

Proposal for a Capacity Market Rules Change



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Reference number (to be completed by
Ofgem): CP228

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 amends the Rules with regard to the effect of failing to demonstrate three Satisfactory Performance Days in a Delivery Year so that there is an ongoing incentive on all Capacity Providers to deliver as much output as possible during that Delivery Year.

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

The proposal would amend Rule 13.4.1(c)

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

Rule 13.4.1 requires a Capacity Committed CMU to demonstrate three Satisfactory Performance Days in each Delivery Year (days on which it has delivered capacity at a level equal to or greater than its Capacity Obligation for at least one Settlement Period). Failure to demonstrate this by the end of the Delivery Year results in the CMU having to repay any Capacity Payments which it has received in that Delivery Year. This creates the possibility that, in the case of a CMU which consists of multiple generating units aggregated together, if only one generating unit in the CMU was unable to deliver its share of the Capacity Obligation during a Delivery Year, the Capacity Provider may fail to receive any Capacity Payments for that Delivery Year regardless of the fact that the other generating units in that CMU were able to deliver.

As there is no principle of force majeure in the capacity market, the penalty arrangements (and also the suspension of payments under Rule 13.4.1(b)) create an ongoing incentive for a Capacity Provider to rectify any plant issues such that it can deliver its full Capacity Obligation. However, in a situation where it became apparent to a Capacity Provider that an issue which prevented it from demonstrating its full Capacity Obligation on three separate days could not be resolved before the end of the Delivery Year, there would be no ongoing incentive for that provider to continue to deliver from the remaining functioning capacity in the CMU as the CMU would not receive any Capacity Payments for that Delivery Year as a result of Rule 13.4.1(c).

For example, where two generating units have been aggregated together in one CMU and one generating unit broke down at the start of the Delivery Year and it was apparent that it could not be fixed before the end of the Delivery Year, there would be no incentive for the Capacity Provider to continue to attempt to

deliver from the remaining functioning unit as that provider would receive no capacity payments for the year as it would be unable to demonstrate satisfactory performance.

This could mean that, where a failure occurs on one unit in a CMU, large tranches of capacity are no longer incentivised to deliver under the capacity market, undermining the functioning of the mechanism. Capacity Providers can avoid this situation by seeking not to aggregate generating units into a CMU at prequalification. However, this reduces flexibility for applicants and could increase the capacity auction clearing price as bidders may seek a premium to enter generating units as individual CMUs when the costs of those units are linked in order to mitigate the risk that they did not receive an agreement in respect of all the generating units.

We therefore propose that where a Capacity Provider has failed to demonstrate three Satisfactory Performance Days by the end of the Delivery Year, its capacity obligation is reset at the level of the third highest net output demonstrated in that Delivery Year and, if necessary, any outstanding payments are made on that basis. If no output was delivered from the CMU in the Delivery Year or payments had already been made up to 1 May which were greater than the CMU should have received, the capacity provider would still be obliged to repay some or all of the Capacity Payments received in that Delivery Year.

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

Amend Rule 13.4.1(c) so that it reads as follows:

‘if the Capacity Committed CMU fails to satisfy the requirements of Rule 13.4.1(a) by the end of the relevant Delivery Year then the Capacity Provider shall be paid any outstanding Capacity Payments or, if necessary, repay any Capacity Payments as though its Capacity Obligation had been set at the level of the third highest net output demonstrated by the CMU in that Delivery Year’

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 it essential that there is an ongoing incentive on CMUs to attempt to deliver as much of their capacity as possible during the Delivery Year or else there could be a substantial loss of available capacity. For example, for the 2018/19 Delivery Year the largest CMU that has secured an agreement consists of 5 generating units and has an aggregated connection capacity of 1,692 MW. If one of the generating units in that CMU failed such that it would not be able to deliver its share of the Capacity Obligation during the Delivery Year, then there would no incentive on that Capacity Provider to deliver on the remaining 1.1 GW. This could adversely affect security of supply in the Delivery Year.

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

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