.4.1 could be clearer. However, in relation to the two areas flagged in the proposal, our understanding is that:

1. The restrictions apply to each individual trade between two CMUs. Rule 10.4.2 then sums the individual trades to produce a net aggregate volume for that Settlement Period.
2. The restrictions already apply to Transferees. Rules 10.4.1(b) and 10.4.1(c) apply to the outturn volumes following a trade between two CMUs - not just to the Transferor's volume.

Table 1 on the next page summarises our views on the impact each restriction has on both Transferors and Transferees. As shown, we believe Rules 10.4.1(b) and 10.4.1(c)(i) work as intended. However we have identified a potential issue with Rule 10.4.1(c)(ii).

Rule 10.4.1(c)(ii) seems to prevent any trade between a CMU which over-delivered and a CMU which under-delivered, unless it brings the CMU which under-delivered back to balance (i.e. no remaining under delivery). This seems like an unnecessary restriction which would significantly impact parties' ability to volume reallocate.

We have not developed a full proposal to address this issue at this point in time, as we are keen to see if stakeholders agree this is an issue first. If so, we believe one potential solution could be to amend Rule 10.4.1 (c)(ii) to say: "a Remaining Under-Delivery Volume *for that CMVR Transferor*".

Question 6 - CP115: Do you agree there is an issue with Rule 10.4.1 (c)(ii)? If so, would our suggested addition to this Rule fix the problem? If not, how should it be amended?

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Table 1 - impact of Rule 10.4.1

Situation	Rule 10.4.1	Restrictions on Transferor ("Giver")	Restrictions on Transferee ("Receiver")	Assessment	
Transferor ("Giver") which originally **under-delivered**	(b)(i)	No additional under-delivery	No additional under-delivery	Prevents a CMU which has under-delivered from going further below its under-delivered volume	✓
	(b)(ii)	Can't be any over-delivery	Can't be any over-delivery	Prevents a CMU from flipping from under to over delivery	✓
Transferor ("Giver") which originally **over-delivered**	(c)(i)	No additional over-delivery	No additional over-delivery	Prevents a CMU which has over-delivered from being given more volume	✓
	(c)(ii)	Can't be any under-delivery	Can't be any under-delivery	Prevents a CMU from flipping from over to under delivery Prevents CMU which over delivered from allocating volume to a CMU which undelivered, unless this trade brings the second CMU to balance	✓ ✘

Key
Green = places restriction which we believe is in line with the policy intent
Grey = not directionally possible, so no impact
Red = places restriction which we believe is problematic

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11. Transitional Arrangements

No proposed amendments.

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12. Monitoring

Proposals rejected

CP140 - NGET

This proposal would make a single Independent Technical Expert (ITE), appointed by the Delivery Body, responsible for assessing the progress of New Build CMUs against construction milestones. This would replace the current approach where participants are able to appoint their own ITEs. The proposer argues that this would increase efficiency and objectivity in the process and make it clearer for prospective new builds.

Proposed Decision

We are minded to reject this proposal. It would be a significant change to the existing arrangements for ITEs and one which would increase the Delivery Body's role in this area. We are not persuaded that the evidence supplied by NGET justifies the scale of change proposed. This is particularly in light of DECC's commitment to introduce changes to monitoring and reporting milestones as part of amendments to tighten the assurance regime around new build projects[23]. It is important to allow time for these changes to be implemented and assessed prior to making any more fundamental change such as proposed under CP140.

In addition, there are cost implications to introducing a single ITE which must be considered against any potential benefits. However, the proposal is not costed and does not include any discussion about how the costs might be shared amongst the appropriate participants.

[23] See DECC's Response to its autumn 2015 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504050/Govt_response_to_the_consultation.pdf

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13. Testing Regime

Proposed amendments

- **CP124 – Energy UK**

This proposal would allow the performance of portfolios of CMUs to be assessed on an aggregate basis during DSR Tests and Satisfactory Performance Days. This would effectively bypass the 50MW size restriction for aggregated CMUs for the purposes of testing.

Proposed Decision

We have carefully considered this proposal and believe that the benefits to consumers outweigh the potential risks, so propose to take it forward. Our reasons are set out below.

Reasons for change

We agree that the 50MW size restriction for CMUs with multiple components on different sites is arbitrary for the purposes of testing. This restriction has the effect of increasing the amount of headroom aggregators have to build into their portfolios when they develop CMUs. We have reviewed analysis on the impact this restriction could have if it were applied to other capacity markets with more established levels of DSR, and this suggests the costs could be significant. This proposal should therefore allow aggregators to compete more effectively in the CM and lead to more efficient auction outcomes. By reducing risks for aggregators, this change should also encourage more participation from new resources and increase competition in the CM in the long run.

