Making a positive difference
for energy consumers

Gwneud gwahaniaeth gwirioneddol
i ddefnyddwyr ynni

Capacity Market participants,
prospective participants and other
interested parties

Email: EMR_CMRules@ofgem.gov.uk
Date: 23 March 2017

Dear colleague

Statutory consultation on changes to the Capacity Market Rules 2014 (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

Summary

- We are inviting your views on our proposed amendments to the Rules.
- We have considered the 79 proposals submitted to us by stakeholders and delivery partners, 20 of which we are minded to take forward or partially take forward. We set out in the consultation our proposed decisions on whether to accept or reject each of the proposals and our reasons for doing so.
- We are also publishing a copy of the Rules showing our proposed changes (Annex H)[1].
- The Department for Business, Energy and Industrial Strategy (BEIS) consulted on Capacity Market (CM) policy changes in September 2016 and October 2016.[2,3] The decision on their October consultation was published on 22 March 2017. The indicated amendments from this decision are marked-up in Annex H alongside our own proposed amendments. We are not proposing to make changes to the Rules on issues which have been addressed by BEIS's September or October 2016 consultations.
- We are holding a **stakeholder workshop** during the consultation period to discuss the proposed changes. It will be on **Friday 28th April** at our Millbank office. Please email EMR_CMRules@ofgem.gov.uk by Monday 10th April to register.
- The **deadline for responding to this consultation is 5pm on 5 May 2017.** Please reply to EMR_CMRules@ofgem.gov.uk

Regulatory context

The CM is governed by a combination of the Regulations[4] and the Rules. The Regulations permit us to amend, add to, revoke or substitute any provision of the Rules other than to confer functions on the Secretary of State or additional functions on ourselves. When changing the Rules, we must have regard to our principal objective and general duties,[5] and the specific objectives set out in the Regulations (the

[1] Please note this Schedule does not contain changes relating to our proposal on connection capacity (Of15).
[2] BEIS September 2016 consultation, https://www.gov.uk/government/publications/selective-overcompensation-in-the-capacity-market
[3] BEIS October 2016 consultation, https://www.gov.uk/government/consultations/capacity-market-proposals-to-simplify-and-improve-accessibility-in-future-capacity-auctions
[4] The Electricity Capacity Regulations 2014 came into force on 1 August 2014 http://www.legislation.gov.uk/ukdsi/2014/9780111116852/
[5] Ofgem's principal objective and general duties can be found on our website https://www.ofgem.gov.uk/publications-and-updates/powers-and-duties-gema

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk The Office of Gas and Electricity**

"CM Rules objectives")[6]:

- promoting investment in capacity to ensure security of electricity supply in Great Britain
- facilitating the efficient operation and administration of the Capacity Market
- ensuring the compatibility of the Capacity Market Rules with other subordinate legislation under Part 2 of the Energy Act 2013.

The Regulations require us to consider any proposal we receive for a CM Rule change. We must also consult on any amendments we propose to make before taking our final decision. We published guidance in August 2014 on our process for making changes to the Rules (the "CM Rules Guidance").[7] The Secretary of State also has the power to change the Rules, subject to consultation. We note that BEIS will introduce Rules changes ahead of the 2017 prequalification period, following the decision on their October 2016 consultation.

Capacity Market Rule change proposals

We published an open letter on 15 September 2016 (the "open letter") which invited stakeholders to submit proposals for Rules changes by 11 November 2016. We held a stakeholder event on 31 October 2016.

We would like to thank all those who proposed changes and those who attended our stakeholder event. We received a total of 79 proposals which have been published on our website[8] and are considered as part of this consultation in accordance with the Regulations and our published guidance.

We have raised a further four proposals ourselves where we have identified a change is required, either through our monitoring of the CM, or where a number of proposals on a topic have required consolidation. Some of these proposals relate to areas raised in previous consultations and our open letter, including amendments to the connection capacity methodology, and introducing further flexibility for DSR components.

We are rejecting a significant number of proposals and our reasons are explained in Annex A. In rejecting these proposals, we have considered how the proposed amendment aligns with our statutory duties and the objectives of the CM Rules. In some instances, we are minded to reject a proposal because we have determined it is preferable that another proposal, or combination of proposals, be taken forward instead. We have highlighted in Annex A where this is the case.

We invite your views on whether you agree with our decisions and we ask you to **provide evidence to support your reasons where possible**. In addition, we have asked specific questions on a number of proposals. These are listed in Annex G.

The majority of proposals we intend to take forward will be implemented ahead of the 2017 prequalification round. However, some proposals which entail substantial changes to systems may be implemented at a later date. We have noted in the relevant Annexes where this may occur. We intend to provide an update on implementation of proposals as part of our decision in Summer 2017.

List of Annexes

- Annex A summarises each Rule change proposal, our minded to decision and reasoning. Proposals are referred to by the 'CP' reference number allocated on our website; our own four proposals are labelled Of12-Of15.
- Annex B provides a table summary of our decisions on all of the proposals.
- Annex C sets out in detail our analysis and conclusions on Of12 (DSR component reallocation).
- Annex D sets out in detail our analysis and conclusions on Of13 (the calculation of output for Storage Facilities).
- Annex E sets out in detail our analysis and conclusions on Of14 (our amendments affecting Firm Frequency Response and Enhanced Frequency Response).
- Annex F sets out in detail our analysis and conclusions on Of15 (the methodology for determining connection capacity).

[6] Regulation 78 sets out these objectives. Regulation 77(3)(a) states that the Authority must not make any provision in Capacity Market Rules which is inconsistent with the Regulations.
[7] Ofgem, *The Change Process for the Capacity Market Rules,* August 2014 https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules
[8] https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-market-reform/change-proposals

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- Annex G lists the consultation questions we've asked relating to our proposed decisions.
- Annex H (published alongside this document) provides a marked up draft copy of the Rules. Our proposed changes are shown in blue with the proposal reference number, with BEIS's indicated amendments shown in red.

Next steps

We are holding a stakeholder workshop to discuss the proposed changes on **Friday 28th April am** at our Millbank office. Please email EMR_CMRules@ofgem.gov.uk by Monday 10th April to register. Spaces will be limited to one delegate per organisation.

Please send your response to the consultation to EMR_CMRules@ofgem.gov.uk by 5 May 2017.

We intend to publish our final decision and the final amendments to the Rules in Summer 2017, before the next prequalification round opens.

Yours faithfully

Mark Copley

Associate Partner, Wholesale Markets
For and behalf of the Gas and Electricity Markets Authority

The Office of Gas and Electricity Markets
9 Millbank London SW1P 3GE **Tel** 020 7901 7000 **Fax** 020 7901 7066 **www.ofgem.gov.uk The Office of Gas and Electricity**

Annex A: Proposals and decisions (by Rules chapter)

This Annex sets out a short summary of each of the proposals, our minded to position, and our reasoning. Each proposal is referred to by the 'CP' reference number allocated on our website and our own four proposals are labelled Of12-Of15. Specific questions are included here and also summarised in Annex G.

1. General Provisions

Proposed amendments

No proposed amendments.

Proposals rejected

CP203 (Anonymous)

This proposal seeks to amend the definition of Excluded Capacity to include Generating Units holding a Black Start contract.

Proposed decision

We are minded to reject this proposal. The Regulations set out the General Eligibility Criteria and current types of Excluded Capacity, for example those in receipt of low carbon support or long-term STOR contracts. The definition of Excluded CMU, which is mentioned by this proposal, is contained within the Rules specifically to account for CMUs which are retiring or opting-out, but which are already involved in the Prequalification process. The change proposed here would require amendments to Chapter 3 of the Regulations, which we do not have powers to amend. We have made BEIS aware of this proposal though we do not agree with the argument put forward that Black Start contracts remunerate parties for provision of the same product as the CM.

CP178 (E.ON); CP206 (Ecotricity)

These proposals both seek to clarify the Rules for CMUs who are not named on the connection agreement. CP178 seeks to amend Chapter 3 to clarify that CMUs whose connection agreements are in the name of parties other than the Applicant are eligible for Prequalification. CP206 seeks to amend the definition of Distribution Connection Agreement under the General Provisions so that a party that is not named on the agreement, but has the right to use that grid connection, is able to prequalify.

Proposed decision

We are minded to reject these proposals as we understand that the Delivery Body is planning to include the subject of parties not named on the connection agreement in their prequalification guidance documentation, and therefore a Rule change in this area is not required.

CP207 (Ecotricity)

This proposal seeks to amend the Rules so that a carbon intensity limit of 450gCO2/kWh is established as part of the general eligibility requirements for all CMUs. This limit was chosen to reflect the Government's Emissions Performance Standard.

Proposed decision

We are minded to reject this proposal. We believe that adding a carbon intensity limit of 450gCO2/kWh could undermine technology neutrality in the Capacity Market. Further, the General Eligibility Requirements are defined under Regulation 15, and not under the Rules. We do not have the relevant powers to make amendments to the Regulations and therefore we would not be able to make this change.

CP166 (Waters Wye Associates)

This proposal seeks to introduce a new role in the Rules for a 'Prequalification Agent'. This would allow an individual to represent more than one Applicant during the prequalification process.

Proposed decision

We are minded to reject this proposal. Our discussions with the Delivery Body have highlighted that such a change is likely to require significant changes to the current prequalification system. In addition, we believe the benefits of this change would be limited, as it is already possible for applicants to set up 'users' which are external to their company. As such we believe that there is insufficient evidence that the benefits of such a change outweigh the costs.

CP205 (UK Power Reserve); CP232 (Energy UK)

This proposal seeks to amend the Rules so that the Authority is required to conduct an audit, or review a sample, of initial prequalification decisions and reconsidered decisions that are not raised to an appeal.

Proposed decision

We are minded to reject these proposals. Regulation 77(3)(b)(ii) of the Electricity Capacity Regulations 2014 prohibits us from introducing additional functions on the Authority in the Rules. However, we note that we have the relevant powers to do this and have conducted such an audit in the past, and will be able to do so in future if we deem it necessary.

CP172 (RWE)

This proposal seeks to amend the definition of Secondary Trading Entrant to mean the 'Applicant for any Existing CMU that does not hold a Capacity Agreement following the T-1 Auction for a Delivery Year.'

Proposed decision

We are minded to reject this proposal as we believe the Rules already allow the relevant CMUs to participate in secondary trading.

In Rule 9.2.6(a), CMUs that prequalified for the T-1 Auction and did not win agreements are classified as Acceptable Transferees. These CMUs are therefore eligible to take on obligations through Secondary Trading.

In addition, there is a small category of CMUs who do not come under Rule 9.2.6(a) but are covered by the definition of Secondary Trading Entrant, which in turn allows them to become an Acceptable Transferee under Rule 9.2.6(d).

2. Auction Guidelines and De-rating

Proposed amendments

No proposed amendments.

Proposals rejected

CP176 (EDF); CP224 (Centrica)

These proposals raise concerns around the durability of battery storage technologies participating in the Capacity Market, and therefore have a similar aim to CP163, CP164 and others (see page 29). Both proposals seek to solve this issue using de-rating factors. CP176 seeks to introduce a series of multipliers, based on different levels of durability, which would effectively act to de-rate the relevant facilities further. Facilities with a lower durability would be de-rated more significantly relative to resources that can maintain delivery for a longer period under this proposal. CP224 would alter the de-rating calculation for storage facilities so that durability as well as availability is accounted for. Both CP176 and CP224 make some assumption about the duration of a Stress Event in order to set de-rating factors.

Proposed decision

We are minded to reject these proposals at this time as further analysis is required before an appropriate change can be made. We agree that consumers should be protected from the risk of resources being unable to deliver for the potential duration of a Stress Event. And we believe that amendments to the de-rating methodology may be the most appropriate solution and in our response to CP163 we set out why we believe this is better than requiring longer test durations. The System Operator is currently carrying out analysis to develop a new de-rating methodology and BEIS will consider amendments in this area following completion of the relevant analysis.

CP191 (National Grid)

This proposal seeks to amend the de-rating factor calculation under Rule 2.3.5 so that output data is used to calculate the de-rating factors for Distribution Connected CMUs.

Proposed decision

We are minded to reject this proposal. We believe that the methodology proposed is not consistent with the intent of the de-rating process. We recognise the challenges involved with de-rating Distribution Connected CMUs, and in particular

the limitations of the data available. However, calculating availability based on actual output in the manner proposed may not capture the full capabilities of some CMUs that, for example, may only choose to generate in certain periods of winter. We welcome further proposals and analysis in this area.

CP238 (Scottish Power)

This proposal seeks to amend the Generating Technology Classes listed under Schedule 3 so that the 'Storage' class is divided into two. One class would apply for pumped storage hydro stations and the second to batteries and other types of non-pumped storage plant. This aims to ensure separate de-rating factors are applied to different types of storage.

Proposed decision

We are minded to reject this proposal at this time. We support the principle that Generating Technology Classes should recognise where different technologies vary in reliability and we recognise the potential need for batteries to be de-rated differently to pumped hydro stations. However, in addition to changing the list of classes under Schedule 3, consideration is also required of the de-rating methodology that subsequently applies, and we refer to our response to CP176 and CP224 above on the need for further analysis before making a decision.

3. Prequalification Information

Proposed amendments

CP190 (National Grid)

This proposal seeks to amend Rule 3.7.1 to remove the option for Applicants to defer provision of Relevant Planning Consents until after Prequalification.

Proposed decision

We are minded to take forward this proposal. Last year we made permanent the option to defer Relevant Planning Consents, however we have received new evidence which suggests the costs of deferral outweigh any benefits. While in theory allowing participants to defer submitting planning consent until after prequalification may increase participation, evidence suggests this does not happen in practice.

The majority of conditionally prequalified applicants who chose to defer planning consent submissions in the most recent round ultimately failed to submit them and therefore failed to prequalify for the auction. This suggests there is little benefit in practice. This situation also has a cost as it provides uncertainty around the volume of capacity likely to progress to the auction relatively close to the start of the auction.

Participants planning to enter Prequalification should be aware of the need to submit planning consent, especially as the Capacity Market becomes established, and should do this in sufficient time to allow them to prequalify.

CP192 (National Grid)

This proposal seeks to amend the Rules to clarify that where connection offers are provided in lieu of Distribution Connection Agreements, those connection offers should be demonstrated to be accepted connection offers.

Proposed decision

We are minded to take forward this proposal. The amendment would clarify that connection offers provided in lieu of Distribution Connection Agreements should be accepted connection offers. This clarification should help to reduce the number of Applicants entering the disputes process and having to post credit cover as conditionally prequalified CMUs. Currently, where a suitable connection offer has not been provided, the relevant CMU will be classified as conditionally prequalified and be required to post credit cover.

CP215 (ADE)

This proposal seeks to amend the Rules to permit the aggregation of Prospective CMUs with one or more Units and legal owners to apply through a Dispatch Controller.

Proposed decision

We are minded to take forward this proposal and allow a Dispatch Controller to act as the Applicant on behalf of Prospective CMUs which consist of one or more Units, which may have one or more legal owners. As the proposal states, a similar change was made for Existing Generating units and we do not see any reason why both types of units should not be treated consistently. We propose that this amendment maintains the 50MW cap on Connection Capacity for aggregated portfolios of Prospective Generating Units. We therefore propose to make amendments to Rules 3.2.4 and 3.2.6. We also propose to correct the reference to Rule 3.2.7 under Rule 3.2.3 to account for our amendments. This amendment will act to extend an earlier amendment by BEIS so it applies to Prospective CMUs in addition to Existing Generating CMUs.

CP233 (ESC)

This proposal seeks to amend the Rules to clarify how auxiliary load should be divided for sites that share the load amongst a number of generating units, and where the auxiliary load is not separately metered.

Proposed decision

We are minded to take forward this proposal. This amendment to the Rules would require all Existing CMUs to provide the Delivery Body at prequalification with the volume of their auxiliary load (MW) and suitable multiplier values for each individual component to apportion the auxiliary load across the site's generating units. The proposed approach for determining these multiplier values suggests that they should be proportional to the generating unit's capacity (provided that the technologies and anticipated load factors are sufficiently similar). This information should be submitted mindful of any additional units on site which will not be participating in the CM.

This proposal was submitted to close a gap within the Rules, and to ensure correct data collection and information flows between the Delivery Body and ESC

take place. ESC have indicated that this clarification is necessary to complete accurate settlement calculations, and the existing settlement system has been set up with the expectation that this information is available. We therefore propose to make amendments to Rules 3.6.1, 3.6.4, 6.7.2, 6.8.3 and 8.6.4.

CP235 (ESC)

This proposal seeks to amend the Rules to require all participants, other than Unproven DSR CMUs, to provide 'Boundary Point MPANs' and/or 'Boundary Point MSIDs', where applicable, to the Delivery Body during prequalification in order for line loss factors to be applied to metered volumes.

Proposed decision

We are minded to take forward this proposal with the majority of suggested amendments. The Settlement Body should apply line loss factors to metered volumes and this amendment would allow that task to be completed more efficiently. We understand the ESC will be able to provide guidance to participants on the requirements for Prequalification in this area and so we propose that the details of MPANs and MSIDs for particular types of site are provided in guidance, rather than listed under Rule 1.2.

