

# Proposal for a Capacity Market Rules Change



Making a positive difference  
for energy consumers

Reference number (to be completed by  
Ofgem): CP207

Name of Organisation(s) / individual(s):  
Ecotricity Group Ltd

Date Submitted:  
11<sup>th</sup> 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:**

[Click here to enter text.](#)

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

The introduction of a carbon intensity limit of 450g CO<sub>2</sub>/kWh as an eligibility requirement for all CMUs in order to make the Capacity Market consistent with the Government's Emissions Performance Standard.

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

Chapter 1 – General Provisions - Definition of General Eligibility Requirement

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

The current lack of any carbon intensity limit and the fact that the EPS currently only applies to new generation above 50MW means that consumers are paying to support highly polluting generators through the Capacity Market. They are simultaneously paying higher energy costs to penalise polluting generation through the Carbon Price Floor. This runs contrary to the Government's commit to decarbonising the energy market and reducing consumer costs as well as Ofgem's own requirement to protect current and future consumers.

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

General Eligibility Criteria has the meaning given to that term in Regulation 15 in addition to a requirement to have and maintain a rate of CO<sub>2</sub> emissions that does not exceed 450g /kWh.

**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:**

This proposal would have a number of positive impacts. It would align the Capacity Market with the Government's decarbonisation objectives and increase the efficiency and effectiveness of the Carbon Price Floor, by removing a countervailing policy.

The Government and Ofgem have already acknowledged that small, highly polluting generators such as diesel are overcompensated in the Capacity Market.

Although diesel represents a relatively low proportion of our energy mix and the capacity market, there is currently no regulatory mechanism preventing their use and number significantly expanding.

Our proposal has significant advantages over alternative policy changes. Alternative proposals for tackling this problem, such as removing some embedded benefits would make other embedded generators including small and medium sized renewables more expensive and therefore would be contrary to the Government's decarbonisation goals. The complex interactions between different embedded benefits and market players mean that effectively reforming embedded benefits without negative unintended consequences requires significant research and analysis which should not be rushed to meet the next capacity market deadline. The introduction of a carbon intensity limit can be implemented quickly and, whilst being technology neutral, will be sufficiently targeted to ensure that it does not negatively affect parties that were not the intended target.

The fact that this would not increase costs for technologies that meet the emissions performance standard means that the resulting clearing price will be lower under our proposal than under one which targeted all embedded generators. This means a significant increase in value for money for consumers above the alternative.

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

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