A number of DSR providers have raised concerns that their inability to swap components between CMUs limits their ability to compete effectively in the CM. This proposal should help address these concerns as it would effectively allow parties to reallocate capacity for a DSR test or Satisfactory Performance Day. We believe this is a less burdensome and costly solution than a full component reallocation process (as proposed in CP95).

Concerns raised by stakeholders

The following concerns have been raised about this proposal during our discussions with stakeholders:

- It could create difficulties for the SO when balancing the system;
- It could undermine security of supply;
- It discriminates against non-aggregated CMUs.

We recognise that this proposal could result in larger volumes of aggregated capacity being simultaneously dispatched when not needed by the system. However, we note that this issue already exists with large generators, and having reviewed the size of existing portfolios in the CM, we do not think this will significantly add to the problem. However, we will continue to monitor the issue.

We do not agree that this proposal would undermine security of supply as shortfalls in capacity in one CMU would have to be made up with surpluses in another. The only way the proposal could undermine security of supply is if it gave parties the opportunity to overstate their capacity. However, we believe the rules contained in the proposal – which prevent a CMU from being used in different combinations of aggregate tests - stop this from happening.

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We also do not believe this is a discriminatory change. Aggregated CMUs are currently disadvantaged by the 50MW size restriction. This rule change helps them overcome this disadvantage and compete effectively.

Question 7 - CP124: Do you agree with our assessment of the benefits and risks with CP124?

Proposals rejected

CP93 – ADE

This proposal would amend Rule 13.4 to allow successful dispatches of DSR in reaction to a Capacity Market Warning to be counted as a Satisfactory Performance Day.

Proposed Decision

We are proposing to reject this Rule change because we believe the Government's proposal to allow DSR CMUs to nominate Satisfactory Performance Days ex-post would effectively achieve the same aims.[24]

[24] See DECC's response to its autumn 2015 consultation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504050/Govt_response_to_the_consultation.pdf

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14. Data Provision

No proposed amendments

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15. Schedules & Exhibits

Proposed amendments

CP113 – E.ON

This proposal would amend Schedule 6 part (I) to remove the requirement for Capacity Providers to provide meter calibration test data for Reactive Meters. E.ON believes Reactive Meters are not covered in the current definition of Meter.

Proposed Decision

We propose to make this change as we understand from the ESC that reactive energy is not used in the CM. This would simplify the rules and be in line with the definition of Meter under Rule 1.2.

Proposals rejected

CP103 - ADE

This proposal seeks to simplify metering requirements by enabling providers to refer to existing arrangements where settlement meters are used. In particular, it would remove the requirement for providers with the Supplier Settlement Metering Configuration Solution to provide the information in paragraphs (c)(iii) to (c)(x) and (f) to (p) of Schedule 6 when submitting a Metering Statement.

Proposed Decision

We are minded to reject this proposal as we understand from the ESC that the information CP103 proposes to remove is necessary for them to carry out their functions. According to the ESC, even where a Metering System operates under the BSC it may not be compliant and there are situations were a Metering Test is required (typically when the metering site involves some level of complexity). They have told us that if the Metering Statement is simplified as CP103 proposes, then they would not be able to do a meaningful Metering Test.

However, we agree in principle that if meters are sufficient for BSC settlement purposes then they should be sufficient for the CM, and that duplicate work should be avoided. We also support removing any metering requirements which are unnecessary. We therefore encourage CM participants work with ESC to identify where the metering requirements can be streamlined.

CP104 – ADE

This proposal seeks to simplify the metering requirements in Schedule 7 by allowing an aggregated CMU to present a calculation of the total measurement error of the overall CMU rather than for each of the individual sites.

Proposed Decision

We are minded to reject this proposal. The proposal suggests that the metering errors for different CMU components would be uncorrelated. However, according to the ESC, if the meters or measurement transformers are of the same type they will use the same types of components that will generally produce similar errors. In this situation, the aggregate calculation of the total measurement error for a CMU may be unreliable and may overstate the metering accuracy of that CMU.

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However, the ESC has suggested that a process could be introduced to the CM for allowing dispensations from certain metering requirements (for example around accuracy classes). This could be similar to the process used for BSC settlement[25]. We believe this is a sensible suggestion, so we encourage ESC and industry to work together to develop proposals in this area.

CP118 – Energy Pool UK Limited

This proposal seeks to explicitly introduce the "Firm Frequency Response bridging" scheme within the Relevant Balancing Services included in Schedule 4.

Proposed Decision

We propose to reject this change because, in our understanding, participants in the Firm Frequency Response bridging scheme hold contracts to provide Firm Frequency Response services, just at lower levels. We believe they are therefore already covered by the Rules. Introducing this specification could create ambiguity over the status of other existing and/or future subsidiary schemes which are also not explicitly set out in the Rules but which are captured under the wider schemes, for example STOR Runway.