Proposals rejected

CP173 (RWE)

This proposal seeks to amend Rule 3.6.1(c) to remove the requirement for Non-CMRS CMUs using Bespoke Metering Configuration Solutions to provide a supplier letter to confirm historic net output.

Proposed decision

We are minded to reject this proposal on the grounds that Rule 3.6.1 already provides an alternative way for Non-CMRS CMUs to verify output during prequalification. These amendments to the Rules were introduced in 2016 to streamline the prequalification process. This new proposal does not identify any issue with this change or identify a suitable alternative to the existing arrangements.

CP181 (E.ON)

This proposal seeks to amend Rule 3.4.7 to enable components that are part of a site which is only partially in receipt of low carbon support to participate in the CM.

Proposed decision

We are minded to reject this proposal. The proposal suggests the current arrangements represent a barrier to smaller embedded generators or DSR from participating in the CM. However, we have not seen evidence that this is the case.

We consider the proposed change could result in cumulation of State Aid. Without sufficient metering that clearly identifies sections of the site that are not in receipt

of Low Carbon support it is not possible to distinguish which parts of the site are generating.

CP196 (National Grid Interconnector Holdings Ltd)

This proposal seeks to clarify the Rules around Joint Owner declarations of Existing and New Build Interconnector CMU by either removing Rule 3.9.2(a), or Exhibit DA or DB.

Proposed decision

We are minded to reject this proposal. To identify the Applicant for a CMU, Rule 3.9.2(a) places a requirement on the Applicant to identify the legal owner of the Electricity Interconnector and the holder of an Interconnector Licence in the application. This information is required to determine plant's eligibility for the CM. While the wording in Exhibit DA and DB is very similar, they were put in place to accommodate different organisational governance structures. Therefore, given that Rule 3.9.2(a), Exhibit DA and DB all serve different necessary functions, removing any one of these could prevent CMUs from prequalifying for the CM auction.

CP197 (National Grid Interconnector Holdings Ltd)

This proposal seeks to amend the Rules to relax the requirements for New Build and Refurbishing Interconnector CMUs, in relation to the non-GB part of the project, to provide the relevant Planning Consents alongside the declaration.

Proposed decision

We are minded to reject this proposal. We do not believe that the risk of an interconnector failing to obtain planning permission should be borne by GB consumers. In addition, with CP190, we are proposing to remove the option for Applicants to defer provision of Relevant Planning Consents and this proposal would not be compatible with that change.

CP200 (Waters Wye Associates)

This proposal suggests amending the Rules to allow Applicants to opt-out of the CM process during the Tier 1 disputes window. Currently the Rules allow participants to opt-out only during the Prequalification Window.

Proposed decision

We are minded to reject this proposal. We acknowledge that situations may arise where an applicant requests reconsideration of the terms of prequalification, and following reconsideration wishes to opt-out. However, we believe allowing CMUs to submit an opt-out notification at this point would require wider changes to the Rules to account for the associated consequences. We believe that the risk of this situation occurring is low and that the Rules already provide mitigating tools for some CMUs as they may effectively 'opt-out' by not confirming entry into the auction. Given the probability of such a situation arising is low, we do not believe the benefits of this proposal outweigh the costs of introducing new arrangements.

CP219 (ADE)

This proposal seeks to amend the Rules to clarify how on-site generation can participate in the Capacity Market. The proposal would allow on-site generating CMUs to submit a letter from a Private Network owner or customer to satisfy the Prequalification requirements under Rules 3.6.1 and 3.7.1.

Proposed decision

We are minded to reject this proposal. We do not currently have evidence that CMUs connected to private networks have been unable to Prequalify using the existing arrangements available under Rule 3.6.3(d) and therefore do not feel there is sufficient benefit in making this change.

CP225 (Centrica)

This proposal seeks to amend the Rules to facilitate the participation of Generating Units located on Customer sites, in particular higher load factor units that are regularly in merit. The proposal would provide alternative Prequalification requirements under Rules 3.6.1 and 3.6.3 for on-site generating units that have established their connection capacity under Rule 3.5.3.

Proposed decision

We are minded to reject this proposal. We recognise that some Generating Units located on customer sites cannot participate with their full capacity as DSR CMUs, as they are likely to be generating during the periods for which the baseline is set. However, we have not received evidence that Generating Units that fall under this category have been unable to Prequalify as Generating CMUs. Therefore, we do not believe the proposed amendments are justified.

CP226 (Centrica)

This proposal would amend Rule 3.7.3 so that New Build Distribution CMUs are no longer able to defer their Distribution Connection Agreement or Private Network agreement until after Prequalification.

Proposed decision

We are minded to reject this proposal. We recognise the concern that New Build Distribution CMUs are able to defer their connection agreement until after Prequalification and therefore there is some uncertainty around whether they will be able to connect to the network. However, there are practical considerations which may prevent New Build Distribution CMUs from providing a Distribution Connection Agreement or Private Network agreement four years ahead of the Delivery Year. The Rules outline penalties for a failure to deliver on a CM obligation, and should ensure that participants have a strong incentive to bid in sites which will be able to secure a Connection Agreement or Private Network agreement for the Delivery Year.

CP227 (EP Invest Ltd)

This proposal would remove 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.

Proposed decision

We are minded to reject this proposal. Currently CMUs opting out of the CM must select whether they will be closed down, temporarily non-operational or operational during the Delivery Year in order to help determine the target capacity in the auction. The proposer suggests that this creates a risk of under-procurement at the T-4 on the assumption that the CMU is available at the T-1 stage. The proposed alternative is that the Delivery Body and Secretary of State should form their own view as to the probability of the CMU being operational, rather than requiring the participant to declare its intention.

We don't agree that the proposed alternative is better than the current policy. The participant is best placed to provide an accurate assessment of the likely future operational status of its CMU. It is appropriate that the Directors of the CMU should carry out consideration of their plans before deciding whether to opt out. This information is additional to the Delivery Body and Secretary of State's view as to the probability of the CMU being operational.

CP229 (EP Invest)

This proposal would prevent a Generating CMU from participating in a T-1 Auction for a Delivery Year for which it has at any time previously held an agreement but no longer does due to that agreement being reduced in length.

Proposed decision

We are minded to reject this proposal. We agree that the current arrangements may provide a free option for Refurbishing CMUs to reduce the length of their agreement and try to gain improved terms in the T-1 Auctions, risking a higher price for consumers. However, banning these CMUs from the T-1 Auctions altogether could reduce auction liquidity and this increase the clearing price to the detriment of the consumer.

We believe that CMUs should have the correct incentives to carry out their refurbishments, and will therefore look to consider the introduction of a financial penalty under Rule 6.8.4, however we are not proposing to make this change as part of this consultation round.

CQ1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones?

CP165 (VPI Immingham); CP230 (Energy UK)

These proposals seek to amend Rule 4.6.1 to clarify that, where a party is requesting a reconsidered decision from the Delivery Body and is conditionally prequalified, the deadline to post Credit Cover for the relevant CMU falls 15 Working Days from date of the Tier 1 appeal outcome.

Proposed decision

We support the intent of the proposal which would ensure the Prequalification process does not add an unnecessary burden on parties to post Credit Cover. However, we are minded to reject these proposals. The deadlines for applicants providing Credit Cover are detailed in Regulation 59, and we do not have the relevant powers to make amendments to the Regulations. We have raised the issue with BEIS and they are aware of this proposal.

CP223 (ADE)

This proposal seeks to amend the Rules to simplify the metering arrangements by reducing small generators and DSR participants' dependence on Suppliers and Meter Operator Agents.

Proposed decision

We are minded to take forward only some elements of this proposal. In particular, we agree that a change is required to account for situations where supplier letters refer to individual units as opposed to the CMU as a whole. In our drafting, we propose amending the rules to include each Generating Unit, and not CMU Component, as this rule applies only to Generating CMUs and this is the appropriate term within the current Rules.

However, we are minded to reject the other changes proposed in CP223. As stated in our response to CP105 last year, we will not impose a timeline on suppliers as we do not have the authority to impose obligations on suppliers in the Rules.

We are also minded to reject the addition of an Independent Metering Expert. The proposal does not contain sufficient evidence of the issue, or detail on the practical role of the Independent Metering Expert. We also have concerns around the enforcement of such a rule. We invite participants to submit further proposals or evidence in this area.

In terms of the data requirement, we believe that the existing provisions under the BSC (BSCP503), for supplier meter data to go directly to EMRS, are sufficient.

CP239 & CP240 (Scottish Power)

These proposals both relate to Unproven DSR CMUs. CP239 seeks to amend the Rules so that Unproven DSR cannot use Generating Units unless they already exist and have been notified as part of the prequalification process. It would also introduce new progress reporting requirements to monitor delivery. CP240 would amend the Rules so that Unproven DSR CMUs cannot comprise Generating Units.

Proposed decision

We are minded to reject these proposals. We understand that CP240 seeks to extend a Regulatory change made by BEIS for the second Transitional Arrangements auction relating to eligibility. However, this change would require amendments to the Regulations and as noted previously, it is not within our powers to be able to make such changes.

The Unproven DSR CMU category was designed to provide flexibility for DSR portfolios, acknowledging the different business model employed by DSR portfolio managers/aggregators relative to other market participants. The ability to delay testing of the DSR CMU and confirm components is allowed so that providers can confirm the most reliable configuration ahead of the delivery period. The risk of speculative projects is mitigated by credit cover requirements. Currently the Rules and Regulations define Unproven and Proven DSR CMUs respectively as, those that are yet to complete, and those that have already completed the DSR Test. This differentiation is not based on the status of components within the CMUs being prospective or existing.

We believe the flexibility in testing arrangements is still valid for a DSR CMU as currently defined. We also believe credit cover requirements are a good mitigation tool to deal with the concerns raised by these proposals, and we believe rates should be kept under review to ensure the tool is effective. Changes to credit cover require amendment of the Regulations and therefore we have made BEIS aware of the proposal.

4. Determination of Eligibility

Proposed amendments

Of12

This proposal seeks to amend the Rules to allow DSR CMU components to be altered during a Delivery Year. This greater flexibility is to ensure DSR CMUs or portfolios have the capability in the Rules to maintain reliability throughout the Delivery Year. We have raised this proposal as a way of coordinating a number of proposals received in this area over the past three consultation periods (CP46, CP95, CP129, CP130, CP217, CP220).

Proposed decision

Further details on our analysis and proposal on DSR component reallocation can be found in Annex C. To summarise, we intend to make changes so that:

- DSR components can be added to CMUs during a Delivery Year – this will help maintain reliability at the CMU or Portfolio level.
- DSR components which are removed from a CMU can only be reinstated in a subsequent Delivery Year, subject to the standard testing procedures.
- Metering tests are required only for the newly added component, not for the relevant CMU or Portfolio as a whole.

We believe it is appropriate that where a component has been added or removed, the CMU or Portfolio is required to conduct a New DSR Test or New Joint DSR Test and demonstrate delivery of their capacity obligation. The testing regime should ensure that components can be coordinated to deliver in accordance with the relevant Capacity Agreement.

CP195 (National Grid Interconnector Holdings)

This proposal seeks to amend the Rules to allow New Build and Refurbishing Interconnector CMUs to bid into the auction as Price-Makers.

Proposed decision

We are minded to take forward this proposal. We agree with the proposer that this change would lead to more consistency between the Rules for Interconnector CMUs and Generating CMUs.

Currently Interconnector CMUs cannot bid above the price taker threshold. This could lead to a situation where genuine capacity, which wishes to bid above this level, is excluded from the auction. This could in turn lead to a higher clearing price and greater costs to consumers.

Proposals rejected

CP170 (RWE)

This proposal would amend Rule 4.5.1 so that where a decision is made not to Prequalify a CMU the Delivery Body would have to provide detailed information in the Prequalification Decision notice as to why the decision has been made.

Proposed decision

We are minded to reject this proposal. The Delivery Body's role in assessing prequalification applications is a public function and accordingly we expect NGET to provide sufficient reasons for rejection so that if applicants wish to request reconsideration they are able to provide the necessary information and to correct errors in their Application for Prequalification.

CP183 (E.ON)

This proposal seeks to amend Rule 4.9.1 to require the Delivery Body to notify secondary trading entrants of the Prequalification decision sooner than the current requirement of three months.

Proposed decision

We are minded to reject this proposal. The three-month deadline is specifically for the case of Prequalification applications submitted outside the regular annual process. Having three months to assess applications would increase the costs of the Delivery Body. We do not believe there would be sufficient benefits from the change to outweigh this cost and given that secondary trading has not yet commenced, we do not have sufficient evidence that the three-month assessment period is reducing liquidity.

CP187 (Uniper Energy)

This proposal would amend the Rules so that additional capacity from the refurbishment of an Existing CMU (which is already a Capacity Committed CMU from the T-4 auction) can be bid into the T-1 auction for the same Delivery Year.

Proposed decision

We are minded to reject this proposal. As the proposal notes, this change would require amendments to the Regulations as well as to the Rules and we are not in a position to amend the Rules before appropriate Regulations changes are in

force. Additionally, whilst we understand this change may increase liquidity in the T-1 auction, we are concerned that it introduces complexity and potentially undermines the current arrangements for Refurbishing CMUs. For example, where new capacity from refurbishment is bid into the T-1 auction, the same 'unit' would have multiple agreements for the same Delivery Year but with different Capacity Payments. We do not feel that separating units into different types of CMU as proposed would be an appropriate solution given the existing hierarchy in the CM design. We also note this proposal would require more substantial changes to other areas of the Rules including for metering, testing, and payments.

We note that as part of our proposal Of15, we are considering whether CMUs that test above their nominated connection capacity should have the ability to qualify that additional capacity for secondary trading in the same Delivery Year. Further details are provided in Annex F.

CP199 (National Grid Interconnector Holdings)

This proposal seeks to change the Rules so that New Build Interconnectors are eligible for five year agreements, and existing Interconnector CMUs undergoing significant refurbishment work are eligible for three year agreements.

Proposed decision

We are minded to reject this proposal. Enabling Interconnector CMUs to bid for a capacity obligation of longer than one year requires amendments to both the Rules and the Regulations. Whilst the Maximum Obligation Period is defined within the Rules, and refers to the minimum £/kW thresholds with respect to Prospective Generating CMUs, the thresholds themselves are defined within the Regulations. Within the Regulations both the '15 year minimum £/kW threshold', and the '3 year minimum £/kW threshold' relate to capital expenditure committed for a Generating CMU. Altering the Rules as suggested in this proposal would introduce inconsistency. A previous BEIS consultation in January 2015 considered this issue and set out reasons for why New Build Interconnectors should not receive longer agreements.[9]

CP179 (E.ON) & CP202 (Alkane)

CP202 seeks to amend the Rules so that Generating Units/components can be reallocated freely, and so that any number of components at any number of sites can be combined within a CMU to meet an existing obligation. Likewise, CP179 seeks to provide flexibility for Generating CMUs in terms of removal and addition of Units within the CMU. We note the proposals expand a previous submission (CP107) by asking to allow reallocation as well as allow components to change site location.

Proposed decision

We are minded to reject these proposals. The Rules ensure that providers consider the composition of their CMUs at prequalification and put forward feasible and reliable units for participation in the auction and for the Delivery

[9] https://www.gov.uk/government/collections/electricity-market-reform-capacity-market

Year. It is important that prequalified capacity accurately reflects physical assets so that the auction process functions effectively and delivers reliable capacity.

These proposals do not fully justify why a change to the design of the CM is required. Secondary trading and volume reallocation already offer tools with which the provider can manage their CMU during delivery. The Rules allow flexibility for DSR components in recognition of the difficulties faced by aggregators in managing a portfolio of DSR customers.

CP217 (ADE) & CP220 (ADE)

Both of these proposals relate to the reallocation of DSR components. CP217 builds on previous proposals in this area (CP95, CP129, CP130) and provides drafting to facilitate the addition, removal and replacement of components within DSR CMUs. CP220 supplements CP217 by proposing to amend Rules 4.4.4 and 13.2.13 which it argues present barriers to component reallocation.

Proposed decision

We are minded to reject these individual proposals. However, we are progressing our own proposal Of12, which consolidates the proposals we have received in this area, takes forward the principle of greater flexibility and provides new drafting. As the proposer highlights, we have received a number of proposals on DSR component reallocation in previous consultation rounds (CP95, CP129, CP130). We agree that component reallocation should be taken forward and we support greater flexibility for DSR portfolios, particularly due to the increased reliability this can facilitate. However, concerns that increased flexibility may allow unreliable components into the CM or for gaming to take place, have been raised by stakeholders in previous responses and this was one of the reasons we chose to delay implementation.

We believe our proposed amendments (Of12) provide a balanced approach which recognises the particular business model of DSR, gives DSR CMUs the ability to change components to maintain reliability and meet obligations, but at the same time mitigates against the risk of unreliable capacity being introduced.

5. Capacity Auctions

Proposed amendments

No proposed amendments.

Proposals rejected

No proposals rejected.

6. Capacity Agreements

Proposed amendments

CP236 (BEIS)

This proposal seeks to amend the Rules to ensure Prospective CMUs cannot delay their Metering Test until the long-stop date (following their Minimum Completion Milestone or Substantial Completion Milestone). It would prevent them from receiving Capacity Payments during a period where they could potentially be operating with non-compliant metering. The proposed amendments also clarify the timetable for Metering Assessments and Metering Test Certificate submissions for Prospective CMUs.

