

# Proposal for a Capacity Market Rules Change



Making a positive difference  
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Reference number (to be completed by  
Ofgem): CP227

Name of Organisation(s) / individual(s):  
EP Invest Ltd

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:**

No

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

This proposal removes the requirement for a Mandatory CMU which is submitting an Opt-Out Notification to state whether the CMU will be closed down, temporarily non-operational or operational during the Delivery Year. Further changes are proposed to remove the exclusions arising from some of these statements.

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

The proposal would delete Rule 3.11.2(f) and Rule 3.3.3(b) and amend Rule 3.3.3(c).

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

Rule 3.11.2(f) requires Mandatory CMUs opting out of a capacity auction to select from a list of three prescribed statements why they wish to opt out and provide a summary of the reasons for that statement. Rule 3.12 requires a person submitting an Opt-Out Notification to ensure that the declarations made under Rule 3.11 are true and correct. The statement selected under Rule 3.11.2(f) has implications for the future participation of a CMU in the capacity market as, depending on the option selected, the CMU may be excluded from participating in future auctions under Rule 3.3.3(b) and (c).

The CMUs that are likely to opt out of the capacity market at the T-4 stage are those which are most likely to face a high degree of uncertainty with regard to their future operation. The statements in Rule 3.11.2(f) regarding future operation of a CMU do not reflect this uncertainty as they do not present a 'Do Not Know' option. While Directors of these CMUs will select the statement that best reflects the balance of their views on the basis of the information available at the time, we do not consider that it is sensible to encourage Directors to make definitive statements about the future operation of their plant four years in advance given market and policy uncertainty in the intervening period.

National Grid's original guidance in 2014 recognised this issue and suggested that if a CMU was unsure of its future operational status then by stating that it will remain operational, it would retain the flexibility to participate in the T-1 auction (Capacity Market User Support Guide, 10 July 2014, paragraph 50). However, we consider this position would encourage companies that are unsure of the future status of their plant to state that they will be operational, which, if taken at face value, could lead to potential under-

procurement in the T-4 auction for a Delivery Year if the plant subsequently closed, leading to an increased volume to procure and a higher clearing price at the T-1 stage when there is likely to be limited capacity available to participate in an auction. This is clearly not an efficient outcome.

It appears that the original purpose of the declaration under Rule 3.11.2(f) was to allow the Delivery Body to recommend an adjustment to the volume to procure in an auction if a CMU stated that it would opt out but remain operational to ensure that there is not over-procurement of capacity in the auction. However, for the reasons given above, we are doubtful of the value of the statements made under Rule 3.11.2(f) in this context. We therefore propose that Mandatory CMUs opting out of a capacity auction are not obliged to state what the future operational status of the CMU will be and that the Delivery Body and Secretary of State should form their own view of whether that CMU will be operational or not in the Delivery Year.

CMUs selecting the statements in Rule 3.11.2(f)(i) and (ii) are currently excluded from future capacity auctions under Rule 3.3.3(b) and (c). Our proposal would remove those exclusions as they would no longer be necessary. In any case, we are not clear of the purpose of excluding CMUs under Rule 3.3.3(b) as such CMUs cannot benefit from opting out on the basis that they will not be operational in the Delivery Year as, if they had stated this, sufficient capacity should already have been procured for the Delivery Year such that there should be a low chance of these CMUs securing an agreement in a T-1 auction if they remained operational and participated in that auction.

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

Delete Rule 3.11.2(f)

Delete Rule 3.3.3(b)

Delete definition of Excluded CMU

Delete 'or an Excluded CMU' from Rule 3.3.3(c)

**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:**

We consider that this proposal would reduce the complexity and risk of the opt out process for Mandatory CMUs, which are currently obliged to undertake substantial consideration in order to make a statement under Rule 3.11.2(f).

There is a risk that the Secretary of State could under- or over-procure for a Delivery Year as a result of this change if he formed an incorrect view of the future operational status of opted out plant. However, this risk exists anyway as it cannot be guaranteed that an opted out plant will behave in the way it indicated when submitting its Opt-Out Notification.

By removing the exclusions from participation in future auctions placed on certain plant that have opted out in previous Prequalification Windows, there may be increased capacity available to participate in these auctions if required, which should lead to increased competition and a lower clearing price and therefore reduced costs to consumers.

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

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