CP138 – NGET

This proposal from NGET would amalgamate Exhibits A, C-G in the Rules in order to reduce the number of certificates that have to be signed and uploaded as part of the prequalification process.

Proposed Decision

We are minded to reject this proposal as we do not believe that having one certificate covering a number of different declarations would be simpler than having separate, bespoke certificates. This is in part because some certificates are not relevant to all providers (e.g. CMUs which are submitting opt-out notifications). We also do not believe there is sufficient evidence to suggest that the need to sign multiple certificates is creating significant burden for applicants.

Proposals we want to consider further

CP98 & CP148 – ADE & Open Energi

These two proposals seek to ensure that dynamic firm frequency response (FFR) is able to participate in the CM. FFR is specified as a relevant balancing service in Schedule 4, but these proposals suggest that providers are incapable of passing the current DSR Test requirements. As a result, despite the explicit inclusion of FFR as a relevant service, providers are excluded from participating because they are unable to successfully pre-qualify.

To address this problem, these proposals recommend the introduction of an alternative methodology for passing a DSR Test and calculating the volume of DSR provided. The proposal is for this to be on the basis of a "non-zero Contracted Output" of FFR.

[25] https://www.elexon.co.uk/reference/technical-operations/metering/metering-dispensations/

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Proposed Decision

Although we agree with the ADE and Open Energi in principle that the rules need amending to accommodate for FFR and other dynamic DSR services, we are unsure that the proposals provide an adequate solution. Our concern is that the use of non-zero contracted output as the volume of DSR could reward providers for increasing demand during a stress event, which would allocate payments inefficiently in the CM and undermine its objectives in terms of security of supply for consumers. We believe any formula would have to consider only reductions in demand ("positive DSR volume").

There is inherent value in extending participation in the CM to the largest possible number of capacity providers. As a result, we are eager to facilitate the inclusion of dynamic FFR without compromising the integrity and objectives of the CM. We are therefore seeking further proposals on how to reformulate the DSR test and volume calculation in a way to allow for the participation of FFR and other dynamic DSR services.

Question 8 - CP98 and CP148: Do you agree with the solution put forward in these proposals to ensure the participation of dynamic FFR in the CM? If not, what changes to the DSR test and volume calculation are necessary to achieve this?

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Annex B: Summary Table of Proposals and Decisions

Ref. No.	Summary of proposals	Proposed Decision
Of1	This proposal would extend the definition of Defaulting CMU to include a CMU that has engaged in or is suspected of engaging in Prohibited Activities under the Rules, and participated in the auction, but was not awarded a capacity agreement.	Take forward
Of2	This proposal would amend the definition of Legal Right in Rule 1.2 to make it consistent with Rule 3.7.1. The current definition defines Legal Right only with regard to land upon which a relevant CMU "is situated". Rule 3.7.1 (a) allows the Legal Right to land upon which a CMU "is, or will be located".	Take forward
Of3	We propose to amend Rule 3.3.3(b) to fix an issue where parties who voluntarily Opt-out of a T-4 auction but remain operational in the Delivery Year are excluded from participating in the corresponding T-1 auction.	Take forward
Of4	This proposal seeks to correct the formula in Rule 3.5.5 by removing the option to use station level CEC for apportioning TEC between different generating units.	Take forward
Of5	This proposal would amend Rules 3.6.1(b)(i)(bb) and 3.6.1(c)(iii) so that Non-CMRS Distribution CMUs which have not provided LLF values are still able to prequalify based on their non-adjusted historical output. It would also clarify what is required in a DNO letter.	Take forward
Of6	We propose to amend Rule 3.7.1 so that, where planning permissions for New Build CMUs contain an explicit expiry date, that expiry date must not be within the period of the Capacity Agreement that the CMU is applying for.	Take forward
Of7	This proposal would amend Rule 3.7.2(c) and add Rule 8.3.6(aa) to prevent Prospective CMUs from citing the same capital expenditure in more than one multi-year capacity agreement.	Take forward