Proposed decision

We are minded to take forward this proposal in part. We acknowledge the issue identified in the proposal and agree that amendments are required. However, we are minded to introduce different amendments to those proposed to prevent non-compliance.

We agree that the Rules as currently drafted could allow Prospective CMUs to delay their Metering Test until the end of the Delivery Year (the applicable Long Stop Date) despite having already met their Minimum Completion Milestone and Substantial Completion Milestone. Therefore, the Prospective CMU may be operational and receiving Capacity Payments, despite have non-compliant metering, for a period of up to 12 months.

We propose to amend the Rules to require Prospective CMUs to submit their Metering Test Certificate, where a certificate is required following a Metering Assessment, as part of the Minimum Completion Requirement or Substantial Completion Milestone. We believe this solution provides a better incentive for Assessments and Tests to be completed, as providers will seek to meet milestones and received payments as soon as is practical. Introducing a timetable for metering assessments and tests without clear consequences, and one which is not linked to milestone completion, may risk periods where payments are flowing to non-compliant participants.

Proposals rejected

CP175 (Engie)

This proposal seeks to align the definition of 'Operational', for Refurbishing CMUs, under Rule 1.2, with the treatment of New Build CMUs. It proposes that Refurbishing CMUs would obtain a status of ‘Operational’ when an Independent Technical Expert certifies that they have reached 90% of their de-rated capacity, as opposed to the current standard of reaching their full connection capacity.

Proposed decision

We are minded to reject this proposal. We do not currently have evidence that reaching full connection capacity has been a challenge for Refurbishing CMUs or that additional flexibility needs to be introduced to allow them to become Operational. As some refurbishments may only increase capacity by a small

amount, allowing a 90% threshold would not give evidence that the refurbishment has been successfully completed as the 90% threshold could be met by the initial, pre-refurbished capacity of the plant. We believe implementing this change would also require changes to the Regulations, which we do not have the power to do. We have made BEIS aware of the proposal.

CP198 (National Grid Interconnector Holdings Ltd)

This proposal seeks to amend Rule 6.7.7 so that, for the purposes of an Interconnector CMU, the definition of 'Transmission Licensee' also includes equivalent parties in respect of the non-GB part of the Prospective Interconnector project. This would enable Interconnector CMUs to extend its Long Stop Date in line with failures to provide an active connection by the equivalent to the GB Transmission Licensee in the non-GB part of the project.

Proposed decision

We are minded to reject this proposal. We do not believe that the risk of an interconnector failing to obtain a transmission connection for the non-GB part of the project should be borne by GB consumers. We do not think it is sensible to make these guarantees for non-GB Transmission System Operators because of a lack of certainty over how they are incentivised on connections. Instead, interconnector projects can price this risk into their auction bidding strategy.

CP180 (E.ON)

This proposal would amend Rule 6.10.1 so that a Termination Event applies not to the Capacity Agreement as a whole but only to the relevant component and the associated capacity. The proposal is most concerned with avoiding the risk that where one component fails the whole CMU is terminated, therefore penalising a proportion of capacity that may have successfully delivered.

Proposed decision

We are minded to reject this proposal. We note that the Rules and Regulations have been designed to ensure participants to develop and maintain CMUs which can reliably deliver on their de-rated capacity.

The Rules already provide for volume reallocation and obligation transfer to help CMUs avoid termination, for example due to a unit or component being temporarily unavailable. We believe there is sufficient provision in the Rules for the concerns identified but we would welcome responses which identify particular circumstances where the Rules on reallocation or transfer fail to provide a suitable solution.

7. Capacity Market Register

Proposed amendments

CP174 (RWE)

This proposal seeks to amend Rule 7.7.1 to clarify how factual inaccuracies on the Register may be amended. It specifically seeks to allow Prequalified CMUs to request amendments to the register, not only Capacity Committed CMUs as per the current arrangements.

Proposed decision

We propose to take this proposal forward but with some limitations placed on when an amendment to the Capacity Market Register might be requested in relation to a Prequalified CMU. We agree that Applicants should be able to request the Delivery Body to correct the Register entry for Prequalified CMUs as there is benefit to ensuring the Register is factually correct. However, this amendment process should not be utilised as an opportunity to correct errors in an Application made during the Prequalification Window. We also note that the Delivery Body faces significant obligations during the Prequalification and the window for Reconsidered Decisions by NGET. Therefore, we propose to amend Rule 7.7.1 so that an Applicant may request for the CMR to be amended in relation to a Prequalified CMU after Notifications of Reconsidered Decision have been issued and prior to the date falling 10 Working Days prior to the commencement of the first Bidding Window.

CP201 (Alkane)

This proposal seeks to amend Rule 7.7.3 so that the Delivery Body *must* provide the reason(s) for refusing a request to update the Register in accordance with Rule 7.7.1. The Rules currently require NGET to consider a request to update or rectify the CM Register, but only direct that NGET *may* provide reasoning why such a request has been refused.

Proposed decision

We are minded take forward part of this proposal. We expect the Delivery Body to provide reasons for the decisions it makes regarding the CM register, to enable participants to raise a dispute if required. We propose to amend Rule 7.7.3 and replace *may* with *shall* to clarify this. We are minded to reject the addition of a provision requiring NGET to refer to the Rules and Regulations in its response as we consider that it is for NGET to determine how they set out their reasoning.

CP237 (National Grid)

This proposal seeks to amend the Rules so that the value of the Auction-Acquired Capacity Obligation (AACO) used in the Load Following Capacity Obligation (LFCO) calculation considers how the value of the AACO as initially notified and published on the CM Register may have changed between the relevant auction and delivery year. For example, when a New Build CMU meets the Substantial Completion Milestone but can deliver only a proportion of the initial de-rated capacity. The proposal suggests there is inconsistency in the use of AACO under Rule 7.4.5 and Rule 8.5.3 and proposes

introducing a new term to describe the adjusted AACO value to be used in the LFCO formula.

Proposed decision

We intend to make some amendments to ensure all appropriate changes to the Capacity Obligation are captured on the CM Register through Rule 7.5.1, and are accounted for in the Load-following Capacity Obligation (LFCO) calculation under Rule 8.5.3. However, we are minded to reject the amendments initially proposed.

We propose to amend the definition of AACO under Rule 8.5.3 so that it is clear the value of AACO is the value on the CM Register, as may be amended under Rule 7.5.1.

We agree that the LFCO calculation should utilise the appropriate input value of the Capacity Obligation or sum of Capacity Obligations, and therefore should account for instances where the value of an obligation may have changed between the auction and the Delivery Year. However, we do not believe there is inconsistency in the uses of AACO within the Rules that this proposal suggests. The term AACO is defined for the purposes of the LFCO calculation under Rule 8.5.3 with regard to the Capacity Obligation. The value of the Capacity Obligation, which is the basis of the AACO, is already adjusted following new build milestones and DSR Tests, and due to Rule 7.5.1 we understand that this implies that the AACO value should also be updated on the CM Register. The values on the CM Register prevail over the original Capacity Agreement Notice and so the updated values will be used to calculate AACO and the subsequent LFCO.

We note also that previous Registers will contain information that can be used to identify how obligations have changed since the relevant auction. We believe it is unnecessary therefore to add a variation on AACO to the Register to capture earlier values, which would also add complexity.

In relation to the AACO calculation, we have identified one change that should be made to Rule 7.5.1 and one change to provide clarity under Rule 8.5.3 as follows:

1. Changes to the Capacity Obligation due to Rule 6.7.6A need to be captured on the Register, and so we propose to add a provision to facilitate this under Rule 7.5.1. The Delivery Body would then be required to make this amendment to the Register.
2. We propose to add clarifying text under 8.5.3 (the AACO formula), to say the calculation should account for any changes made pursuant to 7.5.1 (amendments to the Register). This reinforces the principle that the CM Register prevails over the original Capacity Agreement Notice issued to the Capacity Provider.

CP213 (Scottish Power)

This proposal seeks to amend Rule 7.4 so that the Generating Technology Class of a CMU is listed on the Capacity Market Register.

Proposed decision

We are minded to take forward this proposal. We believe it is appropriate that the information on both Generating Technology Class and Primary Fuel Type is made available on the public Capacity Market Register. This should help industry to analyse the CM and help participants make better decisions about their bids and therefore lead to more efficient auction outcomes for consumers.

Proposals rejected

No proposals rejected.

8. Obligations of Capacity Providers and System Stress Events

Proposed amendments

CP167 (RWE), CP194 (National Grid)

These proposals submitted by RWE and National Grid seek to amend the Rules to clarify the value of Reserve for Response (RfR) within the Load Following Capacity Obligation formula detailed under Rule 8.5.3. RWE's proposal seeks to clarify what the value of RfR should be where no value had been published. National Grid's proposal seeks to clarify that the most recent version of the Electricity Capacity Report (ECR) should be taken to provide the value of RfR for the relevant Auction Window. For example, where a T-1 Auction Window is scheduled for December in year Y, the value of RfR should be taken from the ECR published earlier in the same year Y, and not from a previous publication.

Proposed decision

We propose to take forward these proposals. The drafting will ensure that the LFCO uses the most recently published value of RfR.

We agree that there should be clarity around the value of RfR, and that the value used for each Auction Window should be the most up-to-date figure. We note that, given that the value of RfR impacts participants' obligations, bidders should know what the value of RfR is ahead of the relevant Auction Window.

We do not think it appropriate for assumptions to be made about the value of RfR where no value is published since different assumptions are possible. We propose the simplest solution is to ensure the Delivery Body publishes a value for RfR in every ECR, even when that value is equal to the last published figure.

Of13

This proposal seeks to introduce a new baselining method for storage facilities and would amend the term "B" within the formula set-out under Rule 8.6.2. The purpose of this term is to ensure that actions taken by a storage facility to reduce consumption during System Stress Event periods (within which it would normally be consuming) are rewarded as a source of capacity. We believe the term could be better calculated to realise this aim. We also believe the formula should be reviewed given some of the undesired consequences that may result from the current baselining method under term "B".

Proposed decision

We propose to take forward this proposal and amend the definition of "B" under Rule 8.6.2. The proposal would change the baseline so it is calculated using historical consumption data for the relevant (System Stress Event) settlement period from the last six weeks. This six-week period mirrors other baselining requirements already in the Rules. We believe this approach will provide a better baseline for the calculation so that response from a storage facility to reduce consumption is recognised correctly. We have also identified that the existing formula may in some scenarios over-reward a storage facility and believe our proposed changes will prevent this from occurring. Further details of this analysis are provided under Annex D.

Proposals rejected

CP185 (E.ON)

This proposal seeks to amend Rule 8.3.3(c) to clarify the decision process by which the Delivery Body determines whether a Metering Test is required.

Proposed decision

We are minded to reject this proposal. The requirement to complete a Metering Test follows from the answers provided by Applicants to the Metering Assessment questionnaire set out in the Rules. We agree it is important that there is transparency as to when a Metering Test is required. However, we think any further detail on this issue would be more appropriate to include in the Delivery Body's guidance documentation.

CP216 (ADE)

This proposal would amend rule 8.4.6 in relation to the information included in a Capacity Market Notice (CMN) or the period to which a CMN applies. The stated intention is to give greater clarity to participants and enable them to take better decisions so that the system can operate more effectively.

It is argued that the current arrangements create ambiguity for participants and risk leading to unnecessary dispatches of resources. The proposal is to amend the Rules with the effect of either:

- requiring the SO to update the information included in the CMN at least once during each Settlement Period; or
- limiting a CMN to apply to a single Settlement Period.

Proposed decision

We are minded to reject this proposal.

CMNs were designed to be settlement tools, not dispatch tools. Once a CMN has been issued, participants may monitor any changing trends from the de-rated margins data and any system warnings issued by National Grid's control room via the BMRS. There may still be benefit to including updates to an issued CMN. But it is important that any such update does not over-complicate, confuse or be seen to conflict with related information published elsewhere. We would therefore welcome views as to

what specific information should be provided by the SO in updates to a CMN, and why participants are not readily able to access that information elsewhere.

We do not agree that limiting a CMN to apply to a single settlement period would in practice simplify arrangements. There is a risk that this would lead to a series of CMNs being issued (and cancelled) for consecutive settlement periods over a relatively short period, rather than them all being covered by a single CMN. This could itself create greater confusion for participants, rather than increase clarity.

We note that the CMNs have yet to be applied to a full delivery year and at the time of writing, only two have been issued. We think it is important to allow a more thorough testing of the current arrangements to enable a considered approach to any related changes.

CQ2: Should the SO be required to update the information included in a CMN and if so what should such updates include? Please clarify why participants need this information in a CMN and cannot access it readily elsewhere.

9. Transfer of Capacity Obligations

Proposed amendments

No proposed amendments.

Proposals rejected

CP182 (E.ON)

This proposal seeks to amend Chapter 9 of the Rules to allow Capacity Agreements to be transferred following the T-4 auction for a relevant Delivery Year, rather than following the T-1 auction as is currently the case.

Proposed decision

In 2016, we considered similar proposals (CP127 and CP132). In our decision we recognised the potential upside in liquidity of such a change but rejected the proposals on the basis that the current secondary trading arrangements are untested and it would be preferable to have further evidence before considering a change. As we have received no new evidence we are minded to reject this proposal.

CP188 (Moyle Interconnector Ltd)

This proposal seeks to amend Rule 9.2.6 so that a Capacity Obligation for the 2017/18 Delivery Year may be transferred to an Interconnector CMU.

Proposed decision

We are minded to reject this proposal. The proposal relates only to Delivery Year 2017/18, and was raised prior to the Early Auction. Since all Prequalified interconnectors were awarded agreements in the auction, it is no longer possible to transfer obligations to these CMUs. Therefore, this rule change is not required.

CP189 (Moyle Interconnector Ltd)

This proposal seeks to amend the Rules to permit a CMU to increase its Capacity Obligation via secondary trade to match its available capacity at the time of transfer, even when this value is greater than at the time of its prequalification for the relevant Delivery Year.

Proposed decision

We are minded to reject this proposal. We note that as part of our work on connection capacity (Of15) we are considering whether to introduce a process through which additional capacity can be made eligible for secondary trading following the T-1 auction. We agree that there is a benefit to increasing liquidity in the secondary trading market. However, we are rejecting the drafting provided in this proposal because additional capacity should be identified and made eligible for trading using existing processes where possible, with suitable checks in place. Also, this proposal focuses on changes to de-rating factors but we believe there are other ways by which a CMU's capacity might be increased ahead of the delivery year, for example through refurbishment, which also need to be accounted for and need to be factored into any such change.

10. Volume Reallocation

Proposed amendments

No proposed amendments.

Proposals rejected

CP168 (RWE)

This proposal seeks to introduce a new role in the Rules for a 'Volume Reallocation Agent'. This would allow an individual to represent more than one Applicant during the reallocation process with the aim of better facilitating volume trading.

Proposed decision

We are minded to reject this proposal. We consider the benefits to making the change to be small and we have seen insufficient evidence to convince us it is required. Also, the system and arrangements for volume reallocation are currently untested. It would be preferable to test and investigate further before implementing proposals in this area.

11. Transitional Arrangements

Proposed amendments

No proposed amendments.

Proposals rejected

No proposals rejected.

12. Monitoring

Proposed amendments

No proposed amendments.

Proposals rejected

No proposals rejected.

13. Testing Regime

Proposed amendments

CP169 (RWE)

This proposal seeks to change the requirements to demonstrate Satisfactory Performance Days (SPDs) so that, if a CMU fails to deliver energy during System Stress Events in two or more months during summer, the CMU is not required to retrospectively demonstrate satisfactory performance on six separate days in winter. This proposal would amend Rule 13.4.4.

Proposed decision

We propose to take forward this proposal but with additional amendments to account for non-delivery in the Summer period.

Currently, if a CMU fails to deliver energy during System Stress Events in two months of the delivery year they are required to demonstrate six periods during Winter where they have delivered to their obligation. If the System Stress Events fall in summer this requirement becomes retrospective.

RWE note this may incentivise CMUs to always run on six separate occasions during Winter in case they fail to respond to System Stress Events in two months during the Summer.

We agree this Rule does not currently work correctly, but RWE's suggestion of restricting the requirement to the Winter period removes any performance requirements in the Summer period, and importantly, removes the consequences of additional testing and suspension of Capacity Payments for failure to deliver during System Stress Events. Capacity Committed CMUs should be available throughout the Delivery Year and non-delivery or unavailability during Summer should have appropriate consequences.

We propose to take forward RWE's suggested drafting but also introduce provisions under 13.4 so that, following the change to Rule 13.4.4, failure to deliver in Summer has equivalent consequences. Namely, additional Satisfactory

Performance Days, the suspension of Capacity Payments and, where Satisfactory Performance Days have not been demonstrated by the end of the Delivery Year, the repayment of previous Capacity Payments received for the relevant Delivery Year.

