

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be
completed by Ofgem):
CP164

Name of Organisation(s) / individual(s):
Libby Glazebrook

Date Submitted:
22 September 2016

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

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

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

This rule change seeks to more fully define what is meant by capacity through extending the duration of one of the Satisfactory Performances Tests as defined in Rule 13.4.1.

The change applies to capacity market contracts awarded after the 2016 auction that relate to delivery after 2020/21.

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

Existing CMUs must in pre-qualification evidence historic performance for three separate settlement periods and in the Delivery Year, all CMUs must deliver their de-rated capacity obligation in 3 separate settlement periods separated by a day in in the Winter period (defined in the CM Rules as October to March). Whilst these tests prove that the CMU is capable of meeting its de-rated capacity obligation, they do not prove that the CMU can sustain delivery where a system stress event lasts more than a half hour. In the absence of any separate obligation on delivery duration which might define a more appropriate de minimus definition of capacity (to include MW and MWh) for the auction, the duration of these metering tests imply a de facto specification of the energy delivery.

The lack of a rounded definition of capacity may lead to capacity market contracts being awarded to providers that are only technically able to deliver energy at the relevant de-rated capacity for half an hour. Since Government procures a finite amount of capacity (in MW), in awarding contracts to providers with a very short delivery duration capability, providers who can deliver for hours or days may be displaced and may not secure a contract. With the anticipated growth in small scale storage, this displacement will become more apparent and the need for this change will become increasingly necessary. The secondary traded market will not be able to alleviate this issue at times of peak demand as there will be no spare capacity with which to trade.

Given that the Capacity Market is based on an energy delivery model, it would seem appropriate to ensure that this parameter is considered more carefully.

To improve security of supply, it would therefore be prudent to extend the duration of one of the performance tests to ensure that all CMUs are able to support the system in a meaningful way in a system stress event.

This change extends the definition of capacity through requiring one of the tests to last two consecutive hours. A two hour duration has been chosen as it is consistent with the minimum delivery duration for STOR contracts. A longer duration has been considered in developing this change proposal but rejected as this may create system management problems if unnecessary generation is self-dispatched to demonstrate delivery capability.

ENGIE has considered the use of de-rating factors to address this issue. Whilst higher de-ratings could be applied where CMUs can only deliver their de-rated capacity for a very short period, de-ratings are a measure of reliability not deliverability and it does not seem appropriate to use this measure to address two different purposes. Furthermore, the de-rating factor would be dependent on the duration of deliverability of the de-rated capacity obligation leading to a multitude of de-rating factors for some technologies. Further, it is not clear how such deliverability measures would be translated into such de-rating factors.

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

Please note that in the consolidated Rules published 14 July 2016, there are two Rules numbered 13.4.2, the Rule changes below relate to the numbering as set out

13.4.1E

Subject to Rule 13.4.1A and Rule 13.4.1B, for capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, if a Capacity Committed CMU has not demonstrated to the Delivery Body (in accordance with Rule 13.4.2) capacity at a level equal to or greater than its Capacity Obligation or aggregate Capacity Obligations (“Satisfactory Performance”) for at least one Settlement Period (which Settlement Periods may fall within a System Stress Event) ~~on three separate days (each a “Satisfactory Performance Day”)~~ **on two separate days and four consecutive settlement periods on one further separate day (these three demonstrations are collectively referred to as “Satisfactory Performance Days”)** during the Winter of the relevant Delivery Year:

- a) the Capacity Committed CMU must demonstrate the ~~three~~ Satisfactory Performance Days after 1 May in that Delivery Year or at any time in any subsequent Delivery Year;
- b) the Capacity Committed CMU’s entitlement to Capacity Payments will be suspended in accordance with the Regulations from 1 May in that Delivery Year until the later of 1 June in that Delivery Year and the day on which ~~the third~~ Satisfactory Performance Days ~~is~~ are demonstrated pursuant to Rule 13.4.1(a) above; and

9.5 Transfers and testing

9.5.1 For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, a Capacity Committed CMU which has not delivered the requisite capacity ~~on the requisite number of~~ **to satisfy the requirements** of Satisfactory Performance Days during Winter must satisfy the requirements of (and will be subject to the consequences set out in) Rules 13.4.1(a), 13.4.1(b) (if applicable) and 13.4.1(c) irrespective of whether some or all of the Capacity Obligations to which the testing requirements related have since been transferred pursuant to this Chapter 9.