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Of8	This proposal would amend Rule 4.6.2 so that when the CM Settlement Body provides a credit cover approval notice to an applicant it also provides a copy to the Delivery Body. This would remove the need for applicants to provide a copy of this notice to the Delivery Body.	Take forward
Of9	This proposal would include Emergency Manual Disconnections in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction (ILR). It would also take forward CP24 from last year (which proposed including Automatic Low Frequency Demand Disconnections within the scope of ILR).	Take forward
CP92	This proposal recommends the introduction of line loss estimates on the basis of periods of system stress, rather than annual averages, to account for line losses that would occur in a stress event.	Reject
CP93	This proposal would amend Rule 13.4 to allow successful dispatches of DSR in reaction to a Capacity Market Warning to be counted as a Satisfactory Performance Day.	Reject
CP94	This proposal seeks to amend Rule 2.3 so that de-rating factors for DSR CMUs would be set to reflect performance in the CM, rather than being based on performance in Short Term Operating Reserve (STOR).	Reject
CP95	This proposal seeks to introduce more flexibility for Capacity Providers to add and remove DSR CMU Components to and from DSR CMUs.	Reject
CP96	This proposal would either delete Rule 5.3.2 (b), which excludes bidders unless they have complied with "the terms of any continuing Capacity Agreement in relation to any CMU", or replace it with a paragraph which states the specific Rules and Regulations where it would be appropriate to exclude Bidders from a Capacity Auction for non-compliance.	Reject
CP97	This proposal seeks to clarify a new Rule proposed by DECC[26] (Rule 9.2.8A) to ensure that distribution Generating CMUs and DSR CMUs can engage in obligation trading.	Reject

[26] DECC, October 2015 consultation

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CP98	This proposal seeks to ensure that dynamic firm frequency response (FFR) is able to participate in the Capacity Market by introducing an alternative methodology for passing a DSR Test.	Consider Further
CP99	This proposal would amend Rule 3.6.1(b) to make it easier for Non-CMRS Distribution CMUs to prove their physically generated output. In particular, it would enable these CMUs to provide evidence that they delivered a Metered Volume when discharging a balancing services obligation as an alternative to providing a letter from a supplier or former supplier.	Take forward
CP100	This proposal seeks to ensure that all CMUs are able to transfer the entire volume of their capacity obligation to another CMU. ADE believes that the existing wording of Rule 9.2.4 may limit the ability of DSR and embedded generation to do this.	Take forward
CP101	This proposal would amend Rule 3.4.3 so that an Applicant must specify a CMU's generation type and fuel type in its prequalification application.	Reject
CP102	This proposal would require details of the capacity which has exited each Bidding Round to be published after each Bidding Round and as part of the Capacity Market results.	Reject
CP103	This proposal seeks to simplify metering requirements by enabling providers to refer to existing arrangements where settlement meters are used. In particular, it would remove the requirement for providers with the Supplier Settlement Metering Configuration Solution to provide the information in paragraphs (c)(iii) to (c)(x) and (f) to (p) of Schedule 6 when submitting a Metering Statement.	Reject
CP104	This proposal seeks to simplify the metering requirements in Schedule 7 by allowing an aggregated CMU to present a calculation of the total measurement error of the overall CMU rather than for each of the individual sites.	Reject
CP105	This proposal seeks to reduce the administrative burden for applicants involved with obtaining letters from suppliers and DNOs under Rule 3.6.1(c).	Reject

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CP106	This proposal seeks to ensure that, if 'Fuel Type' becomes a requirement on the Capacity Market Register, it is clear in the Rules that a participant is able to change its Fuel Type.	Reject
CP107	This proposal seeks to allow Existing Generating CMUs to alter the location of generating units.	Reject
CP108	This proposal suggests that DECC, Ofgem and NGET consider how rules in relation to Capacity Market Warnings operate in practice and interrelate with other system warnings issued by the System Operator and whether any rule changes are required.	Reject
CP109	This proposal would amend the Rules so that applicants are only required to complete a Metering Assessment and provide metering related information (with the exception of MPANs) after a Capacity Auction, rather than during prequalification.	Take forward
CP110	This proposal would add 'Generating Technology Class' to the CM Register and split up the 'OCGT and reciprocating engine' class to specify fuel type.	Reject
CP111	This proposal would narrow the definition of Generating Unit to make it clear that it only applies to equipment which is physically connected to, and capable of exporting to, a distribution or transmission network.	Reject
CP112	This proposal seeks to amend the definition of Mandatory CMU in Rule 1.2 so that Generating Units which are in receipt of low carbon support are not included.	Take forward
CP113	This proposal would amend Schedule 6 part (I) to remove the requirement for Capacity Providers to provide meter calibration test data for Reactive Meters.	Take forward

