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: 05 July 2018

Dear colleagues,

Summary

- This letter sets out our decisions on changes to the Capacity Market Rules[1] (the "Rules") pursuant to Regulation 77 of the Electricity Capacity Regulations 2014 (the "Regulations").[2]
- We received 112 proposals from stakeholders and Delivery Partners, which are all published on our website. In addition, we raised four proposals of our own.
- We consulted on the Rule change proposals submitted to us, as well as four changes which we suggested,[3] from 22 March to 3 May 2018 (the "consultation").
- We received 34 written responses, which have been published on our website with the exception of two which were submitted confidentially. We also held a stakeholder workshop on 24 April 2018 to discuss the proposed Rule changes.
- We have decided to take forward 32 rule changes this year. These Rule changes will come into effect when laid before Parliament in summer 2018, subject to the Parliamentary timetable. They are shown in Annex C.
- We have decided to take forward a further seven changes with delayed implementation. These changes are not included in our amendments for this year, as we intend to lay them in Parliament in 2019. They are shown in Annex D.
- We intend to publish an update on our Five Year Review of the CM Rules in early autumn. This is distinct from the Five Year Review being undertaken by Government, but will be undertaken in consistent timescales.

Our decision on amendments to the Rules

Annex B sets out our decisions and reasoning for each of the proposals. We considered any new arguments or evidence received before making our final decisions; where appropriate, we have amended our minded-to decision and/or drafting in light of stakeholders' feedback.

[1] The latest version of the Rules can be found at https://www.ofgem.gov.uk/system/files/docs/2016/07/capacity_market_rules_2016_presented_to_parliament.pdf

[2] The Electricity Capacity Regulations 2014 came into force on 1 August 2014 http://www.legislation.gov.uk/ukdsi/2014/9780111116852/pdfs/ukdsi_9780111116852_en.pdf

[3] Statutory Consultation on changes to the Capacity Market Rules https://www.ofgem.gov.uk/system/files/docs/2018/03/2018_cm_rules_consultation_document.pdf

Improving the Capacity Market

We have decided to take forward or partially take forward 32 proposals. We have looked to improve the Rules to make participation simpler for providers, improve competition and liquidity in the mechanism, and benefit consumers.

We have decided to remove the prohibition on Capacity Market Units (CMUs) participating in a T-1 Auction where they had previously opted out as non-operational for that Delivery Year. We are also proposing to enable more providers to participate in the Secondary Trading Market, including those who originally failed at Prequalification and providers who recently commissioned.

We have decided to simplify completion of DSR testing, including changing the consequences of DSR CMUs altering their metering configuration so that a new DSR Test is no longer required for the same Delivery Year. We have also made amendments to allow providers more flexibility when choosing their capacity.

A copy of the Rules showing all of our amendments is published alongside this document in Annex C. We expect the amendments to be laid before Parliament during the summer period and ahead of the opening of the Prequalification Window. The consolidated version of the Rules published alongside this decision should be taken as official for the Prequalification process.

Systems changes

NGET and ESC set out their IT development processes in letters published alongside our consultation. Due to the volume of changes made over recent years, development and delivery times are constrained and some proposals with large impacts on systems have had to be postponed. This includes DSR component reallocation (Of12) and changes to the way that obligations are calculated (the ALFCO formula). We note stakeholders' concerns regarding delays to implementation for reasons of IT feasibility, but ultimately the integrity of these systems is fundamental to the efficient operation of the CM.

List of annexes

- Annex A provides a table summary of our decisions
- Annex B summarises the responses we received for each Rule change proposal we consulted on and our decisions
- Annex C (published alongside this document) provides a marked up copy of the Rules. Our changes are shown in blue with the proposal reference number. This document also includes several minor corrections to typographical errors in previous consolidations, which are labelled as 'errors'.
- Annex D (published alongside this document) provides the amendments we have already consulted on but have delayed for IT reasons.

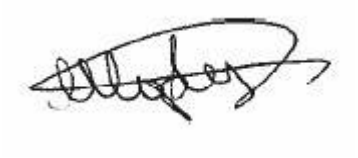
Next steps

As explained above, these Rule changes are expected to come into effect later this summer.

We will also be issuing an update on our Five Year Review of the CM Rules in early autumn. This review is distinct from the review to be conducted by Government, which will look at the wider CM framework. We intend to co-ordinate the timing and content of our review with Government, to ensure consistency and effective engagement with stakeholders.

