Proposal for a Capacity Market Rules Change

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Reference number *(to be completed by Ofgem)*: **CP225**

Name of Organisation(s) / individual(s): Tim Collins, Centrica	**Date Submitted:** 11 November 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:**

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

We propose additions and amendments to Rule 3.6 to facilitate participation in the Capacity Market of Generating Units located on Customer sites, in particular higher load factor units that are regularly in merit. Current Rules for Generating CMUs and DSR CMUs both represent barriers to participation by these units.

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

The proposal relates to Rule 3.6.

We considered whether rules applying to DSR CMUs could be modified to better reflect Capacity provided by in merit on-site Generating Units seeking to participate as DSR Components. However, we believe significant changes to the DSR Baseline Methodology would be needed, which could prove administratively complex and disruptive. We therefore favour the simpler option of additions and amendments to Rule 3.6.

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

DSR Volume (and DSR Capacity) provided by on-site Generating Units forming part of a DSR CMU is calculated using the Baseline Methodology in Schedule 2 to the Rules. In a System Stress Event (and also a DSR Test), the Baseline Methodology would infer DSR Volume (DSR Capacity) by comparing metered volume in the Stress Event (DSR Test period) with deemed normal, or Baseline volume. Baseline volume is inferred from a "backward look" at corresponding settlement periods over the last10 weeks, which is problematic for DSR Generating Units that dispatched in merit over the "backward look" periods. If an onsite Generating Unit forming part of a DSR CMU was running in merit over the "backward look" periods, its deemed DSR Volume during the Stress Event (DSR Test) would be zero, because xMW delivered in the Stress Event (DSR Test) – xMW delivered in the backward look periods = zero. This calculation misrepresents what the Generating Unit actually delivers in the Stress

Event (DSR Test), which is a positive metered volume, and ultimately a contribution to security of supply.

In our view, the status quo is distortive, because DSR CMUs comprised of Generating Units that are rarely/never in merit *are* able to have their Stress Event delivery volumes recognised (because they will likely not have been generating in the backward look periods) but higher efficiency DSR Components that generate in the Stress Event *and* the backward look periods would be deemed to have delivered nothing. Ultimately, this means *low* efficiency Generating Units *can* obtain CM revenues as DSR Components but *high* efficiency units *can't*, unless they choose not to dispatch in merit outside of Stress Events, which is perverse and contrary to economic efficiency.

The lack of a viable route to market for Generating Units on customer sites as DSR Components presents two choices: the first is a potentially onerous and disruptive change to the Baseline Methodology in Schedule 2. The second is to ensure that Rule 3.6 provides a clear prequalification pathway for Generating Units on customer sites as Generating CMUs.

Rule 3.6 in its current form contemplates Generating CMUs that export to Private Networks and Distribution Networks, but Generating CMUs (or Generating Units) that export directly to a customer are not obviously catered for. Our proposed additions and amendments to Rule 3.6 aim to provide a clear and robust pathway for Generating Units on customer sites to qualify as Generating CMUs (or Generating Units forming part of a Generating CMU, as the case may be).

Specific amendments and additions to Rule 3.6.

- Clarifications to Rule 3.6.1 that the previous settlement period performance rules also apply to Generating Units forming part of a Generating CMU.

- New Rules 3.6.1 (d) and (e) that provide an alternative to the supplier or former supplier letter required under Rule 3.6.1 (b) or (c), but only in circumstances where:

    - the Average Highest Output of the Generating CMU (or Generating Units comprising the CMU) has been evidenced under Rule 3.5.3; and
    - The Applicant has confirmed the Meter Point Administration Number(s) and full postal address(es) of the Customer site(s) that the Existing Generating CMU or Generating Units are located within.

- New Rules 3.6.3 (e) and (f) providing that submission of a Distribution Connection Agreement is not required for a Generating CMU on a Customer Site that has met the requirements of New Rules 3.6.1 (d) and (e).

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

We recommend reading Rule 3.6 in its entirety. However, for brevity, we only show our proposed changes to Rule 3.6, which are highlighted in red:

3.6 Additional Information for an Existing Generating CMU

3.6.1 Previous Settlement Period performance

(a) Each Applicant for an Existing Generating CMU must identify in the Application the three Settlement Periods on separate days in:

(i) the 24 months prior to the date one month before the start of the Prequalification Window; or

(ii) if the CMU (or a Generating Unit forming part of the CMU) has not been operational in the 24 months prior to the date one month

before the start of the Prequalification Window:

(aa) the most recent 24 months of operation; or

(bb) if the CMU (or a Generating Unit forming part of the CMU) has previously been operational for less than 24 months, the most recent period of operation; or,

(iii) if the CMU (or a Generating Unit forming part of the CMU) has been subject to a continuous Transmission Restriction for the whole of the 24 months prior to the date one month before the start of the Prequalification Window, the most recent 24 months in which the CMU (or a Generating Unit forming part of the CMU) was not subject to a Transmission Restriction,

in which such Existing Generating CMU (or each Generating Unit comprising the Existing Generating CMU) delivered its highest physically generated net outputs, or Metered Volume where applicable, and specify such physically generated net outputs or Metered Volume in MWh to three decimal places.

(aa) Each Applicant for an Existing Generating CMU must also identify in the Application the 24 month period (or periods, to the extent they differ for individual Generating Units comprising the Existing Generating CMU) which contains the three Settlement Periods referred to in Rule 3.6.1(a).

[After Rule 3.6.1 (c), insert:]

(d) Rule 3.6.1 (e) applies only in respect of an Existing Generating CMU that has determined its Connection Capacity in accordance with Rule 3.5.3

(e) Subject to Rule 3.6.1 (d) an Applicant for an Existing Generating CMU that is located within a Customer site or comprised wholly of Generating Units located within one or more Customer sites, who is unable to meet the requirements of 3.6.1(b) or 3.6.1(c) must:

(i) Confirm the Meter Point Administration Number(s) of the Customer site(s) that the Existing Generating CMU or each Generating Unit comprising the Existing Generating CMU is located within.

(ii) Confirm the full postal address(es) with postcode of the Customer site(s) that the Existing Generating CMU or each Generating Unit comprising the Existing Generating CMU is located within.

[After Rule 3.6.3 (d), insert:]

(e) Rule 3.6.3 (f) applies only in respect of an Existing Generating CMU that has determined its Connection Capacity in accordance with Rule 3.5.3.

(f) Subject to Rule 3.6.3 (e), an Existing Generating CMU that has met the requirements of 3.6.1(e) is not

required to submit further information pursuant to Rule 3.6.3.

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:

Our analysis is set out in the description of the issue section above. To reiterate, we believe the status quo is distortive because the CM does not provide a clear route to market for Generating Units located on customer sites, except in circumstances where the units are inefficient or chose not to dispatch in merit outside of Stress Events.

Whilst not directly relevant to the substance of our proposal, National Grid will need to ensure that their recommended target Capacity for future Auctions reflects the fact that Generating Units on customer sites participating on the supply side of the Auction cannot also be counted on the demand side. In other words, recommended target demand needs to reflect true underlying demand and should not "net off" supply side capacity from Generating Units located on customer sites. To the extent National Grid would benefit from new transparency provisions in the CM Register to enable it to calculate prequalified capacity from Generating CMUs located on customer sites, we would be open to Rule changes to that effect (although we do not specify such changes in this proposal).

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

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