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CP114	This proposal seeks to simplify the Opt-out process by removing the requirement for an accompanying statement signed by two directors to say that they are able to correctly sign a Certificate of Conduct (Rule 3.12.5).	Take forward
CP115	This proposal suggests amending Rule 10.4.1 to clarify the Volume Reallocation process and ensure it reflects its policy intent.	Consider further
CP116	This proposal would amend Rule 6.10.2 so that the issuance of a Termination Notice is reflected on the Capacity Market Register.	Take forward
CP117	This proposal would make Rule 3.7.1(a) (which allows New Build CMUs to declare they will obtain all Relevant Planning Consents and have the Legal Right to land up to 17 Working Days prior to a Capacity Auction) applicable to all future Capacity Auctions, not just the first two Capacity Auctions.	Take forward
CP118	This proposal seeks to explicitly introduce the "Firm Frequency Response bridging" scheme within the Relevant Balancing Services included in Schedule 4.	Reject
CP119	This proposal would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.	Reject
CP120	This proposal seeks to simplify the prequalification process for CMUs that opt-out over multiple consecutive years. It proposes to either allow participants to submit an 'evergreen' opt-out which only expires once the CMU opts-in, or to enable providers to submit a declaration that the information from a previous opt-out remains the same.	Reject
CP121	This proposal would introduce the option for Applicants to submit Metering System Identifiers (MSIDs) instead of Meter Point Administration Numbers (MPANs) throughout the Rules in order to reduce the burden involved in providing explanations when an MPAN is not unique to a CMU.	Reject

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CP122	This proposal would clarify in the Rules that a six-figure grid ordnance survey reference means all eight digits of the alphanumeric code (two letters and six numbers).	Take forward
CP123	This proposal would amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued, this is reflected on the CM Register.	Take forward
CP124	This proposal would allow the performance of portfolios of CMUs to be assessed on an aggregate basis during DSR Tests and Satisfactory Performance Days. This would effectively bypass the 50MW size restriction for aggregated CMUs for the purposes of testing.	Take forward
CP125	This proposal seeks to clarify how Applicants should account for Auxiliary Load when using Connection Entry Capacity (CEC) to set a unit's Connection Capacity.	Reject
CP126	This proposal would amend the Rules so that when a Refurbishing CMU's connection capacity is equal to its Pre-Refurbishment connection capacity, it does not have to be issued with a Final Operational Notification (FON) or an Interim Operational Notification (ION) for it to be classed as 'Operational'.	Take forward
CP127	This proposal would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.	Reject
CP128	This proposal suggests amending the Load Following Capacity Obligation (LFCO) formula in Rule 8.5.3 by using a better proxy for demand and for total system capacity.	Reject
CP129	This proposal would amend Rule 8.3.4 so that DSR aggregators are able to add new components directly to DSR CMUs.	Take forward

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CP130	This proposal suggests either deleting Rule 8.3.4(d) or amending it so that a component that has been removed from a DSR CMU can be reinstated as part another DSR CMU in a different Delivery Year.	Take forward
CP131	This proposal would amend the Rules so that an Interconnector CMU's performance is measured using metered output rather than the Interconnector Scheduled Transfer (IST).	*Partially* take forward
CP132	This proposal would enable the secondary trading of capacity obligations at any time following a T-4 Capacity Auction rather than only following a T-1 Capacity Auction.	Reject
CP133	This proposal would allow applicants to express an interest in engaging in secondary trading and have this included in the Capacity Market Register.	Reject
CP134	This proposal would amend Rule 7.4.1(c) so that the Capacity Market Register only displays the prequalification status for CMUs after the Tier 1 disputes process.	Reject
CP135	This proposal would amend Rule 6.10.2 so that when Termination Notices, Withdrawal Notices, and Extension Notices are issued, this is reflected on the CM Register.	Take forward
CP136	This proposal would base the Connection Capacity of an Interconnector CMU on its Connection Entry Capacity (CEC) or, if different, its maximum technical capacity, as opposed to its Transmission Entry Capacity (TEC). It would also cap the De-rated Capacity for Interconnector CMUs at TEC to prevent them from failing to prequalify as a result of 3.6A.2.	Take forward
CP137	This proposal would change Rule 5.10 to specify that the Delivery Body should publish a provisional clearing price and volume by 8pm on the day a CM auction clears.	Take forward

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CP138	This proposal from NGET would amalgamate Exhibits A, C-G in the Rules in order to reduce the number of certificates that have to be signed and uploaded as part of the prequalification process.	Reject
CP139	This proposal suggests placing an obligation on New Build CMUs and DSR CMUs to submit relevant documents when notifying the Delivery Body that it wishes to relocate one or more Generating Units or DSR components.	Take forward
CP140	This proposal would make a single Independent Technical Expert (ITE), appointed by the Delivery Body, responsible for assessing the progress of New Build CMUs against construction milestones. This would replace the current approach where participants are able to appoint their own ITEs.	Reject
CP141	This proposal supports making it easier for new DSR components to be added to CMUs as long as these are genuinely new components which have been checked by the Settlement Body and then prequalified by the Delivery Body.	Partially take forward
CP142	This proposal would amend the Rules so that applicants are only required to complete a Metering Assessment after a Capacity Auction rather than during prequalification. In addition, it proposes that metering information could be provided directly to the Settlement Body rather than via the Delivery Body	Take forward
CP143	This proposal seeks to make the requirements around Relevant Planning Consents more specific. In particular, that consents must permit construction of a generating unit whose size is at least equal to the CMU's connection capacity; that they should be valid; that they should specify what the consents are granted for; and that any range in size must be supported by accompanying evidence.	Reject
CP144	This proposal seeks to simplify the Capacity Market Register by removing certain requirements.	*Partially* take forward
CP145	This proposal would amend Rule 8.4 so that the definition and determination of a System Stress Event is aligned with the cash-out arrangements (i.e. when the System Buy Price has reached or exceeded the Value of Lost Load (VoLL)).	Reject