We also believe that the current consequences for failing Satisfactory Performance Days may not be adequate to ensure reliability. Where no Stress Events occur, CMUs may delay performance testing to summer when it may be easier to demonstrate a load-following capacity obligation, particularly during periods where there is a higher proportion of renewable generation. Using the formula in Rule 8.5.3 we believe the load following obligation could be less than half of a provider's initial capacity obligation. This could mean participants are able to pass Satisfactory Performance Tests even when they cannot meet their full obligation or where they are unreliable. We therefore welcome views on whether the failure to demonstrate satisfactory performance over Winter should have additional consequences, for example a financial penalty, or termination event.

CP171 (RWE)

This proposal seeks to amend Rule 13.4.2 so that the Delivery Body must notify Capacity Providers within five working days if a Satisfactory Performance Day has not been notified in accordance with the Rules.

Proposed decision

We are minded to take forward this proposal. We think there is benefit in setting a time requirement for the Delivery Body to tell Capacity Providers when SPDs have not been notified in accordance with Rule 13.4.2. This change will help Capacity Providers by forewarning them of a failure to correctly demonstrate satisfactory performance and potentially provide them the opportunity to reorganise a demonstration before the end of Winter. We note that the onus will be on the Capacity Provider to organise this new demonstration.

Given the data transfer systems in place between Delivery and Settlement Body, and the potential volume of notifications, we believe 10 working days is a more appropriate deadline than the five working days proposed.

We also think additional changes relating to this proposal are required under Rule 13.4 to clarify that 'properly notified' relates both to the requirement to notify the Delivery Body before the end of Winter and a requirement for the Satisfactory Performance Day to meet the definition under 13.4.1 for the relevant Capacity Committed CMU.

We therefore propose to make the amendments detailed in Annex H accompanying this letter, under Rule 13.4. We note that multiple amendments are proposed to this area of the Rules and references and numbering may appear changed in the accompanying Schedule.

CP231 (Energy UK)

This proposal seeks to amend the Joint DSR Test drafting so that, similar to the standard DSR Test, where a CMU Portfolio demonstrates less than 100% of their nominated

'Unproven' DSR de-rated capacity the aggregate Proven DSR Capacity is reduced proportionally based on the volume delivered under testing, rather than requiring a new Joint DSR Test to demonstrate 100% of the nominated capacity, as is currently required.

Proposed decision

We are minded to take forward this proposal. We recognise that it may be difficult to estimate the output of a number of DSR CMUs under testing and that so the same reason for allowing flexibility in the standard DSR testing regime applies to the Joint DSR Test. We will therefore make amendments to the Rules to facilitate the following principles:

1. where the aggregated proven DSR capacity is less than the aggregate unproven DSR capacity, the Joint DSR Test will still be considered successful; and
2. the initial unproven DSR capacity of each DSR CMU involved in the Joint DSR Test will be reduced by the proportion which the aggregate proven DSR capacity bears to the aggregate unproven DSR capacity.

We note that due to the Regulations relating to credit cover, namely Regulation 60, DSR providers are incentivised to state a feasible unproven capacity at prequalification and to put in place measures to reliably deliver that capacity under testing. To clarify, whilst these changes enable the benefit of portfolio testing to be realised, each DSR CMU would risk credit cover draw-down under the Regulations if the relevant portfolio does not collectively demonstrate at least 90% of the stated aggregate unproven DSR capacity before the delivery year. In addition, due to the Regulations, each DSR CMU comprising the portfolio must not exceed the 50MW de-rated capacity cap.

CP234 (ESC)

This proposal seeks to amend the Rules to allow DSR CMUs that are Balancing Mechanism Units to use their existing BSC compliant metering, rather than being forced to use Bespoke Metering.

Proposed decision

We are minded to take forward this proposal. BMUs entering as DSR CMUs should not have to use a Bespoke Metering solution where their existing BSC compliant metering is suitable. We are minded to take forward the proposed changes to Rules 13.2.5(b)(ii) and 13.2B.5(ii) and the definition of 'Approved Metering Solution'.

Proposals rejected

CP163 & 164 (Engie), CP204 (UKPR), CP209, CP210, CP211 & CP212 (Scottish Power)

Each of these proposals seeks to amend the testing regime under Chapter 13 to ensure CMUs can deliver for more than 30 minutes. Specifically, they propose to alter the requirements to demonstrate satisfactory performance under Rule 13.4.1 so that a

Capacity Committed CMU would be required to demonstrate the relevant volume for more than one Settlement Period.

Both CP163 and CP164 seek a two-hour demonstration (four consecutive Settlement Periods) on one of the Satisfactory Performance Days (SPD). CP164 differs from CP163 in that it would grandfather changes to the testing arrangements for existing agreements. CP204 proposes to require demonstration for four hours (eight consecutive Settlement Periods) on one of the three SPDs, with existing arrangements grandfathered for those with existing agreements. CP209, CP210, CP211 and CP212, submitted by Scottish Power, cover the four combinations of six or four consecutive Settlement Periods and grandfathered, or non-grandfathered provisions.

These proposals raise concerns that, given a growth in small-scale generation and storage, capacity that is only able to deliver for one Settlement Period may displace capacity with the capability to deliver for a longer duration and System Stress Events may require delivery for longer than one Settlement Period.

Proposed decision

We agree that consumers should be protected from the risk of resources being unable to deliver for the potential duration of a stress event. However, we do not believe that satisfactory performance days are the appropriate area of the Rules to account for these issues. As all of these proposals relate to a change to satisfactory performance days we are minded to reject each of these proposals. We explain in our response to CP176 and CP224 that an amendment to the de-rating methodology would provide a more appropriate solution. The proposals listed here could result in a valid source of capacity being unable to participate in the CM altogether, whereas a de-rating approach allows participation whilst accounting for durability concerns.

CP186 (E.ON)

This proposal seeks to amend Rule 13.2.3 so that DSR Tests can take place during the Prequalification Assessment Window.

Proposed decision

We are minded to reject this proposal. It does not clearly identify why the current arrangements discourage DSR providers from participating or justify why Rule 13.2.3 should be revoked. DSR Tests may take place prior to the Prequalification Assessment Window and following Auction Results Day. We note also that our proposals on DSR component reallocation propose to allow DSR Tests to be completed during the Delivery Year when configurations change. We believe this provides sufficient opportunity for providers to arrange and complete a DSR Test.

CP221 (ADE)

This proposal would amend the Rules so that, where a DSR CMU has failed to demonstrate satisfactory performance according to Rule 13.4.1 up to the volume of the Capacity Obligation, but has demonstrated at least 90% of the required volume, a CMU may choose to reduce its Capacity Payments proportionally rather than continue to attempt to demonstrate satisfactory performance. It is proposed that where this option to reduce Capacity Payments is taken, the relevant CMU is subject to an additional penalty equal to TF1 multiplied by the under-delivery volume.

Proposed decision

We are minded to reject this proposal. The initial DSR Test allows for a reduction in an obligation to 90% of the nominated (unproven) DSR Capacity before credit cover is drawn down (obligations may be set lower as per the Regulations). The Rules and Regulations are drafted to ensure DSR providers nominate and undergo testing for a volume which can be reliably delivered. Given that satisfactory performance is demonstrated during the Winter of the relevant Delivery Year, the DSR CMU will have already completed a DSR Test and will have had the opportunity to set an appropriate obligation. Reducing the obligation further does not only impact payments but also the availability of the volume procured through the auction process from Proven DSR CMUs.

We do not want to encourage speculative applications from potentially unreliable CMUs or aggregated portfolios. Where there is a legitimate issue with a DSR CMU or component, the existing arrangements for volume reallocation, obligation transfer, and our own proposals on DSR component reallocation (Of12), should provide sufficient scope to maintain reliability to meet the requirements under Rule 13.4.1. We are proposing to take forward CP231, allowing the same proportional reduction to occur in the Joint DSR Test and thereby helping DSR aggregators to deliver reliability on a portfolio basis.

CP228 (EP Invest Ltd)

This proposal would amend 13.4.1 so that, where a CMU that has failed to demonstrate satisfactory performance during the Delivery Year, for example due to a Unit breaking-down, the CMU will have its Capacity Obligation and Payments reduced to reflect the third highest net output demonstrated in the relevant Delivery Year. The proposed amendment is suggested to ensure that the remaining Units within a CMU are still incentivised to meet a CM Obligation during the Delivery Year.

Proposed decision

We are minded to reject this proposal. There will always be a risk that units within a CMU break down during a Delivery Year, but we do not agree with the proposal that the CM design then contains no mechanism to incentivise the remaining operational units to deliver. The proposal correctly states that where a Capacity Committed CMU fails to demonstrate satisfactory performance, even due to one unit, the CMU as a whole faces suspended payments and ultimately repayment. But whilst CM Payments may be frozen, we expect energy market prices to continue to incentivise capacity to be available and delivering during times of system stress. The current arrangements for volume reallocation and obligation transfer also enable participants to manage the risk of a unit breaking down.

Even if it were the case that no mechanism was in place, we do not believe that the proposal to reduce obligations to the level of the third highest net output demonstrated during the Delivery Year is an appropriate mitigation. Resetting an obligation to the level of the third highest net output demonstrated during the Delivery Year is not suitable if that output was delivered using the CMU as a whole, i.e. prior to any units failing.

Additionally, this proposed solution relies on satisfactory performance not being demonstrated as the prompt for an obligation being reset. Capacity Committed CMUs have the entire Winter Period to notify satisfactory performance, and subsequently until the Summer period to demonstrate a larger number of satisfactory performance days, when the load-following obligation and risk of stress event are likely to be lower in any case. Therefore, as proposed, this mitigation may not take place until the end of the delivery year.

14. Data Provision

Proposed amendments

No proposed amendments.

Proposals rejected

CP177 (EDF)

This proposal seeks to allow the Settlement Body to share Capacity Market metering data with Elexon (BSCCo) if required. This would be achieved by adding a provision to Chapter 14.

Proposed decision

We are minded to reject this proposal. We agree that allowing the flow of information between the Settlement Body and Elexon would be beneficial both for charging calculations and the potential code modifications. However, the Regulations prohibit the disclosure of data collected by the Settlement Body to be shared except where certain circumstances are met. We have made BEIS aware of this proposal.

15. Schedules & Exhibits

Proposed amendments

CP162 (RES-Group), CP184 (E.ON), CP208 (Open Energi)

These proposals all relate to frequency response services and their treatment under the Rules. Proposals CP162 and CP184 seek to amend the Rules so that Enhanced Frequency Response (EFR) is listed under Schedule 4 as a Relevant Balancing Service. CP208 proposed the Rules be amended to facilitate the participation of dynamic FFR provision by DSR CMUs. It seeks a change to the baselining methodology under Schedule 2 for FFR providers.

Proposed decision

We agree that EFR, a balancing service which did not exist when the Rules were drafted, should be added to Schedule 4 as a Relevant Balancing Service, alongside Firm Frequency Response (FFR). We are therefore minded to take forward proposals CP162 and CP184. This will ensure that EFR resources are not penalised under the CM for providing balancing services during times of system

stress. We believe it is important that all types of valid capacity are able to participate in the Capacity Market, for example both DSR and storage facilities, and so we are also raising our own set of amendments in this area as detailed under Of14.

CP208 did not suggest any specific legal drafting, however we believe this proposal aligns with our objective to promote investment in capacity, and as noted in our decision on Capacity Market Rules changes in 2016, we have worked with stakeholders to develop a testing and allocation methodology that is consistent with the objectives of the CM while facilitating the participation of dynamic FFR. Our own proposal Of14 sets out our proposed approach to facilitating both FFR and EFR resource participation.

Of14

This proposal aims to consolidate proposals we have received relating to the participation of frequency response providers in the Capacity Market. The proposal relates specifically to providers of Firm Frequency Response, Enhanced Frequency Response, and Frequency Control by Demand Management. Annex E sets out our proposal in more detail, but the key aspects are summarised below:

- 'Declared Availability' and 'Contracted Output' to be defined for Enhanced Frequency Response and Frequency Control by Demand Management services under Schedule 4.
- Introduction of a cap on the volume of capacity registered by frequency response providers set at the value of the positive (low frequency) element of the component's 'declared availability', as stated in the relevant balancing service contract.
- Introduction of a new baselining methodology proposed for DSR providers of dynamic frequency response services – applies for the testing and delivery arrangements.
- Amendments to the output calculation for frequency response providers who have exited their contract or failed to provide frequency response – ensures only low-frequency response is rewarded up to the 'declared availability' cap.
- New prequalification information requirements and ongoing reporting requirements for frequency response providers.

We note that following the consultation deadline, RES Group have provided alternative text for the terms 'declared availability' and 'contracted output' for the Enhanced Frequency Response Service. This is available alongside CP162 on our website.[10] The alternative text has been proposed in order to future-proof the Rules against changes to balancing services more generally considering, for example, the possibility of changes to the definitions used under EFR contracts. We acknowledge these concerns. However, the current Rules and our proposal (Of14) require specific data to be provided to the Delivery Body which are selected based on current definitions and their appropriateness. At this point in time, we do not know how balancing services products may change and so are not in a position to amend Schedule 4 effectively. We also feel that this type of amendment, if made, should be made for all the services that may be impacted by change under Schedule 4.

[10] https://www.ofgem.gov.uk/publications-and-updates/res-group-capacity-market-rules-cp162

CQ3: Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules?

CP193 (National Grid)

This proposal seeks to amend the format of the Exhibits to include an 'Application Year' to ensure Applicants are submitting new Exhibits in each Prequalification round.

Proposed decision

We are minded to take forward this proposal. New exhibits are already required in each Prequalification round and this would be a simple clarification. This clarification should help to reduce the number of Applicants entering the disputes process.

Proposals rejected

CP214 (ADE)

This proposal seeks to amend Schedule 2 of the Rules, which calculates the baseline for DSR CMUs, so that Demand Samples are adjusted to reflect Triad Management actions as well as balancing services.

Proposed decision

We are minded to reject this proposal. While we support the principle of accounting for Triad Management actions in the DSR baseline this proposal does not offer a concrete methodology for doing so, nor does it have a sufficiently robust definition for Triad Management Actions. We propose that industry further develop this proposal and submit a refined methodology.

CP218 (ADE)

This proposal seeks to amend the Rules to remove the requirement for sites that include renewable generation to meter those assets through the Bespoke Metering Requirements.

Proposed decision

We are minded to reject this proposal. The Regulations prohibit CMUs from being in receipt of Low Carbon Support to avoid state aid cumulation. Individual metering for renewable components serves to provide evidence that the CMU is not benefitting from low carbon support. The current metering requirements also ensure the metering arrangements are sufficiently robust for the ESC to be able to perform its settlement functions. Many FiT-accredited meters will not provide the necessary functionalities to enable low-carbon generation to be deducted.

CP222 (ADE)

This proposal would amend Schedule 4 of the Rules so that the terms of 'declared availability' and 'contracted output' account for differences in the configuration of sites

participating in both STOR and the CM. Additionally, the proposal suggests definitions of those terms for providers of Frequency Control by Demand Management (FCDM).

Proposed decision

We are minded to take forward the proposed drafting for the FCDM service, but minded to reject the changes to Schedule 4 for the STOR service suggested in this proposal. The Delivery Body have notified us that component-level data is unavailable to implement the proposed changes to the definitions under the STOR service in Schedule 4.

With regard to the STOR service, we intend to introduce drafting to prevent the Adjusted Load Following Capacity Obligation (ALFCO) calculation resulting in a lower obligation than a STOR provider's contracted output, which would make the provider eligible for over-delivery payments despite delivering less than their initial Load Following Capacity Obligation (LFCO). We intend to introduce the proposed drafting to ensure the terms 'declared availability' and 'contracted output' are defined for the FCDM service at the CMU level. Both of these changes are detailed in our proposal Of14.

The purpose of defining services as 'Relevant Balancing Services' under Schedule 4 in the Rules is to ensure that these services are accounted for in the ALFCO calculation under Rule 8.5.2, so providers are not deterred from meeting their balancing services obligation.

We acknowledge that where a CMU's initial obligation (LFCO) is lower than the 'declared availability' of the STOR site, and for a stress event in period j the 'contracted output' required is less than the full 'declared availability', the result of the ALFCO calculation will be a lower value than the 'contracted output'. Assuming the provider delivers on their balancing service obligation they will be eligible for an over-delivery payment under the CM, despite the fact that the ALFCO formula has resulted in a value which is lower than the initial LFCO. We recognise that during a stress event it is unlikely for only a proportion of the declared availability to be required, however, we intend to change the Rules to ensure this perverse outcome is prevented. We propose to do this by introducing a minimum threshold for the ALFCO when calculated under Rules 8.5.2(a) and 8.5.2(b) equal to the 'contracted output'.