Our review will consider, among other things, our Rules change process. In light of the review, we consider that it may be confusing and counterproductive to run a full Rules change process for 2018/19. Instead, we will focus on those changes which have already been consulted and decided on, such as Of12 and amendments to ALFCO. Stakeholders will still be able to raise proposals for consideration next year where they meet the criteria for urgency set out in our Guidance.[4] This also gives a good opportunity to consider larger policy issues, which can be raised through our or BEIS' Five Year Review.

Yours faithfully,



Mark Copley

Deputy Director, Wholesale Markets

[4] https://www.ofgem.gov.uk/publications-and-updates/final-guidance-capacity-market-cm-rules

Annex A: Summary table

The table below summarises our decisions on each of the proposals. It is designed to help interested parties navigate what is, necessarily, a lengthy and technical document.

Proposal reference	Proposer	Summary	Proposed decision
CP242	ADE	This proposal seeks to facilitate the participation of small CHP generators by establishing an alternative to the standard DSR baseline.	Reject
CP243	ADE	This proposal would amend Rule 3.6 to allow high load factor on-site Generating Units to qualify as Generating CMUs.	Reject
CP244	ADE	This proposal seeks to amend the requirement for New (Joint) DSR Tests to avoid unnecessary tests of components unaffected by metering changes.	Partially Take Forward
CP245	ADE	This proposal seeks to facilitate Secondary Trading by removing the requirement that a Capacity Obligation transferred is at least equal to the Minimum Capacity Threshold.	Reject
CP246	ADE	This proposal seeks to amend Schedule 4 so that it does not impede the flexibility relating to STOR afforded to Capacity Providers under Rule 8.5.2(b).	Reject
CP247	Alkane	This proposal would extend Secondary Trading Eligibility by adding acceptable transferees.	Take Forward
CP248	Alkane	This proposal would allow transfers of agreements at any time after T-4.	Consider in the future
CP249	Anonymous	This proposal would prohibit Price Makers from submitting exit bids below the Price Taker Threshold.	Reject
CP250	Anonymous	This proposal seeks to publish applicant price-maker/ price-taker status on register after the auction.	Reject
CP251	Anonymous	This proposal seeks to publish applicant price-maker/ price-taker status on register.	Reject
CP252	Centrica	This proposal seeks to rationalise the number of certificates and declarations required to be submitted with a Prequalification application where the applicant is not the Legal Owner.	Partially Take Forward
CP253	Centrica	This proposal seeks amendments to Rule 3.6.1 on previous Settlement Period performance for Existing Generating CMUs.	Partially Take Forward

CP254	Centrica	This proposal seeks to allow incremental capacity from sites with T-4 Capacity Agreements to bid into T-1 Auctions for the same Delivery Year.	Reject
CP255	ClientEarth	This proposal would introduce a requirement that all generating units participating in T-4 Auctions for Delivery Years from 2022 meet the Emissions Performance Standard.	Reject
CP256	ClientEarth	This proposal would require each generating unit covered by the LCP BREF and that intends to bid for a Capacity Agreement to hold a permit stating that it will comply with the best available techniques.	Partially Take Forward
CP257	ClientEarth	This proposal seeks to allow all types of CMU to bid for Capacity Agreements of up to at least 3, and potentially 15, Delivery Years.	Reject
CP258	Drax	This proposal seeks to reinstate the option for applicants to defer provision of Relevant Planning Consents.	Reject
CP259	E.ON	This proposal seeks to allow an additional window for DSR Tests to be completed in the 30 working days after the Prequalification Results Day.	Reject
CP260	E.ON	This proposal would require Interconnector CMUs to demonstrate their Capacity Obligation when demonstrating Satisfactory Performance.	Reject
CP261	E.ON	This proposal would amend the requirements for generating units exporting electricity to an on-site customer so that they do not need to export onto the Distribution Network.	Reject
CP262	E.ON	This proposal seeks to ensure that the transfer of a Capacity Agreement also transfers the requirement to demonstrate Satisfactory Performance Days.	Reject
CP263	E.ON	This proposal seeks to include technology classes for renewable energy generators which are not in receipt of a Low Carbon Exclusion as defined under Regulation 16.	Consider in the future
CP264	E.ON	This proposal would allow Existing Generating CMUs who successfully prequalify then to have the option to withdraw from the CM process prior to the auction without incurring any penalties.	Reject
CP265	E.ON	This proposal seeks to revoke Government's decision to amend Schedule 3 (Generating Technology Classes) to break down the storage	Reject