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CP146	This proposal would introduce a formal 'verification' stage into the prequalification process. This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body.	Reject
CP147	This proposal would amend Rule 9.2 to prevent the transfer of capacity obligations during the Prequalification Assessment Window for any Capacity Auction.	Reject
CP148	This proposal seeks to ensure that dynamic firm frequency response (FFR) is able to participate in the Capacity Market by introducing an alternative methodology for passing a DSR Test.	Consider Further
CP149	This proposal would remove the requirement on applicants to submit De-rating Factors and Anticipated De-rated Capacity (Rules 3.4.5(c) and 3.4.5(d)). As the De-rating Factors are automatically calculated by the Delivery Body's portal, the proposer believes that the Rule imposes an unnecessary prequalification condition on applicants.	Take forward
CP150	This proposal would amend Rule 3.5.4 to clarify how the Average Highest Output of a Generating Unit should be determined when calculating connection capacity - that it should be converted to MW and stated to three decimal places.	Take forward
CP151	This proposal would amend Rule 3.5.4 so that a Generating Unit's Average Highest Output would be determined using the three periods where that unit generated its highest output, rather than the three periods where the overall CMU delivered its highest output.	Reject
CP152	This proposal would amend the Connection Capacity calculation methodology for Distribution CMUs which hold Transmission Entry Capacity (TEC). In particular, it would amend the definition of 'STEC' for Distribution CMUs so that it refers to the lower of Maximum Export Capacity and TEC.	Reject
CP153	This proposal would amend Schedule 3 so that Wind and Solar are included as Generating Technology Classes, enabling de-rating factors to be published for these technologies. This has the intention of enabling Solar and Wind CMUs to participate in the Capacity Market and allowing them to be taken into account when assessing the connection capacity at shared connections.	Reject

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CP154	This proposal would amend the rules by removing the word 'Anticipated' in all references to the term 'Anticipated De-rated Capacity'. This is intended to enable Applicants to take into account the output from units which are part of a shared Connection Agreement but do not participate in the Capacity Market (and therefore do not have anticipated capacity).	Reject
CP155	This proposal seeks to amend the definition of Distribution Connection Agreement so that Applicants for CMUs with shared connections, where the counterparty to the Distribution Connection Agreement is not responsible for that CMU, can participate in the prequalification process.	Reject
CP156	This proposal seeks to amend Rule 7.4.1 to include 'Generating Technology Class' on the Capacity Market Register. It would also amend Schedule 3 by splitting up the 'OCGT and reciprocating engines' class into four separate classes.	Reject
CP157	This proposal seeks to ensure that the Rules explicitly recognise the potential for Connection Capacity to be higher than the capacity stated in a Relevant Planning Consent, and would require participants to provide documentary evidence to explain and justify any difference in order to prequalify.	Take forward
CP158	This proposal would introduce a formal 'verification' stage into the prequalification process. This would create two windows for prequalification, one for initial submissions and one for making amendments to the application based on feedback from the Delivery Body.	Reject
CP159	This proposal seeks to amend the rules so that Renewables Obligation (RO) eligible technologies other than biomass (such as energy from waste with CHP) can voluntarily terminate a Capacity Market Contract in order to transfer to the RO scheme.	Reject
CP160	This proposal seeks to clarify the definition of 'Legal Right' to minimise the risk of different interpretations by Applicants. It would also make additions to Rules 3.7.1 and 4.7.1 to specify that the Legal Right to land should be for a time period equal to or greater than the duration of the Capacity Agreement. In addition, it would require applicants to provide documentary evidence of a Legal Right.	Reject
CP161	This proposal seeks to add a definition of 'Officer' as an Authorised Signatory of the Applicant. This is to prevent Applicants that are not companies (such as partnerships) from failing to prequalify because they do not have directors to sign the relevant prequalification certificates.	Take forward

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Annex C: Connection Capacity

The annex sets out our updated position on potential changes to the connection capacity calculation methodology for Generating Capacity Market Units (CMUs).

Background

Last year we received two Rules change proposals which suggested that the current methodology for calculating connection capacity could lead to Generating CMUs being able to overstate their capacity. In particular, that it could result in generators receiving de-rated capacity agreements which are very close to their maximum potential capacity. This is not the policy intent of the methodology, as described in Box 1.