Annex B: Summary table

Proposal reference	Proposer	Summary	Proposed decision
CP162	RES-Group	This proposal from the Renewable Energy Systems Group seeks to include Enhanced Frequency Response (EFR) capacity in the list of 'Relevant Balancing Services' (listed under Schedule 4).	Take forward (under Of14)
CP163	ENGIE	This proposal seeks to change the Rules to more fully define what is meant by capacity through extending the definition of one of the Satisfactory Performance tests as defined in Rule 13.4.1. This change would apply from the 2017 set of Capacity Market Rules.	Reject
CP164	ENGIE	This proposal seeks to change the Rules to more fully define what is meant by capacity through extending the definition of one of the Satisfactory Performance tests as defined in Rule 13.4.1. This change would apply to capacity market contracts awarded after the 2016 auction that relate to delivery after 2020/21.	Reject
CP165	VPI Immingham	This proposal seeks to amend Rule 4.6.1 specifically to clarify that, where a party is appealing a decision at Tier 1 and is conditionally prequalified, the requirement (deadline) to post Credit Cover for the relevant CMU falls 15 Working Days from date of the Tier 1 appeal outcome.	Reject
CP166	Waters Wye	This proposal seeks to introduce a new role in the Rules for a 'Prequalification Agent'. This would allow an individual to represent more than one Applicant during the reallocation process with the aim of better facilitating volume trading.	Reject
CP167	RWE	This proposal seeks to clarify the value of RfR in the event that it is not published in an Electricity Capacity Report prior to the T-4 auction for the relevant delivery year.	Take forward
CP168	RWE	This proposal seeks to introduce a new role in the Rules for a 'Volume Reallocation Agent'. This would allow an individual to represent more than one Applicant during the reallocation process with the aim of better facilitating volume trading.	Reject
CP169	RWE	This proposal seeks to change the requirements to demonstrate Satisfactory Performance Days so that, if a CMU fails to deliver energy during System Stress Events in two or more months of a Delivery Year, in the Winter period only, the CMU is required to demonstrate satisfactory performance on six separate days.	Take forward (with additional amendments)
CP170	RWE	This proposal seeks to amend Rule 4.5.1 so that where a decision is made not to Prequalify a CMU following the Prequalification Assessment Window, the Delivery Body provides detailed information in the Prequalification Decision notice as to why the decision has been made.	Reject
CP171	RWE	This proposal seeks to amend Rule 13.4.2 so that the Delivery Body must notify Capacity Providers within five working days if a satisfactory performance day has not been notified in accordance with the Rules.	Take forward

CP172	RWE	This proposal seeks to amend the definition of Secondary Trading Entrant to mean the 'Applicant for any Existing CMU that does not hold a Capacity Agreement following the T-1 Auction for a Delivery Year.'	Reject
CP173	RWE	This proposal seeks to amend Rule 3.6.1 so that an alternative method is available to Non-CMRS CMUs using Bespoke Metering Configuration Solutions to demonstrate historic net output, provided a supplier is unable to do so.	Reject
CP174	RWE	This proposal seeks to amend Rule 7.7.1 to clarify how factual inaccuracies on the Register may be amended - who may request, and with regard to what CMU. The proposal specifically seeks to allow the Register to be amended for Prequalified CMUs, and not only Capacity Committed CMUs.	Partially take forward
CP175	ENGIE	This proposal seeks to align the definition of 'Operational', for Refurbishing CMUs specifically, under Rule 1.2 with the treatment of New Build CMUs.	Reject
CP176	EDF	This proposal would amend the de-rating factors so that de-rated capacity is scaled to account for a technology's ability to meet different duration stress events. The proposal would suggest new definitions and a new Schedule be added to the Rules so that a 'Duration Value Scalar' can be calculated for 'Limited Duration' assets. The proposal relates to CP163 and CP164.	Reject
CP177	EDF	This proposal seeks to allow the Settlement Body to share Capacity Market metering data with Elexon (BSCCo) if required. This will be achieved by adding a provision to Chapter 14 (Data Provision).	Reject
CP178	E.ON	This proposal seeks to amend Chapter 3 to clarify that CMUs whose connection agreements are in the name of parties other than the Applicant are eligible for prequalification.	Reject
CP179	E.ON	This proposal seeks to amend the Rules so that Generating CMUs have the ability to alter their components (remove or replace) with the same flexibility afforded to DSR CMUs.	Reject
CP180	E.ON	This proposal would amend Rule 6.10.1 so that the relevant Termination Event applies not to the Capacity Agreement as a whole but to the relevant component and its associated capacity.	Reject
CP181	E.ON	This proposal seeks to amend Chapter 3 of the Rules to enable CMUs that are part of a site which is only partially in receipt of low carbon support to participate in the CM.	Reject
CP182	E.ON	This proposal seeks to amend Chapter 9 of the Rules to allow Capacity Agreements to be transferred following the T-4 auction for a relevant Delivery Year, rather than following the T-1 auction as is currently drafted.	Reject
CP183	E.ON	This proposal seeks to amend Rule 4.9.1 so that the Delivery Body is required to notify secondary trading entrants of the prequalification decision within 3 months.	Reject
CP184	E.ON	This proposal seeks to amend Schedule 4 so that EFR is listed as a 'Relevant Balancing Service'.	Take forward (under Of14)

CP185	E.ON	This proposal seeks to clarify the decision process by which the Delivery Body determines if a Metering Test is required. It would amend Rule 8.3.3.	Reject
CP186	E.ON	This proposal seeks to amend Rule 13.2.3 so that DSR Tests can take place during the Prequalification Assessment Window.	Reject
CP187	Uniper Energy	This proposal would amend the Rules so that additional capacity available due to the refurbishment of an Existing CMU (which is already a Capacity Committed CMU) can be bid into the T-1 auction for the same Delivery Year.	Reject
CP188	Moyle Interconnector	This proposal seeks to amend Rule 9.2.6 so that a capacity obligation for the 2017/18 delivery year may be transferred to an Interconnector CMU.	Reject
CP189	Moyle Interconnector	This proposal seeks to amend the Rules to permit a CMU increase its Capacity Obligation via secondary transfer to meet its available capacity at the time of transfer, even when this value is greater than at the time of its prequalification for the relevant Delivery Year.	Reject
CP190	National Grid	This proposal seeks to amend Rule 3.7.1 to remove the option for Applicants to defer provision of Relevant Planning Consents.	Take forward
CP191	National Grid	This proposal seeks to amend the de-rating factor calculation under Rule 2.3.5 so that Distribution Connected station data is utilised to better capture distribution-level scenarios.	Reject
CP192	National Grid	This proposal seeks to amend the Rules to clarify the requirements for acceptable prequalification submissions, specifically with regard to connection agreements.	Take forward
CP193	National Grid	This proposal seeks to amend the format of the Exhibits to include an 'Application Year' to ensure Applicants are re-submitting Exhibits in each prequalification process. This would prevent Applicants having to enter the Tier 1 process to submit a new Exhibit.	Take forward
CP194	National Grid	This proposal seeks to redefine the definition of RfR to ensure an up-to-date value is available for calculations in delivery year's where T-1- or Early Auction-procured capacity is included. The current definition was drafted to account for T-4 auctions only.	Take forward
CP195	NG Interconnector Holdings	This proposal seeks to amend the Rules to allow New Build and Refurbishing Interconnector CMUs to bid into the auction as Price-Makers, aligning the Rules for Interconnector CMUs with Generating CMUs.	Take forward
CP196	NG Interconnector Holdings	This proposal suggests that Exhibits DA and DB are similar and it is unclear which is required for an Unincorporated Joint Venture. The proposal seeks to remove the requirements altogether, or to remove at least one of the exhibits DA or DB so that only one declaration is required.	Reject
CP197	NG Interconnector Holdings	This proposal seeks to amend the Rules to relax the requirements for New Build and Refurbishing Interconnector CMUs, in relation to the non-GB part of the project, to provide the relevant Planning Consents alongside the declaration.	Reject

CP198	NG Interconnector Holdings	This proposal seeks to amend Rule 6.7.7 so that, for the purposes of an Interconnector CMU, the definition of 'Transmission Licensee' also includes equivalent parties in respect of the non-GB part of the Prospective Interconnector project.	Reject
CP199	NG Interconnector Holdings	This proposal seeks to change the Rules so that New Build Interconnectors are eligible for five year agreements, and existing Interconnector CMUs undergoing significant refurbishment work are eligible for three year agreements.	Reject
CP200	Waters Wye	This proposal suggests amending the Rules to allow Applicants to opt-out of the CM process during the Tier 1 disputes window. Currently the Rules allow participants to opt-out only during the Prequalification Window.	Reject
CP201	Alkane	This proposal seeks to amend Rule 7.7.3 so that the Delivery Body must provide the reason(s) for why a request to update the Register in accordance with Rule 7.7.1 has been refused.	Partially take forward
CP202	Alkane	This proposal seeks to amend the Rules so that Generating Units/components can be reallocated freely, and so that any number of components at any number of sites can be combined within a CMU to meet an existing obligation.	Reject
CP203	Anonymous	This proposal seeks to amend the definition of Excluded Capacity to include Generating Units holding a black start contract.	Reject
CP204	UK Power Reserve	This proposal seeks to amend Rules 13.4.1 and extend the duration of one of the required Satisfactory Performance Days to a length of eight continuous half-hourly settlement periods.	Reject
CP205	UK Power Reserve	This proposal seeks to amend the Rules so that the Authority is required to conduct an audit, or review a sample, of initial prequalification decisions and Tier 1 decisions that are not raised to Tier 2.	Reject
CP206	Ecotricity	This proposal seeks to amend the definition of Distribution Connection Agreement so that a party that is not named on the agreement, but has the right to use that grid connection, is not deemed ineligible due to their situation as an un-named party.	Reject
CP207	Ecotricity	This proposal seeks to amend the Rules so that a carbon intensity limit of 450gCO2/kWh is established as part of the general eligibility requirements for all CMUs. This limit was chosen to reflect the Government's Emissions Performance Standard.	Reject
CP208	Open Energi	This proposal seeks to amend the Rules to facilitate the participation of FFR in the Capacity Market, in particular FFR provision by DSR CMUs. It seeks a change to the baselining methodology under Schedule 2 for FFR providers.	Take forward (under Of14)
CP209	Scottish Power	This proposal seeks to amend Rules 13.4.1 and extend the duration of one of the required Satisfactory Performance Days to a length of six consecutive half-hourly settlement periods. It is suggested this requirement come into effect from the 2017/18 Delivery Year for agreements won following 1st December 2016. It is proposed the new testing requirements do not apply for the Transitional Arrangements.	Reject

CP210	Scottish Power	This proposal seeks to amend Rules 13.4.1 and extend the duration of one of the required Satisfactory Performance Days to a length of four consecutive half-hourly settlement periods. It is suggested this requirement come into effect from the 2017/18 Delivery Year for agreements won following 1st December 2016. It is proposed the new testing requirements do not apply for the Transitional Arrangements.	Reject
CP211	Scottish Power	This proposal seeks to amend Rules 13.4.1 and extend the duration of one of the required Satisfactory Performance Days to a length of six consecutive half-hourly settlement periods. It is suggested this requirement come into effect from the 2017/18 Delivery Year and applied retrospectively to all agreements. It is proposed the new testing requirements do not apply for the Transitional Arrangements.	Reject
CP212	Scottish Power	This proposal seeks to amend Rules 13.4.1 and extend the duration of one of the required Satisfactory Performance Days to a length of four consecutive half-hourly settlement periods. It is suggested this requirement come into effect from the 2017/18 Delivery Year and applied retrospectively to all agreements. It is proposed the new testing requirements do not apply for the Transitional Arrangements.	Reject
CP213	Scottish Power	This proposal seeks to amend Rule 7.4 so that the Generating Technology Class of a CMU is listed on the Capacity Market Register.	Take forward
CP214	ADE	This proposal seeks to amend Schedule 2 of the Rules, which calculates the baseline for DSR CMUs, so that Demand Samples are adjusted to reflect Triad Management actions as well as balancing services.	Reject
CP215	ADE	This proposal seeks to amend the Rules to permit the aggregation of Prospective CMUs with one or more Units and legal owners to apply through a Dispatch Controller.	Take forward
CP216	ADE	This proposal seeks to amend the Rules to clarify the Settlement Periods to which Capacity Market Warnings apply, and to require the Delivery Body to notify participants of any change in circumstance for particular Settlement Periods.	Reject
CP217	ADE	This proposal seeks to amend the Rules to facilitate DSR component reallocation. This proposal builds on similar proposals accepted in previous rounds, but provides additional legal drafting.	Reject (Of12 proposed)
CP218	ADE	This proposal seeks to amend the Rules to remove the requirement for sites that include renewable generation to meter those assets through the Bespoke Metering Requirements.	Reject
CP219	ADE	This proposal seeks to amend the Rules to clarify how on-site generation can participate in the Capacity Market.	Reject
CP220	ADE	This proposal seeks to amend the Rules to remove provisions which place restrictions on changing the configuration of CMUs following prequalification, and which require a new DSR Test where there is a change in configuration. These proposals are made in anticipation of	Reject (Of12 proposed)

		amendments to allow DSR Component Reallocation.	
CP221	ADE	This proposal would amend the Rules so that, where a DSR CMU has failed to demonstrate satisfactory performance up to the volume of the Capacity Obligation but has demonstrated at least 90% of the required volume, a CMU may choose to reduce its Capacity Payments proportionally rather than continue to attempt to demonstrate satisfactory performance. It is proposed that where this option to reduce Capacity Payments is taken, the relevant CMU is subject to an additional penalty equal to TF1 multiplied by the under-delivery volume.	Reject
CP222	ADE	This proposal would amend Schedule 4 of the Rules to include definitions for the terms of Declared Availability and Contracted Output for the FCDM service, and to amend the existing definitions of those terms for the STOR service to account for sites where the CMU and STOR elements (components) are not equal.	Partially take forward
CP223	ADE	This proposal seeks to amend the Rules to simplify the metering arrangements by reducing the dependence of small generators and DSR participants on Suppliers and Meter Operator Agents.	Reject
CP224	Centrica	This proposal would amend the Rules so that the calculation of the de-rating factor for those CMUs in the Generating Technology Class of Storage accounts not only for technical availability but also durability.	Reject
CP225	Centrica	This proposal seeks to amend the Rules to facilitate the participation of Generating Units located on Customer sites, in particular higher load factor units that are regularly in merit.	Reject
CP226	Centrica	This proposal would amend Rule 3.7.3 so that New Build Distribution CMUs are no longer able to defer their Distribution Connection Agreement or Private Network agreement with the relevant DNO until after Prequalification.	Reject
CP227	EP Invest	This proposal would amend the Rules to remove the requirement for Mandatory CMUs opting-out of the Capacity Market to submit an Opt-out notification which states whether the CMU will be closed-down, temporarily non-operational, or operational during the relevant Delivery Year. Further amendments are proposed to remove the provisions which are consequential to the statements made in the opt-out notification.	Reject
CP228	EP Invest	This proposal would amend 13.4.1 so that, where a CMU that has failed to demonstrate satisfactory performance during the Delivery Year, for example due to a Unit breaking-down, a CMU will have its Capacity Obligation and Payments reduced to reflect the third highest net output demonstrated in the relevant Delivery Year. The proposed amendment is suggested to ensure that the remaining Units within a CMU are still incentivised to meet CM Obligation during the Delivery Year.	Reject

CP229	EP Invest	This proposal would prevent a Generating CMU from participating in a T-1 Auction for a Delivery Year for which it has at any time previously held an agreement (multi-year) 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.	Reject
CP230	Energy UK	This proposal seeks to amend the Rules to clarify that, where a party is appealing a decision via the Tier 1 process, the cut-off for posting credit cover should fall 15 working days after being informed of the relevant determination being made.	Reject
CP231	Energy UK	This proposal seeks to amend the Joint DSR Test drafting so that, similarly to the standard DSR Test, where a CMU Portfolio demonstrates a proportion of their nominated DSR de-rated capacity the Proven DSR Capacity is reduced to match the proven volume, rather than requiring a new Joint DSR Test to prove 100% of nominated capacity as is currently required.	Take forward
CP232	Energy UK	This proposal seeks to amend the Rules so that the Authority is required to conduct an audit, or review a sample, of initial prequalification decisions and Tier 1 decisions that are not raised to Tier 2.	Reject
CP233	ESC	This proposal seeks to amend the Rules so that it is clear how auxiliary load should be proportioned for sites that share the load amongst a number of generating units and where the auxiliary load is not separately metered.	Take forward
CP234	ESC	This proposal seeks to amend the Rules to allow DSR CMUs that are Balancing Mechanism Units to use their existing BSC compliant metering, rather than being forced to use Bespoke Metering.	Take forward
CP235	ESC	This proposal seeks to amend the Rules to require all participants, other than Unproven DSR CMUs, to provide 'Boundary Point MPANs' and/or 'Boundary Point MSIDs', where applicable, to the Delivery Body during prequalification in order for line loss factors to be applied to metered volumes.	Partially take forward
CP236	BEIS	This proposal seeks to amend the Rules to ensure Prospective CMUs cannot delay their Metering Test having met their Minimum Completion Milestone or Substantial Completion Milestone and receive Capacity Payments whilst potentially operating with non-compliant metering. The proposed amendments also clarify the timetable for Metering Assessments and Metering Test Certificate submissions for Prospective CMUs.	Partially take forward
CP237	National Grid	This proposal seeks to amend the Rules so that the value of 'AACO' used in the LFCO calculation considers how the value of Auction-acquired Capacity Obligations may have changed in the period between the relevant auction and delivery year. For example, when a New Build CMU meets its Substantial Completion Milestone but can deliver only a proportion of its initial de-rated capacity. The proposal suggests introducing a new term to describe the adjusted AACO value to be used in the LFCO formula.	Reject (with additional amendments)

CP238	Scottish Power	This proposal aims to replace the current 'Storage' Generating Technology Class with two new Generating Technology Classes: one for pumped (hydro) storage resources, and a second for batteries and other non-pumped storage. It proposes amending Schedule 3 of the Rules.	Reject
CP239	Scottish Power	This proposal would amend the Rules relating to Unproven DSR so that Unproven DSR CMUs cannot comprise Generating Units unless they already exist and have been notified as part of the prequalification process. It would introduce new progress reporting requirements to monitor delivery.	Reject
CP240	Scottish Power	This proposal seeks to restrict the potential for Generating Units to be part of CMU which is categorised as an 'Unproven DSR CMU', extending the approach taken for the Second Transitional Arrangements auction.	Reject
Of12 (CP124, 129, 130)	Ofgem	We previously decided to take forward proposals CP124, 129 and 130 in principle, however, we delayed the implementation of the changes as we had not consulted on the required legal drafting. This proposal from Ofgem presents the relevant drafting to implement the principle of flexibility for DSR component allocation and reallocation. We have considered CP217 and CP220 in drafting this proposal.	Take forward
Of13	Ofgem	This proposal would amend the term "B" within the formula set-out under Rule 8.6.2. The purpose of this term is to ensure that actions taken by a storage facility to reduce consumption during stress event periods (within which it would normally be consuming) are rewarded as a source of capacity. We believe the term could be better calculated to realise this aim. Our proposal would change the baseline to be calculated using consumption historical data for the relevant (stress event) settlement period, from the last six weeks. This six-week period mirrors other baselining requirements already in the Rules.	Take forward
Of14	Ofgem	This proposal builds on CP162 which we propose to take forward. This proposal would make a series of amendments to the Rules in order to allow frequency response providers, of whatever technology class, to participate in the Capacity Market in accordance with legislation and the objectives guiding the CM Rules change process. Overall, the proposal will involve changes to Chapters 3, 8, 13 and Schedules 2, 3, and 4.	Take forward
Of15	Ofgem	This proposal seeks to address the issue around some parties overstating the maximum output that they can generate in a stress event. The proposal involves changes to Rule 3.5 and to implement financial penalties some changes to existing Regulation.	Take forward

Annex C: DSR Component Reallocation (Of12)

Summary

This proposal seeks to amend the Rules to allow DSR CMU components to be altered during a Delivery Year. This greater flexibility is to ensure DSR CMUs or portfolios have the capability in the Rules to maintain reliability throughout the Delivery Year. We have raised this proposal as a way of coordinating a number of proposals received in this area over the past three consultation periods (CP46, CP95, CP129, CP130, CP217 and CP220).