~~11.3.4 (a) For any Capacity Provider of a Capacity Committed CMU with a Capacity Agreement to deliver time banded capacity, the obligation to demonstrate three Satisfactory Performance Days in Winter pursuant to Rule 13.4.1 must be discharged during the period from 1st October to 28th February in the relevant Delivery Year. If such a Capacity Committed CMU fails to demonstrate such Satisfactory Performance Days, its obligation to demonstrate a further three Satisfactory Performance Days pursuant to Rule 13.4.1(a) must be discharged during the period after 1st March and suspension of Capacity Payments pursuant to Rule 13.4.1(b) will be effective from 1st March. This rule could be taken out in the 2017 set of rules as no longer needed~~

13.4.1AA For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, for the purposes of the definition of “Satisfactory Performance Days” in Rule 13.4.1, in the case of an Interconnector CMU, the demonstration that is to be made is of Net Output at a level greater than zero as recorded for the purposes of the BSC by file CDCA-I041 of the Central Data Collection Agent (CDCA).

13.4.1B For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, subject to Rule 13.4.1C and for the purposes of the definition of “Satisfactory Performance Days” and in Rule 13.4.1, in the case of a group of Capacity Committed CMUs with the same Capacity Provider (a “CMU Portfolio”), where those CMUs are either:

- (a) DSR CMUs which consist of DSR CMU components on two or more different sites; or
- (b) Non-CMRS Distribution CMUs, where, for each such CMU the aggregate connection capacity of all generating units is no greater than 50MW, the demonstration that can be made instead of Rule 13.4.1 is capacity delivered in aggregate by the CMU Portfolio at a level equal to or greater than their combined Capacity Obligations (subject to Rule 9.5.1) for at least ~~one~~ **four** Settlement Periods (which Settlement Periods may fall within a System Stress Event) during the Winter of a relevant Delivery Year.

13.4.2A (second 13.4.2) For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, the Delivery Body must notify the Capacity Provider if ~~it is aware that any of the~~ Satisfactory Performance Days notified in accordance with Rule 13.4.2 ~~is are~~ not a Satisfactory Performance Day properly notified in accordance with this Rule 13.

13.4.3A For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, any Satisfactory Performance ~~Day~~ demonstrated on a Winter day during a Delivery Year may be counted towards the obligation in Rule 13.4.1 with respect to that Delivery Year and towards the obligation in Rule 13.4.1(a) with respect to a previous Delivery Year.

13.4.4A For capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, if, in two or more months in which System Stress Events occur in a Delivery Year, a Capacity Committed CMU fails to achieve a calculation of E_{ij} of 1kWh in relation to at least one System Stress Event in each such month, then each obligation pursuant to Rule 13.4.1 that requires the demonstration of ~~three~~ Satisfactory Performance Days during a period shall instead be a requirement to demonstrate **two lots of** Satisfactory Performance Days in the same such period.

13.4.5 The Delivery Body must notify the CM Settlement Body of:

- (aa) for capacity agreements awarded after the 2016 auctions that relate to delivery after 2020/21, any failure by a Capacity Committed CMU to demonstrate ~~three~~ Satisfactory Performance Days during Winter pursuant to Rule 13.4.1;

Analysis and evidence on the impact on industry and/or consumers including any risks to note when making the revision - including, any potential implications for industry codes:

Consumers are ultimately paying for the cost of the capacity mechanism. This change will ensure that consumers are only paying for capacity that can demonstrate the capability to deliver energy for a period of time that is better aligned to the potential duration of a system stress event.

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

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