We decided to consider this issue further given the significant impact any changes to the methodology could have on Capacity Market (CM) participants and consumers. In November 2015 we published an open letter seeking stakeholder views on the issue and also on a number of potential options for amending the methodology.[27]

Box 1: Current connection capacity methodology and policy intent

Generators currently have three options for determining the connection capacity of a transmission connected generating unit:

1. Use the Connection Entry Capacity (CEC)
2. Take the average of the three highest outputs in the past two years
3. Use the Transmission Energy Capacity (TEC) of the plant. If the plant is split into multiple generating units, the TEC will be shared among them in proportion to their share of the plant's CEC

Connection capacity should represent the **maximum output a generating unit can deliver during a stress event**, taking into account auxiliary load. The connection capacity of a CMU is the aggregate of the connection capacities of each individual generating unit.

Connection capacity is then de-rated to produce a generator's capacity obligation. This is to account for the likelihood that not all CMUs in a certain technology class will deliver during a stress event – and ultimately to ensure that enough capacity is procured. Capacity providers are therefore obligated to the maximum output they can be reliably expected to deliver for consumers.

A CMU's capacity obligation shouldn't reflect its maximum potential capacity. There should be headroom above their obligation. If CMUs successfully provide this headroom during a stress event, then they are rewarded with over-delivery payments.

Consultation responses

We received 13 responses[28] to our November 2015 Open Letter on the questions about connection capacity. The majority of these respondents did not feel that the current methodology needed amending. Reasons included:

[27] https://www.ofgem.gov.uk/publications-and-updates/electricity-market-reform-open-letter-and-consultation-changes-capacity-market-rules

[28] Responses can be found in the footnote above

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- There is insufficient evidence or analysis to suggest there is an issue;
- Removing the existing flexibility could exclude some capacity or unfairly penalise certain generators;
- Generators have an obligation to provide de-rated capacity, so it's not appropriate, or in line with the policy intent of the methodology, to take measures to ensure parties can deliver their connection capacity.

Since the consultation we have conducted further analysis to assess the extent of the issue and the impact of restricting the number of choices for connection capacity. This is summarised in the next sub section.

We disagree with the final point. As explained in Box 1, under the current CMU design, parties should provide headroom above their de-rated capacity obligation to ensure there is sufficient capacity available during a stress event, accounting for the likelihood that not all generators will deliver.

Some respondents did believe that there were significant enough issues with the current methodology to warrant changes. However there was no consensus on the best approach. A couple of respondents supported generators being tested up to their connection capacity rather than de-rated capacity ("Option A" in our open letter). Whilst a few others believed the best approach would be using a generator's historical output capped at TEC ("Option C" in our open letter).

Despite many respondents not seeing a strong case for change, most believed it would be preferable for parties to have greater flexibility to choose their own connection capacity, including the ability to go below the current options if needed ("Option I"). However, some noted that a 'free choice' of connection capacity would have to be supported by appropriate testing requirements and penalties.

Analysis since consultation

Extent of the problem

Since our November 2015 Open letter, we have conducted and reviewed additional quantitative analysis to identify the approximate size of the 'capacity gap' caused by generators potentially overstating their connection capacity. This included analysis shared by NGET, which demonstrated a gap between connection capacity and TEC for all CM generators of around 1.5GW. We believe this is likely to overstate the problem as TEC is not a perfect proxy for the maximum potential capacity generators can deliver during stress.

We believe a better comparator is historical Maximum Export Limit (MEL) data. This is because parties should not have an incentive to choose a MEL which is lower than their maximum capacity. Analysis using MEL data suggests a capacity gap of up to 1GW, depending on the data range and the percentile used to determine an appropriate maximum MEL. We believe this is still a significant enough gap to suggest there are issues with the current approach. If not resolved, this could either have implications for security of supply or result in an inefficient distribution of capacity payments amongst CM participants.

We also examined the difference in connection capacity for existing generation between the 2014 and 2015 T-4 auctions. This showed that, for the same generators, connection capacity increased by around 200MW, for which a large proportion was because of a change in methodology used to calculate connection capacity. We believe this is further evidence

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that not all generators are currently choosing a connection capacity figure which accurately reflects their maximum potential capacity during stress.

Impact of restricting the number of options

We still do not consider that any of the current parameters (CEC, TEC or historical output) represent the perfect proxy for connection capacity, for the reasons set out in our Open Letter. Further restricting the number of options to choose from could therefore have unintended consequences. In particular it could exclude genuine capacity or unfairly penalise certain generators.