We note that these changes will not take effect until the start of the 2018 Delivery Year, but we are consulting on our proposals and drafting at this time.

Background

We received a proposal (CP46) in 2014/15 suggesting to amend the Rules so that DSR aggregators had greater flexibility to add and remove components. We decided to consider the proposal further and in the 2015/16 consultation round we received a further four proposals relating to component reallocation for DSR CMUs (CP95, CP129, CP130 and CP141). We rejected CP95 in favour of taking forward CP129 and CP130, and by extension CP141. However, we did not implement the changes to the Rules since system changes were required by the Settlement Body and Delivery Body. Since our decision, we have engaged with delivery partners to ensure functionality can be delivered ahead of the 2018/19 Delivery Year.

CP217 and CP220 provide drafting to implement earlier proposals. We believe that CP217, which aims to introduce greater flexibility to add and remove DSR, should be taken forward in principle. However, we do not believe that the proposed drafting is appropriate in all aspects. For example, the timings provided for notification, and the testing at the component level for DSR Tests.

Proposed amendments

With regard to CP220, we agree with the proposer that Rule 4.4.4 should be amended and we agree that there should be a means for DSR CMUs to conduct another DSR Test. However, Rule 13.2.12 should remain un-amended since DSR CMUs should be required to re-test, and this rule provides the required prompt. We have provided our own drafting in Annex H accompanying this consultation letter which would amend the Rules so that:

- DSR components can be added to CMUs during a Delivery Year – this will help maintain reliability at the CMU or Portfolio level.
- No more than twenty new components can be added by a provider within one Delivery Year, and these must be notified as part of a maximum of five notifications to the Delivery Body.
- DSR components which are removed from a CMU can be reinstated in a subsequent Delivery Year, subject to the standard testing procedures.
- Metering tests are required only for the newly added component, not for the relevant CMU or Portfolio as a whole.
- Metering and DSR Tests can occur during the delivery year once the configuration of the DSR CMU has changed.
- DSR Tests are required for the new CMU, following either removal or addition of components.
- New metering and DSR Tests are conducted within a certain time from notification so that a CMU is not in an unreliable state for an extended period during the delivery year.
- The CM Register is updated in reasonable time following reallocation.

We believe it is appropriate that where a component has been added or removed, the CMU or Portfolio is required to conduct a New DSR Test or New Joint DSR Test and demonstrate delivery of their capacity obligation. The testing regime should ensure that components can deliver the relevant Capacity Agreement. We note that under our proposals the obligation for the CMU will not change in any way whilst components are being altered. Aggregators should actively manage their portfolios to ensure reliability throughout the Delivery Year and meet satisfactory performance requirements.

We propose no change to the Metering Test and DSR Test process itself regarding the roles of the Delivery Body and Settlement Body, or the information provision requirements currently placed on the Capacity Provider. Our proposal of five notifications and a maximum of twenty component additions within a Delivery Year is based on feedback from stakeholders and the current arrangements for the STOR service. We propose this cap applies to a provider, though we note notifications may relate to multiple CMUs. We do not propose to cap the amount of components a provider may remove from their CMU(s).

Following the period within which a Capacity Provider may notify the Delivery Body of additions or removals, and those requests are processed, we propose that a DSR Test Certificate must be provided which evidences a DSR Volume equal to or greater than the relevant DSR CMU's obligation. Where this has not been achieved we propose it is appropriate that the DSR CMU's obligation be terminated. This does not alter the Capacity Providers opportunity to trade out of an obligation rather than add components to maintain reliability.

Annex D: Calculating the output of a storage facility (Of13)

Summary

This proposal would amend Rule 8.6.2 so that the formula for calculating the output of a Generating CMU that constitutes a Storage Facility more accurately identifies actions to reduce consumption. This can be achieved by changing the way baseline consumption is determined under term "B" of the formula. We propose it is also appropriate to alter the calculation of "B" within the formula to prevent Storage Facilities from being over-rewarded by the current arrangements. We believe the current formula allows a Storage Facility, under certain circumstances, to receive an over-delivery payment despite having:

1. only delivered capacity equal to its obligation during the relevant stress event; and
2. continued to consume energy to charge between the issuing of the Capacity Market Warning and the start of the relevant stress event.

How is the output (Eij) of a Generating CMU that constitutes a Storage Facility currently determined?

Under Rule 8.6.2, the output of a storage facility CMU is equal to A + B - C:

- A: the electricity generated (the aggregate metered volume in MWh or the aggregate QMEij as appropriate);
- B: the aggregate (for all units) of the mean average metered Consumption in MWh of each such Generating Unit in the two Settlement Periods prior to the Settlement Period in which the Capacity Market Warning with respect to the Stress Event was published provided that if any such Generating Unit was generating electricity during any such Settlement Period it is deemed to be zero;
- C: the aggregate of the metered Consumption (in MWh) of each Generating Unit comprised in the Generating CMU in Settlement Period j.

Where QME_{ij} is the aggregate of the 'Period Expected Metered Volume' (as defined in the BSC) for each BM Unit "i" comprised in the CMU which is providing Relevant Balancing Service in Settlement Period "j".

Example of the issue

To illustrate how the current methodology may result in undesired consequences we provide the following worked example.

A generating CMU, which is a storage facility consisting of 4 equal components, is consuming energy to charge at a rate of 2MW per component, on aggregate 8MW. Each component has a capacity of 10MW, so overall the CMU is 40MW. The facility charges from zero capacity to full capacity over the course of 5 hours, or 10 continuous settlement periods.

At the start of the 2nd settlement period as the facility is charging, a Capacity Market Warning is issued. The facility continues to consume to charge for 8 settlement periods after the warning is issued. The stress event occurs immediately following the point at which the storage facility has reached full charge (ie. 8 settlement periods after the Warning was issued), and lasts one hour.

The storage facility has a capacity obligation of 5MWh and proceeds to deliver on the obligation for the next hour (**10 MWh** for the 2 settlement periods), using all four units to generate the 10MWh.

The output of the facility over the hour of the stress event would be equal to A + B – C = 10 + 8 – 0 = **18MWh**.

This means the storage facility has over-delivered and is eligible for extra payment. This over-delivery reward payment would be received despite having:

1. only delivered capacity equal to its obligation during the stress event, and
2. continued to consume energy to charge between the issuing of the Capacity Market Warning and the start of the Stress Event.

Conclusion

Redrafting the term "B" to be based on six-weeks historical consumption data (for the relevant period) would remove the opportunities for baseline manipulation and more accurately reflect the usual consuming behaviour of the facility and would align the methodology with DSR.

CQ4: Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2?

Annex E: Frequency response services in the CM (Of14)

Introduction

We considered two proposals relating to frequency response in our 2016 April consultation. Both proposals, CP98 (ADE) and CP148 (Open Energi), sought to amend the Rules to ensure that DSR resources are able to provide Firm Frequency Response (FFR) services and prequalify for the Capacity Market (CM). We agree that the Rules should be amended to allow DSR providers of FFR to participate effectively. However, we decided against taking forward the proposals due to concerns around the suggested methodology. We noted in our decision that we would work with stakeholders and delivery partners to design a solution that would progress DSR participation whilst meeting the CM Rules objectives.

In this consultation round we received four further proposals relating to frequency response. CP162 (RES-Group) proposed that Enhanced Frequency Response (EFR) be added to the list of 'Relevant Balancing Services' under Schedule 4 of the Rules, and also proposed drafting for the terms to be used. CP184 (E.ON) also requested for EFR to be listed under Schedule 4. CP208 (Open Energi), as in CP148, asked for an appropriate baselining methodology to be designed to allow the participation of DSR FFR providers. CP222 (ADE) proposed terms for 'declared availability' and 'contracted output' for the Frequency Control by Demand Management (FCDM) service, which is already listed under Schedule 4.

Given the variety of proposals we have received on the topic we have chosen to raise our own proposal (Of14) to progress frequency response participation which comprehensively sets out our minded-to position. This Annex provides further detail on our proposed solution and our reasoning. Given the complexity of the topic we welcome further views during consultation on our proposals and the associated drafting which is provided in the accompanying schedule.

We note here that the Settlement Body has highlighted that, with regard to some changes, a period of development is required to enable systems to provide functionality. We intend for the drafting proposed in Annex H to be implemented following our decision in Summer 2017, subject to the Parliamentary timetable. We understand that currently there are no DSR providers of dynamic frequency response participating in the CM. However, introducing these changes should provide the opportunity for such resources to participate via prequalification in 2017. We will make a final decision on implementation as part of our published decision on this consultation.

Summary of changes

- 'Declared Availability' and 'Contracted Output' to be defined for EFR and FCDM services under Schedule 4.
- A cap on the volume of capacity registered by frequency response providers set at the value of the positive (low frequency) element of the component's 'declared availability', as stated in the relevant balancing service contract.
- A new baselining methodology proposed for DSR providers of dynamic frequency response services – applies for the testing and delivery arrangements.
- Amendments to the output calculation for frequency response providers who have exited their contract or failed to provide frequency response – ensures only low-frequency response is rewarded up to the 'declared availability' cap.
- New prequalification information and ongoing reporting requirements for frequency response providers.

Detailed proposal

We intend to add Enhanced Frequency Response to the list of Relevant Balancing Services under Schedule 4 of the Rules to ensure consistency in the treatment of FFR and EFR services. The drafting we propose for the terms 'declared availability' and 'contracted output' is provided in Annex H accompanying this letter.

Defining FFR and EFR as a relevant balancing service ensures that providers are not penalised for delivering their balancing service obligation, for example varying output to alter frequency, during a CM stress event.

Obligations, capacity delivered, and capacity rewarded

We have considered three aspects of the capacity provided by frequency response providers when analysing how the CM Rules function to reward FFR/EFR resources and considering whether changes are required:

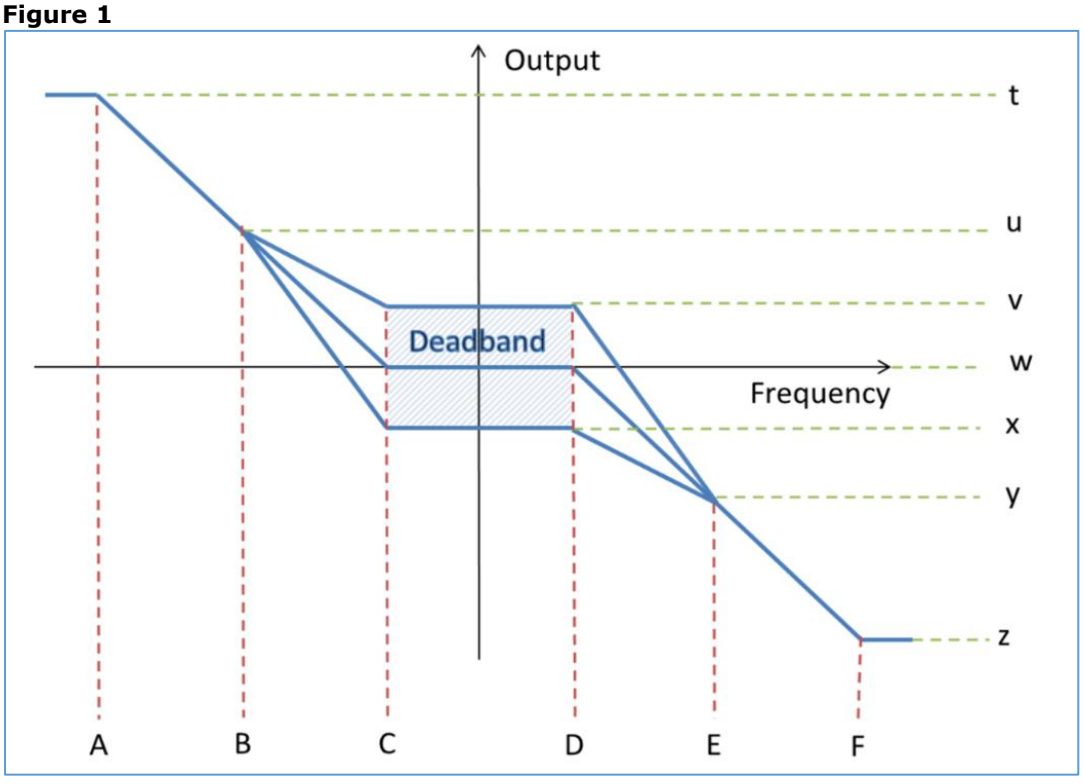
1. capacity available outside of frequency response periods and the provider's maximum potential capacity – this relates to setting an appropriate obligation;
2. capacity delivered as a consequence of frequency response – this relates to how capacity is accounted for and rewarded during system stress events; and
3. third-party capacity enabled due to frequency response services.

Capacity available outside of frequency response periods, and the maximum potential capacity

For the purposes of the Capacity Market, it is essential to identify the capacity of the participant during prequalification as a basis for auction bidding and setting the obligation. For providers without an FFR contract the obligation would be based on the full capacity of the storage facility or the full demand reduction capability of a DSR component. However, there are a number of reasons why for frequency response providers we might not expect this full capacity to be available. For example, the provider may have tailored their resource to provide frequency response within contracted boundaries which differ from 'nameplate' capacity. Additionally, due to frequency response in previous settlement periods, during a stress event period the full capacity of the resource may not be available. Some frequency response contracts require 24-hour availability, and the simultaneous occurrence of frequency events and system stress events means that in most cases the output of these resources will be determined by their FFR/EFR contract – and this could be both high or low frequency response.

Therefore, we propose that the obligations of FFR/EFR contracted parties are based on the positive 'declared availability' of the resource as defined in the relevant contract. This should equate to the capacity volume represented by the distance between *w* and *t* in Figure 1 below or alternatively, the output required following a low frequency variance from *C* to *A* in Figure 1. The level *t* in this case provides the cap to the obligation for the FFR/EFR provider within the Capacity Market. We identify the distance from *w* to *t* as the potential maximum capacity that can be delivered, and the volume of capacity that should be rewarded in accordance with primary and secondary legislation.

Figure 1



We considered whether it would be appropriate to apply a specific de-rating factor to this capacity, recognising some of the potential limitations on delivery noted above. We do not think this would be necessary considering that de-rating already accounts for frequency response during averaging calculations.

Capacity delivered as a consequence of frequency response

While we propose the positive 'declared availability' of the contract as the appropriate cap for the provider's CM obligation, we do not propose to change the way in which capacity delivered during frequency response (and during times of system stress) is rewarded, penalised, and generally accounted for.

Currently for FFR and STOR services for a settlement period in which balancing services are required, the provider's ALFCO is adjusted in such a way that it equals their Contracted Output, i.e. their CM obligation equals their balancing service obligation. Proposal CP162 would ensure the same outcome for EFR providers. This does not reward the provider for high frequency control, but it does recognise that this response may sometimes be required and the provider should not be penalised under the CM for carrying out this balancing service. We propose to take forward the drafting provided in the accompanying Annex H to ensure EFR services are accounted for.

