

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP229

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 would prevent a Generating CMU from participating in a T-1 Auction for a Delivery Year for which it previously held an agreement as a Refurbishing CMU but has since had that agreement reduced in length so that it no longer holds an agreement for 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 adds an additional exclusion to Rule 3.3.3, preventing Generating CMUs which previously held an agreement for a Delivery Year as a Refurbishing CMU but no longer do so, from participating in a T-1 Auction for that Delivery Year.

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

At present, it is possible for a Refurbishing CMU to obtain a multi-year capacity agreement but, if it does not meet the expenditure requirements to qualify for that multi-year agreement, it can default to a one year Capacity Agreement as a Pre-Refurbishing CMU without penalty under Rules 6.8.4 and 8.3.6. This can happen as late as after the start of the first Delivery Year for which the CMU holds an agreement.

If, when a Capacity Agreement is reduced in length in this way, T-4 auctions have already been held for the second or later Delivery Years for which the Refurbishing CMU originally held an agreement, a lower volume than necessary will have been procured in those auctions as it will have been assumed that the Refurbishing CMU held a Capacity Agreement for that Delivery Year. This shortfall will need to be made up in the T-1 auctions for those Delivery Years.

Refurbishing CMUs which have had their Capacity Agreements reduced in length are currently allowed to participate as Existing CMUs in the T-1 auctions for the Delivery Years for which they previously held a Capacity Agreement. This has the potential to affect the clearing prices in both the T-4 and T-1 auctions for those Delivery Years. In particular, as there is likely to be limited capacity available to participate at the T-1 stage, an increase in the target volume for a year ahead auction due to a Refurbishing CMU defaulting to a one year agreement could lead to a substantial reduction in competitive pressure and a higher clearing price. If a Refurbishing CMU anticipated that it could achieve a higher clearing price at the T-1 stage than applies to the refurbishing agreement which it already holds, it could decide not to undertake

its refurbishment expenditure in order to allow itself to participate at the T-1 stage instead. We do not consider that this represents an efficient outcome and would increase the cost to consumers.

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

New Rule 3.3.3(da)

‘the Application is for a Generating CMU in a T-1 Auction which includes a Generating Unit which:

- (i) in a previous Capacity Auction, formed part of a CMU which was awarded a Capacity Agreement as a Refurbishing CMU for the Delivery Year for which the T-1 Auction is to be held; and
- (ii) such Capacity Agreement has been reduced pursuant to Rule 6.8.4(a) or Rule 8.3.6(b) or (c) such that the CMU no longer holds a Capacity Agreement for 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 that this would remove the potential for Refurbishing CMUs to arbitrage between T-4 and T-1 auctions. As no T-1 auction has yet been held, it is difficult to quantify the increase in clearing price that could result from a CMU behaving in this way. However, given that such a CMU could set the clearing price in a T-1 auction, it is prudent for the Rules to be amended.

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

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