Instead, we believe parties are best placed to know their maximum potential capacity during stress. We therefore agree with many of the respondents to our open letter that the best solution is for parties to have a 'free choice' of connection capacity. A free choice would need to be supported by appropriate incentives to ensure that parties pick their maximum potential capacity rather than overestimate it. Under the current CM design, we believe this would require testing to prove that generators are able to meet their connection capacity ("Option A" in our Open letter).

Impact of our preferred approach

We have considered further the potential consequences and risks associated with this approach. We believe that the key risk is that it excludes genuine capacity above TEC from the CM. This is because generators are prevented from going above their TEC during normal market operation[29], so would potentially be unable to demonstrate satisfactory performance up to their maximum capacity three times a year. Our analysis suggests that for CCGTs and CHP generators this excluded headroom could be around 350MW.[30]

A response to this change could be generators buying TEC up to their maximum potential capacity. This could include flexible, short term TEC products, which could help to mitigate the concern above. However, this may be easier for some generators more than others, for example there could be difficulty for those who are unable to obtain increased TEC or where TEC is relatively more expensive.

We also recognise that the existing satisfactory performance requirements were designed around testing up to de-rated capacity. And that an important consideration in this area is minimising distortion to the main market caused by out-of-merit running. We therefore think it would be pragmatic to review whether these arrangements would still be appropriate if we tested up to connection capacity. In particular whether it would still be appropriate for generators to:

- demonstrate satisfactory performance on three separate days; and/or
- lose all annual capacity payments if they fail to meet the satisfactory performance requirements.

Finally, we note that the key reason why generators were not given a free choice of connection capacity under the current methodology was due to concerns about capacity withholding. We believe that competition for capacity agreements and the threat of strong enforcement action against providers found manipulating the CM should mitigate this risk. However, we would like to consider further whether there would need to be any other

[29] Under the rules of the Connection and Use of System Code: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/Connection-and-Use-of-System-Code/

[30] This measures the difference between TEC and maximum MEL over the last seven years (95th percentile).

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measures. For example, if parties should submit supporting justification for going below a certain threshold.

Other amendments

For the reasons highlighted in this Annex, we do not intend to further consider the other main options for determining connection capacity put forward in our Open Letter; Options B, C, D, E and F. If we take forward our preferred option ('free choice' supported by Option A), then Options H, I and J would effectively be implemented

The correction we identified to the TEC formula ('Option G') would also not be needed under our preferred approach. However, given that this is a simple clarification which received broad support from stakeholders, our decision for consultation is to make this amendment before the next prequalification round (see proposal Of4).

Conclusions, questions and next steps

As set out above, our preferred approach is for generators to have a free choice of connection capacity which they are then tested up to. However, before implementing this change, we want to evaluate whether there needs to be any associated changes to CM or market arrangements. We plan to do this closely with industry and we are therefore inviting further stakeholder views on this, in particular the questions below.

- **Question 9:** Do you agree with our analysis and conclusions in relation to connection capacity?
- **Question 10:** Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?
- **Question 11:** Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?
- **Question 12:** Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?

Following our consultation, and further meetings with stakeholders, we will review the case for implementing our preferred option. However, due to:

- the complexity involved, including the potential need for associated changes;
- the number of other changes that are currently being made to the CM and the impact this could have on CM participants; and
- the uncertainty this could create for this year's CM volume to procure recommendations;

we are **not** proposing to introduce these changes before the next prequalification round.

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Annex D: List of consultation questions

Questions on proposals

Q1. **CP136** (interconnector capacity): Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the De-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?

Q2. **CP129** (adding DSR components): Do you agree there are overall benefits to creating a bespoke process for adding new DSR CMU components? (Please provide evidence to support your answer)

Q3. **CP95** (reallocating DSR components)**:** Do you agree that the combination of CP124, CP129 and CP130 would be a better solution to the issues that CP95 seeks to address?

Q4. **CP108** (CM warnings): Do you think there is a need to align Capacity Market Warnings with other existing system warnings? If so, how would you suggest this is done? Are there any associated risks?

Q5. **CP128** (LFCO formula): Do you agree that the LFCO formula will not scale delivery obligations appropriately during the first TA Delivery Year? Is this issue significant enough to require changes before first TA Delivery Year (starting in October 2016)? If so, how should the formula be amended?

Q6. **CP115** (volume reallocation): Do you agree there is an issue with Rule 10.4.1 (c)(ii)? If so, would our suggested addition to this Rule fix the problem? If not, how should it be amended?

Q6. **CP124** (portfolio testing): Do you agree with our assessment of the benefits and risks with CP124?

Q7. **CP98 and CP148** (FFR): Do you agree with the solution put forward in these proposals to ensure the participation of dynamic FFR in the CM? If not, what changes to the DSR test and volume calculation are necessary to achieve this?

Questions on connection capacity

Q9. Do you agree with our analysis and conclusions in relation to connection capacity?

Q10. Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?

Q11. Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?

Q12. Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?

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