Example

Schedule 4 and Chapter 8 of the Rules interact to ensure that for FFR and STOR, the load-following obligation is adjusted (reduced) by the aggregate of Declared Availability minus Contracted Output. The outcome is the adjusted load-following capacity obligation (ALFCO). In mathematical terms:

$$ALFCO = LFCO - \beta(QBSCCCij)$$

where β =1 when a relevant balancing service has been provided; and
where QBSCCCij is the aggregate of (Declared Availability – Contracted Output) for each Generating Unit or DSR CMU Component "I" comprised in the CMU which is providing a Relevant Balancing Service in Settlement Period "j".

As noted, Declared Availability is the maximum output of the storage provider or DSR component (*w* to *t* in Figure 1). Contracted Output is the delivered volume during the settlement period, which is determined by frequency levels. In Figure 1, Contracted Output may be anywhere between *t* and *z*. In practice, this means that the Rules are drafted to match the CM obligation to the balancing services obligation.

For example, where a storage facility has a maximum FFR discharge capacity of 10MWh (*w* to *t*), has a CM obligation based on that capacity of 10MW, and delivers 6MWh in accordance with their FFR contract during the settlement period, their ALFCO will equal:

ALFCO = LFCO – β(QBSCCCij) = 10MWh – 1(10MWh – 6MWh) = 10MWh – 4MWh = <u>6MWh</u>

Therefore, by delivering their balancing obligation they have also met their CM obligation.

Using the same example, if the same FFR provider were to deliver only 4MWh due to a fault with the storage facility, they would have under-delivered by 2MWh and would face penalties under the CM Rules and Regulations. Likewise, they may be eligible for over-delivery payments if they deliver above their obligation. However, in either case, not meeting the terms of the FFR contract and delivering outside of the required 'envelope' risks losing the availability fee payments received from their FFR contract.

Third-party capacity enabled by frequency response

When frequency control is being provided by a DSR component or storage facility other sources of generation or demand reduction are able to deliver. If frequency were not controlled, it's possible these other sources would have been prevented from delivering due to their impact on system frequency. Controlling frequency does not provide benefit only by helping supply/demand imbalances, it also allows supply to be despatched in a more efficient way. This enabling provides clear benefits to system adequacy.

We considered a number of ways in which this enabling might be recognised by the CM Rules:

1. Allow negative Contracted Output (high frequency response) to be considered as part of the CM obligation, i.e. maintain the existing Rules for FFR and ensure EFR is treated similarly.
2. Identify the proportion of capacity enabled and factor this into any over-delivery payment for the FFR/EFR provider during times of system stress.
3. Identify the proportion of capacity enabled and factor this into the CM Obligation based on the probability of this capacity being enabled during peak periods/times of system stress.

We believe options two and three would introduce inconsistency to the CM design and unnecessary complexity. The SO's requirement for frequency response and the benefits of frequency response are realised in the balancing service market and remunerated via parties' individual contracts. What we have proposed above is that the full positive 'declared availability' of the resource be remunerated by the CM, recognising that this represents their capacity contribution. Any capacity enabled by FR will likely correlate to the high frequency response of the resource. This will mirror the low frequency capability of the resource which is already being remunerated via the CM obligation. So allowing additional over-delivery payments or an increase in obligation may in fact represent a double payment for adequacy. No resource can provide both high and low frequency response simultaneously.

We propose that the current Rules (for FFR), and our proposed changes to Schedule 4 (for EFR), effectively account for the capacity benefits of high frequency response, whilst the balancing services market rewards the remaining benefit. No additional changes are proposed in this section.

Baselining and output measurement

Even in cases where the CM Obligation has been altered to match a balancing services obligation, to ensure the proper operation of the CM, we need to be able to measure the output of a CMU during periods of system stress so as to determine delivery against obligations.

The CM Rules have been developed with a series of testing and demonstration requirements. The key requirements are summarised below for storage and DSR providers:

Table 1

	Storage Facility (Generating CMU)	**DSR CMU**
Capacity Volume	Nominated/Registered	Nominated (Unproven or Proven)
Information requirements	Connection Agreements, Average Highest Output data, UCEC/SCEC data	DSR Test Certificate, Metering Test Certificate, Business Model, Metering Arrangements
Testing	Satisfactory Performance Days	DSR Test or Joint DSR Test, Metering Test Satisfactory Performance Days
Output measurement (Eij)	A + B – C formula (Rule 8.6.2)	DSR Volume (Rule 8.6.3) – the difference between the baseline and the metered volume
Delivery	Comparison for Eij to the ALFCO or LFCO as appropriate	Comparison of Eij to the ALFCO or LFCO as appropriate

We noted above that we would like to amend the Rules so that all providers of frequency response services can participate. Therefore, we have considered how our amendments should work with regard to both storage facilities and DSR with regard for each of the steps listed in Table 1.

We propose that for all types of technology, providers of frequency response will provide information during the prequalification process detailing their balancing services obligations, including on the type of service they provide and the key terms of their contract. This will enable the Delivery Body and Settlement Body to verify capacity volumes, testing and output appropriately.

We welcome views on whether our proposed drafting in this area adequately captures the information needed to identify existing contracts and the relevant parameters of those contracts.

Storage

For a storage facility providing frequency response two issues we considered were:

1. Where frequency response is being provided 24-hours a day it may be difficult for Satisfactory Performance Days to be demonstrated during Winter of the relevant Delivery Year without breaching the terms of the FFR/EFR contract.
2. Due to our proposed amendment (Of13) to Rule 8.6.2 (calculating output Eij), "B" would be altered to look at the last six weeks' average consumption. This sets a new baselining method and we note the same issues in the existing formula exist for frequency response providers. Since FFR/EFR providers are consuming only in response to frequency it is not clear if the current or proposed baselining method is appropriate.

Considering the first issue, given that storage providers have successfully prequalified for the CM while holding balancing services contracts we do not believe there is a significant enough issue to merit amending the Rules around Satisfactory Performance Days. Additionally, we note that demonstrating performance is a key part of the CM testing arrangements and is included to ensure physically-backed capacity is being rewarded.

Considering the second issue, we propose that for storage providers of FFR/EFR, for the purposes of calculating Eij, the term "B" should always be set at zero. The purpose of the term "B" is to capture the DSR behaviour of the storage facility by identifying where normal consumption behaviour has been suspended during a stress event. Since FFR/EFR providers' consumption is dependent on frequency, attempting to capture normal behaviour for the periods of the stress event becomes irrelevant.

The current approach in the Rules ignores any discharge occurring during the same settlement periods and instead takes the aggregate metered consumption into the calculation. Therefore, the outcome currently would always be a positive value, or zero if the storage facility only discharged for that period. The outcome would be a reward for an uncontrolled reaction to frequency, rather than for a conscious choice to suspend consumption to aid system adequacy, which the current formulation aims to capture, and our Of13 proposal aims to improve upon.

We believe the current drafting of the Eij calculation, which measures aggregate consumption and generation over the settlement period, remains appropriate for frequency response providers and so we intend to maintain this aspect of the drafting.

Demand-side Response

For DSR providers a key barrier is the lack of a suitable baselining methodology, which is appropriate for frequency response providers. The baselining problem feeds through the Rules and means that these providers cannot meet the testing requirements, the information submission requirements, or ultimately their delivery obligations. Schedule 2 of the Rules sets out the current baselining methodology, which samples periods over the last 6 weeks to determine the usual demand of the DSR CMU. This then allows for its potential volume to be predicted over a settlement period. For demand-side FFR and EFR providers, since their demand is automatically varying according to frequency, setting a baseline via a sample of previous periods is inappropriate.

We considered removing the baselining requirement and by extension the testing regime for DSR CMUs under contracts for frequency response provision, and instead taking the 'declared availability' of the component as 'proven' via contract. We have decided not to take this option forward given a baseline would still need to be developed to determine output against any obligation, and because varying the approach taken in different phases of the CM process adds complexity. We propose to amend the Rules to provide a separate Baseline Methodology for DSR providers of frequency response, for use throughout the testing and delivery phases. We do not propose to alter the DSR Test of Joint DSR Test process for these CMUs, and the flexibility around proven volume will still be available to these resources, i.e. the ability to change the initial obligation where testing produces a lower 'proven' volume.

Baselining requires the identification of the operating demand level for the DSR CMU (or component) which can then be used to determine the level of reduction in demand during the relevant settlement period. This operating level changes depending on a DSR CMU's balancing services contract requirements. There are also tolerances around the starting level of output represented by the Upper and Lower Service lines in Figure 1, which define the deadband area. It is essential that the baselining methodology adopted captures this variation and identifies the likely demand for a DSR CMU prior to a change of output prompted by frequency response delivery.

The methodology adopted should also mitigate any risk of baseline manipulation. Where periods are being self-nominated, there is the opportunity that demand can be altered so that an 'operating level' is artificially raised for those periods. This would allow for a greater DSR Volume to be identified and a greater obligation to be set, but one that is not based on the reality of the DSR component's behaviour.

For DSR providers, as with storage facilities, delivery over the settlement period should take the aggregate DSR Volume delivered for comparison against baseline demand and the provider's CM obligation, or where appropriate the aggregated balancing services obligation for the period. The aggregated DSR Volume should reflect the volume of capacity over the period which has been delivered in response to a low frequency event.

For DSR, there may be an alternative way of receiving a CM obligation greater than that which might be feasible under FFR/EFR provision. This occurs when the FFR/EFR service envelope does not make use of the full range of demand-reduction available to the DSR CMU, i.e. when the contracted EFR capacity only represents 50% of the potential demand-reduction at the site, but for commercial reasons a smaller ranging envelope has been contracted. It might be possible to nominate a capacity level greater than the declared availability, and make use of the additional capacity during testing to artificially inflate the CM obligation, but with no ability to deliver beyond the FFR/EFR envelope during stress events. For this reason, and due to the risks of baseline manipulation, we propose that alongside any of the options below the CM obligation of any DSR FFR/EFR provider is capped at the level of their Declared Availability as stated above.

It is important that both DSR and Storage can prequalify in way which means that, if by the Delivery Year the participant has exited their FFR/EFR contract, the participant can still provide capacity without breaching the terms of their existing CM agreement. The baselining and testing regime should also ensure that the capacity that is rewarded through CM payments is for a volume that can be reliably delivered over a settlement period.

DSR baselining proposals

Where feasible, and as occurs with storage facilities, we want to ensure through testing that the nominated level of capacity can be delivered consistently for a settlement period, ie the 'unproven volume' should be subject to the standard DSR Test and Satisfactory Performance Days. We understand that this is possible for providers of static frequency response services and we do not propose any change to the arrangements for these providers with regard to baselining. However, we recognise that for providers of dynamic frequency response, although it may be technically possible for the DSR resource to maintain a level of lowered output similar to a static service, the dynamic service requires continuous second-by-second variation of output in line with frequency change. Where the dynamic service is required 24-hours a day, the current baselining methodology, which samples half-hour periods, is inappropriate.

We welcome views on whether the current arrangements need to be altered for providers of static frequency response services, and if so, how they should be adjusted.

We propose the following baseline methodology for DSR CMUs providing dynamic frequency response. Our drafting for this methodology is set out in the accompanying Annex H as 'Schedule 2A'.

We propose that the operating level of demand, i.e. the baseline demand for the provider should be identified by measuring output at times when frequency is within the deadband zone of the relevant envelope. That is, at times when system frequency is measured as being within the relevant reference points (depending on the service and defined envelope) and when, additionally,

the provider has not already varied capacity beyond the deadband reference points in response to frequency variation. These times will be defined as relevant baseline data points, or 'Dynamic Demand Samples', in a similar fashion to the current Schedule 2.

We consider the averaging of demand samples, as occurs under Schedule 2, to be a useful principle for frequency response providers once demand samples have been redefined appropriately. We propose demand samples to be one second periods when the provider is within the deadband of the relevant envelope, and for the baseline output to be calculated using an averaging of the outputs shown during those second period samples. Samples should be taken from the same settlement periods on each of the preceding 6 weeks. Each settlement period being a 'relevant baselining period', which must also be a period which falls within an applicable availability window for the relevant frequency response service. We do not consider DSR Alternative Delivery Periods to be relevant for dynamic frequency response baselining given the periods being considered may only be one second in duration, these have therefore been removed from the proposed drafting.

The current Schedule 2 methodology distinguishes between working and non-working days. We consider this to be a relevant distinction even though our proposed methodology requires samples to be drawn from periods within the availability window, which would suggest the provider is available to deliver its contracted output. This distinction is relevant since contracted output may be less than the maximum potential demand reduction available at a site, and so some variation in baseline output may still be allowed to occur across working and non-working days.

We welcome views on whether it is appropriate to account for working and non-working days based on the settlement period for which the baseline is being calculated, and whether FFR/EFR providers who have exited their contact during the delivery year should be treated differently.

By identifying the level of demand at the DSR component when frequency is balanced and the component has not already varied demand, we are closest to identifying the operating level from which the provider will vary demand in order to meet any variation in frequency. It is expected that if the provider is given the opportunity to nominate demand samples within settlement periods when frequency was within the dead-band, the resulting level of demand should reflect the 0% capacity level highlighted in the FFR/EFR envelope. If the obligation is capped at the level of Declared Availability, this option mitigates the opportunities for baseline manipulation.

Additionally, where the provider's operating baseline is in fact above the 0% reference point, this approach will ensure that when the baseline is used during testing, the CM obligation will subsequently be adjusted (reduced) to counteract the 'untrue' nameplate capacity being used in the FFR/EFR contract.

We note that this baselining approach feeds into the DSR Test as well as the output calculation. Given that DSR providers can self-nominate their DSR test period we assume that providers will pick periods in which the DSR Volume

CQ5: Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime?

Calculating output for testing and delivery purposes

As stated above, the baselining methodology is employed as part of the testing and delivery phases of the CM Rules. Baselining is required for DSR providers during testing so that a DSR Volume can be evidenced and taken forward as the proven capacity for that resource. Likewise, baselining is required at the point of delivery to ensure that the output delivered meets the LFCO or ALFCO requirement as appropriate.

We feel it is appropriate for frequency response services to go through some form of testing and baselining to ensure the Rules apply consistently across technologies, with regards to assuring the capacity that is procured. Whilst requiring greater administration, we believe this approach is more appropriate than simply taking values from balancing service contracts for the DSR Volume. However, we do recognise the benefits of harmonising the approaches taken toward baselining and output measurement across different markets – in this case the capacity and balancing markets.

Further detail on these two output calculations is provided below.

Calculating output from a DSR Test

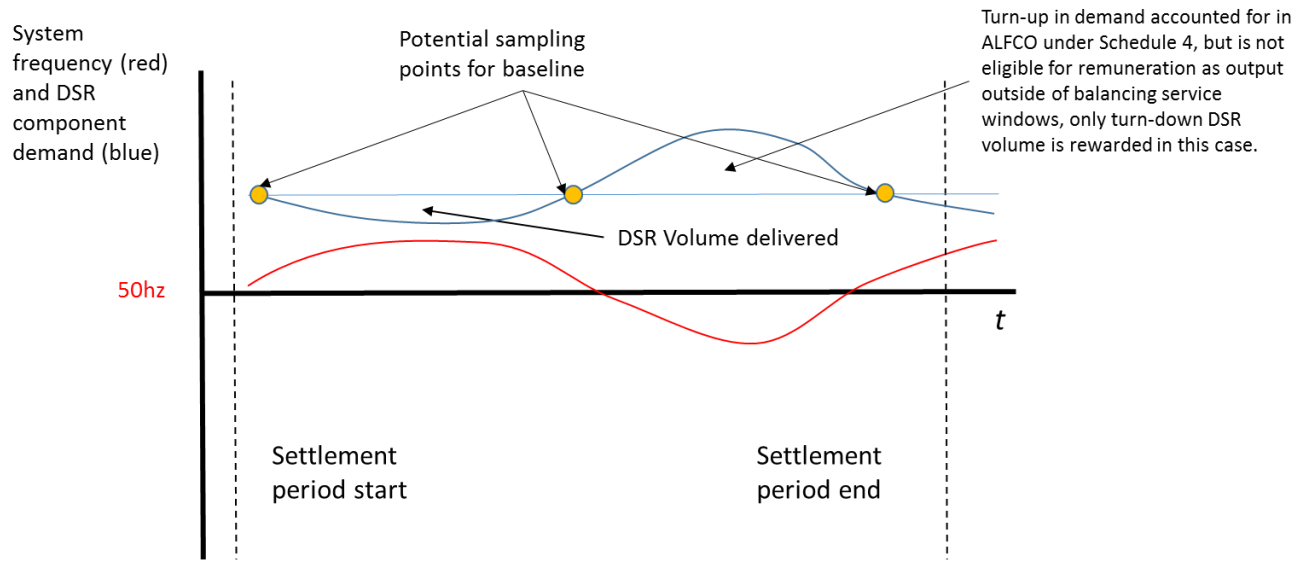
Acknowledging the difficulty of testing DSR Volume (MWh) over an entire settlement period for dynamic FFR providers, we propose to change the requirements under the DSR Test so that the DSR Volume will be calculated from a period, identified by the provider, of at least one second duration. This would mirror the existing testing completed by FFR providers before the commencement of their balancing service contract. This period is proposed to be a 'Dynamic Delivery Period', which, for the purposes of a DSR Test may substitute for the terms Settlement Period or DSR Alternative Delivery Period within the Rules. We assume that under 13.2.6. most DSR providers of FFR will opt to provide historic data to demonstrate output. We assume a test activation is only possible outside of contracted availability windows and so may be difficult to organise, however, we note that the methodology we propose can be applied where a test is carried out.

We reiterate here that DSR providers of FFR will be limited to evidencing the positive (low-frequency response) element of their 'declared availability' during the DSR Test or New DSR Test.

Once the applicable DSR Dynamic Delivery Period has been determined, the Proven DSR Capacity can be calculated by the Delivery Body, multiplying the evidenced output in the period by the relevant value to get to MWh.

We propose that DSR dynamic frequency responses providers should not be eligible to complete a Joint DSR Test given the complexity around identifying different delivery periods for testing. Therefore, our proposals above will take effect only under the DSR Test (13.2) and New DSR Test (13.2A).

Figure 2



Note: Blue baseline reflects operating demand level within the deadband frequency range (y-axis not a relevant reference point).

Calculating output during satisfactory performance days and delivery periods

There are two situations to consider when calculating output during performance testing and delivery - whether the resource is providing frequency response during the relevant period, or not. The latter situation would include a provider with a CM contract that has exited their FFR contract ahead or during the delivery year. Each possibility will need to be accounted for in the Rules. We note that in both situations the new baselining methodology proposed above should be used.

For periods when frequency response has been provided, which we might reasonably expect to be all CM delivery periods where the provider's FFR contract is still valid, we propose aggregate output (turn-up and turn-down) should match balancing services obligation as per the ALFCO calculation. We do not believe this requires additional amendments to the Rules since the calculation already draws upon the relevant aggregated metered volumes for the relevant settlement period.

CQ6: Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4?

For periods when frequency response has not been provided, which might be periods outside of a contracted availability window, or all periods once the relevant provider has exited their FFR contract, we propose that aggregate turn-down (low frequency) response should be compared to baseline for determining delivery against the obligation.

Where dynamic frequency response has continued to be provided (outside of contract) then we note this methodology is likely to result in under-delivery penalties. However, we do not expect this to occur where providers have exited their frequency response contract, since they will now have the capability to use their DSR component to deliver purely against the CM obligation, which should match, at most, the previous 'declared availability' of the resource.

We believe the definition of 'DSR Volume' within the Rules, which is defined as the output (E_{ij}) for a DSR CMU under Rule 8.6.2, will already apply to ensure only low-frequency response is rewarded, and this will apply to frequency response resources in and out of contract. To note, for storage facilities, setting the term 'B' under Rule 8.6.2 (as proposed above) to zero will ensure only aggregate net output is rewarded.

Additional amendments

Additionally, we propose changes to the Rules to capture information on participants providing frequency response services. This will ensure the correct methodologies are being applied to the relevant participant. This information will be published on the CM Register and where if the relevant balancing service contract changes, the provider will be required to update the Delivery Body and Settlement Body, and request the Register be amended.

We have not identified any amendments within the Rules relating to the metering test or general metering arrangements which are required to enable participation of frequency response providers.

CQ7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services?

We will continue to engage with delivery partners to ensure that all the information requirements are provided for in our final decision so that the testing and delivery regime work effectively for providers.

Annex F: Calculating connection capacity (Of15)

Introduction

As part of our 2015 and 2016 consultation rounds we analysed the current ways in which transmission-connected generators can calculate connection capacity at prequalification in order to participate in the Capacity Market. We published our analysis as an Annex to our 2016 decision on the statutory consultation[11]. We identified that the current arrangements, which allow for the value of connection capacity to be self-nominated, may result in an estimated 1-1.5GW 'capacity gap' if connection capacity is over-stated at prequalification. This is possible due to the lack of a testing regime to verify stated connection capacity, and the fact that the Rules only require CMUs to hold TEC up to the level of the relevant CMU's de-rated capacity. This situation potentially undermines the de-rating process and creates a risk to security of supply.

In our 2016 decision we wrote we were in favour of maintaining the opportunity for participants to self-nominate a connection capacity volume, provided that appropriate testing arrangements were put in place to verify the stated volumes which also incentivise participants to act appropriately. We believe that providers are best placed to determine the capability of their units.

Following our decision, we have engaged with stakeholders to discuss possible solutions and have conducted further independent analysis. This Annex details our proposed changes to the current arrangements. We do not propose to make these changes before the 2017 prequalification rounds since we think changes to both the Rules and Regulations are required for the testing regime to be effective.

Current arrangements

Currently, transmission-connected generators can choose one of three ways to calculate their connection capacity:

- Use Connection Entry Capacity (CEC)
- Use Historical Metered Output
- Use Transmission Entry Capacity (TEC)

Each of these options presents problems as an accurate estimate of a unit's capacity for the purposes of the Capacity Market, as detailed in our April 2016 consultation document[12].

A CMU's bidding capacity, and subsequent capacity obligation, is de-rated to reflect the output they can be expected to reliably deliver at times of System Stress. Whilst the stated value of connection capacity should reflect the full capability of the unit, the de-rated capacity of a CMU is not expected to match this level unless the plant is deemed to be 100% reliable.

Our proposal (Of 15)

We propose to allow providers a free choice of connection capacity during prequalification and that participants should be required to demonstrate this capacity during a testing period. Failure to demonstrate the stated capacity will in some circumstances lead to financial penalties. We have considered different designs of the testing regime, covering both the incentive structure and the style of test. Further details on our preferred options are provided below.

Our aim is to establish a testing regime which:

- verifies capacity capability in a timely manner; and
- effectively incentivises accurate statements of capacity capability for the relevant delivery year(s).

Our preferred option would, as far as possible, also:

- avoid unnecessary administrative burden, system implications or costs to either CM participants and delivery partners;
- avoid making the Rules unnecessarily complex; and
- avoid distorting the Capacity Market or energy market more broadly.

[11] Decision on the Statutory consultation on amendments to the Capacity Market Rules, July 2016
[12] Statutory consultation on changes to the Capacity Market Rules, April 2016.

Proposed test format

Our preferred format

Our preferred option is a test which requires generators to nominate three settlement periods in which their Historic Metered Output, when averaged, equals their nominated connection capacity. Taking an average figure in this way mitigates the impact outliers may have on the test and provides a more accurate picture of a unit's capability. We believe this format meets our stated aims as well as being the simplest and most flexible option for capacity providers. We considered using a lower or higher sample of settlement periods but believe a lower number would risk a skewed calculation, whilst a higher number would be too burdensome.

We propose that the testing should take place during a 12-month window, between April and March ahead of the prequalification window of the T-1 auction for the relevant delivery year. This allows any shortfall in capacity following testing to be replaced via the T-1 auction and accounted for in the setting of the auction parameters. Capacity providers will be responsible for notifying the Delivery Body of the relevant settlement periods, which should fall within the 12-month window noted, by the relevant deadline. The Delivery Body in turn will be required to notify providers of the outcome of their testing.

Greater detail is provided below on the consequences of different test outcomes. To summarise here, where a capacity provider has over-delivered during testing, i.e. settlement period data shows greater capability than the stated capacity, then no change to the obligation will be made. However, where a provider fails to match their stated capacity, we propose that the relevant capacity obligation be reduced to match the average proven capacity, and, where that proven level falls below a certain threshold, the provider should pay a penalty for under-delivery.

Other options considered

Drawing on the current arrangements within the CM Rules we identified five different options for testing providers' stated connection capacity. These options were:

1. Requiring the provision of Historic Metered Output data ahead of the T-1 auction for the relevant delivery year (our preferred format)
2. Expanding the use of Satisfactory Performance Days (SPDs) during Winter of the relevant delivery year
3. Requiring capacity providers to test activate their units to demonstrate capability during the delivery year, as instructed by the SO (additional to SPDs)
4. Requiring capacity providers to complete a combination of options 2 and 3 above
5. Requiring capacity providers to complete a combination of options 1 and 3 above

Following analysis of the alternative options, with consideration for the aims and preferences stated above, we discounted options 2, 3, 4 and 5 for the following reasons:

Options 2 and 4 – Satisfactory Performance Days

Making use of the Satisfactory Performance testing within the Rules has the benefit of limiting changes to the Rules. Also, the approach would be unlikely to encourage out-of-merit running of plant and thus have minimal or no distorting effect. However, testing via SPDs means testing stated connection capacity during Winter of the relevant delivery year, by which time it is too late to procure any shortfall in capacity for that delivery year. Furthermore, this option would alter the original design of SPDs within the Rules in two ways. First, the change would mean that SPDs are no longer applied equally to all participants but imply different tests for transmission-connected generators versus other providers, which introduces complexity. Second, the SPDs usefully test the existence of resources during winter, and already have consequences written into the Rules if the conditions of the SPD test are not met, which is an aspect of the Rules that we believe should be kept intact.

Options 3 and 5 – Active Testing during the relevant winter period

Requiring generators to demonstrate capability when notified by the System Operator might provide a more reliable indication of capability to deliver during winter and capture changes in capability from the time of the T-4 auction, for example degradation of plant. However, this option presents the same problem as Option 2, where any shortfall evidenced from testing is unable to be re-procured through the CM auction process. Additionally, it is likely that test activation of plant will be difficult to manage in a way which does not distort the market with plant running out-of-

merit. If plant were able to be managed appropriately, this would likely require significant amounts of planning and supervision by the SO, creating administrative burden.

Requiring the test before the T-1 auction solves the first issue but the issues of administrative burden and market distortion remain.

CQ8: Do you agree with our conclusions with regard to our preferred testing format?

If not, please provide evidence to support your views and give details of any alternative options you think might better meet our aims and objectives.

Providing incentives – the consequences of over or under-delivering in testing

Setting an appropriate incentive structure around the connection capacity test should deter providers from over-stating capability and prevent the de-rating process from being undermined. We considered a number of different approaches to setting incentives linked to the potential test outcomes. Our proposed approach and the alternatives considered are detailed below.

Our preferred approach

We propose that where a provider has satisfactorily demonstrated capacity to a level which is equal to or above the connection capacity stated at prequalification (their capacity obligation), no change is made to their obligation. Where providers demonstrate capacity above their obligation, their obligation will not be increased, since this could undermine the auction process by allowing providers to reduce the capacity in the auction, raising the price for consumers. This will also allow participants who wish to choose a lower obligation to do so, without that obligation being increased after the connection capacity test. Where a provider demonstrates capacity lower than their capacity obligation we propose the following consequences:

- The relevant capacity obligation will be reduced proportionally to reflect the proven capability of the unit during testing – this will entail a reduction in capacity payments for the duration of the agreement. This will occur in all instances of under-testing against the initial capacity obligation.
- If the test results in a proven capability which is lower than 97% of the initial capacity obligation the provider will be subject to a financial penalty.
- The financial penalty will equal the deviation from the 97% threshold (measured in capacity terms) multiplied by TF5 (£35/kW). Financial penalties will only apply to units testing lower than 97% of the relevant initial capacity obligation.

We believe this approach provides an effective incentive structure, where participants are not incentivised to overstate or understate their capacity, whilst minimising the burden for delivery partners and participants.

Other options considered

1. Credit cover posting and drawdown

We considered extending the arrangements currently applied to Unproven DSR to transmission-connected generation. This would entail a requirement to post credit cover proportional to the stated capacity of the relevant unit at prequalification, which would be returned following successful testing or drawn-down proportionally in the case of under-testing. Whilst this approach may mirror current arrangements and might be more easily incorporated into existing processes, given the capacity size of the units in question, it may result in significant capital costs and burden and deter participation in the Capacity Market. We therefore discounted this option.

2. Flat fees for under-testing

We considered applying a flat fee for any instance of under-testing relative to the initial stated capacity volume. We also considered applying a flat fee in addition to the proportional penalty described in our preferred option. A flat fee has the advantage of being clear and simple to implement. However, we decided to discount this option for two reasons. Firstly, there are legitimate reasons for allowing providers some leeway in estimation before testing. We view both the difficulty of forecasting and the lack of knowledge around market conditions in future winter

periods, which might impact output capability, as legitimate reasons for applying a penalty only below a threshold, which acts to capture these uncertainties for providers.

Applying a flat fee in addition to our preferred proportional penalty design could result in disproportional outcomes. For example, when using a capacity threshold of 97%, a provider demonstrating 96% would face a disproportional penalty versus a provider demonstrating 97% if both a flat fee and proportional penalty were applied. This distortion might encourage overly conservative estimates by providers. We therefore discounted this option. We feel a proportional penalty-only option avoids this outcome and, when using a suitable rate, still provides a suitable disincentive to overstating.

3. Tiered application of penalty rates

We considered applying different penalty rates in tiers – increasing the penalty rate as the level of tested capacity lowered in relation to the initially stated capacity. This would reflect the current arrangements for Prospective CMUs that fail to deliver on their Minimum Completion Requirement, or Unproven DSR CMUs which fail to meet the credit cover drawdown threshold. However, as with Option 2, we viewed the resulting step-changes in penalties when moving between thresholds as undesirable. We therefore discounted this option if favour of a proportionally increasing penalty calculated using one penalty rate.

Setting the penalty threshold and penalty rate

We conducted analysis to determine the most suitable penalty threshold and penalty rate. As stated above, we sought to find a threshold which provides participants with a suitable allowance for over and under-estimating capacity capabilities ahead of delivery, considering legitimate scenarios. In turn, the penalty rate should provide a suitable disincentive to overstate capacity. By capping obligations at the level of the initial obligation we have already provided a suitable disincentive to understating capacity.

In setting a threshold below which penalties apply, we acknowledge that there may be legitimate sources of uncertainty for providers when coming to estimate their capacity capability ahead of testing. Uncertainty may arise from the impact of temperature affecting performance, metering errors, settlement runs and other unexpected events that could influence test results. We also recognise that our preferred test format, which requires averaging of data from three settlement periods, may be difficult to predict exactly.

We modelled a number of different threshold levels, in combination with a range of different penalty rates. We considered the non-grandfathered termination fee rates as detailed in the Regulations (TF3, TF4 and TF5)[13]. We reiterate here that our proposed approach would still reduce capacity obligations in all instances of under-testing, thereby reducing the CM payments for the relevant provider. This means that, even once a threshold in place, incentives act to encourage accuracy of estimation.

We evaluated the outcome of our modelling by analysing:

- the proportion of CM revenue lost due to under-testing using different penalty rates - this should be great enough to provide a strong disincentive to overstating capability; and
- the suitability of the threshold in terms of the allowance if gives capacity providers – this should not be set too low as to risk security of supply or undermine value for money, nor set too high as to risk penalties encouraging conservative behaviour.

Based on the levels of capacity nominated by transmission-connected generators in the Capacity Market, our analysis suggested that the threshold should be set no lower than 95% of the initial stated capacity. However, analysis showed that a suitable amount of flexibility is provided up to and including the 97% threshold level. In our view setting the threshold at 97% better balances the risks of too high and too low a threshold.

We believe TF5 provides a more effective disincentive than the ranges offered by either TF4 or TF3. It also aligns with the termination fees for providers who close down before the Delivery Year, and therefore a plant testing at 0MW will face the same penalties as a plant closing down.

We propose to **set the penalty threshold at 97%** of the stated capacity, i.e. penalties apply where a provider evidences any capacity lower than that level.

[13] TF3 = £10k/MW, TF4 = £15k/MW, TF5 = £35k/MW (Electricity Capacity (Amendment) Regulations 2016)

We propose that the penalty rate will equal **£35/kW (TF5)**. The penalty itself will be calculated by multiplying the deviation from the 97% threshold in capacity terms by the penalty rate.

A worked example for a unit prequalifying at 200MW is shown in Table 1 below:

Table 2

Test result	Revised CM obligation (MW)	Financial penalty (£)	Total CM income (£)
Test result = 100%	200	0	3,600,000
Test result = 97%	194	0	3,492,000
Test result = 94%	188	210,000	3,174,000
Test result = 70%	140	1,890,000	630,000
Test result = 65%	130	2,240,000	100,000
Test result = 64%	128	2,310,000	-6,000

CQ9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity?

If not, please provide evidence to support your views and give details of any alternative options you think might better meet our aims and objectives.

Next Steps

In this consultation, we are seeking views on our proposed testing and incentives structure. We are not proposing to introduce these changes to the Rules before the next prequalification round expected in July 2017. We intend to make our final policy decisions this Summer but consult on our proposed drafting changes to the Rules at a later date and implement these changes in 2018. These changes may occur outside of our usual Rules change process if Regulations changes require a particular timeline.

Annex G: Consultation questions

- CQ1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones? (CP229)

- CQ2: Should the SO be required to update the information included in a CMN and if so what should such updates include? Please clarify why participants need this information in a CMN and cannot access it readily elsewhere? (CP216)

- CQ3: Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules? (Of14)

- CQ4: Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2? (Of13)

- CQ5: Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime? (Of14)

- CQ6: Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4? (Of14)

- CQ7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services? (Of14)

- CQ8: Do you agree with our conclusions with regard to our preferred testing format? (Of15)

- CQ9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity? (Of15)