		technology class into multiple categories.	
CP266	E.ON	This proposal would allow Existing Generating CMUs who successfully prequalify then to have the option to amend their Bidding Capacity ahead of the auction.	Reject
CP267	E.ON	This proposal would allow a new build CMU applicant to submit a Parent Company Guarantee instead of either a letter of credit or cash deposit when required to submit credit cover.	Reject
CP268	E.ON	This proposal seeks to require the NGET to publish the specific applicable dates for key milestone reporting and independent technical expert progress reports.	Reject
CP269	WWA	This proposal seeks to remove the requirement to name a holding company in a Prequalification application.	Reject
CP270	EDF	This proposal would require the Capacity Market Register to include information on the connection capacity, de-rated capacity and technology type for each component making up each generating CMU.	Take Forward (delayed implementation)
CP271	EDF	This proposal would require the Capacity Market Register to include information on the nature of the DSR provided, including a distinction between DSR capacity units that are and that are not supported by an on-site generating unit.	Take Forward (delayed implementation)
CP272	EDF	This proposal seeks to amend Capacity Market rule 4.4.4 to allow reconfiguration of Generating Units or DSR CMU Components as long as the physical assets are unaffected.	Reject
CP273	EDF	This proposal would amend the excess capacity volume for T-1 Auctions (currently set at 100MW) to mirror the levels for T-4 (1GW).	Take Forward
CP274	EDF	This proposal seeks to amend the DSR baselining methodology in the case of the Relevant Settlement Period being in a holiday period.	Reject
CP275	Endeco	This proposal seeks to amend the punctuation of Rule 3.3.3(a) in order to clarify its meaning and its applicability.	Take Forward
CP276	Endeco	This proposal seeks to clarify the process of providing DSR Alternative Delivery Period data to NGET for the purposes of demonstrating a DSR CMU's capacity volume for Prequalification as a Proven DSR CMU.	Take Forward

CP277	Endeco	This proposal seeks to permit the demonstration of Satisfactory Performance Days from data gathered by Balancing Services Metering.	Reject
CP278	National Grid Gas	This proposal would relieve a Capacity Provider of their Load Following Capacity Obligation (or to reduce it) in any Settlement Period in which its Capacity Committed CMU is affected by an Operating Margins instruction from the gas transmission system operator.	Reject
CP279	EnergyUK	This proposal seeks to clarify the definition of QMEij in Rule 8.5.2.	Take Forward (delayed implementation)
CP280	EnergyUK	This proposal seeks to clarify the requirement for additional Satisfactory Performance Days.	Take Forward
CP281	EnergyUK	This proposal would remove restrictions on generating unit configurations.	Reject
CP282	EnergyUK	This proposal would extend protections for network outages and constraints from transmission-connected generators to distribution-connected generators.	Reject
CP283	EnergyUK	This proposal would remove the requirement to name a holding company in a Prequalification application.	Reject
CP284	EnergyUK	This proposal seeks to amend the Rules to require NGET to update the CM Register when it is notified of changes to CMU Type.	Reject
CP285	EnergyUK	This proposal seeks to rationalise the number of certificates and declarations required to be submitted with a Prequalification application.	Partially Take Forward
CP286	EnergyUK	This proposal would set legal timelines on rule change processes run by Ofgem.	Reject
CP287	EnergyUK	This proposal would enable CMUs to notify NGET of a change from transmission connection to distribution connection.	Reject
CP288	EnergyUK	This proposal seeks to clarify the requirement to provide a VAT number at Prequalification.	Take Forward
CP289	ENGIE	This proposal seeks to clarify the Rules relating to a Capacity Obligation where a CMU includes more than one BMU/generating unit.	Take Forward (delayed implementation)
CP290	ENGIE	This proposal seeks to amend the Rules used to determine the output (Eij) of a Generating CMU in a System Stress Event.	Take Forward (delayed implementation)
CP291	ENGIE	This proposal would clarify the treatment of auxiliary and station load.	Reject

CP292	ENGIE	This proposal seeks to address the double penalties that would be applied where storage is consuming in a System Stress Event.	Reject
CP293	EP UK Investments	This proposal seeks to remove the prohibition on Existing CMUs which opted out of the T-4 Auction from the T-1 Auction for the relevant Delivery Year.	Take Forward
CP294	ESC	This proposal seeks to clarify the treatment of Interconnector CMUs with respect to the obligation and the output of the CMU.	Reject
CP295	ESC	This proposal seeks to clarify the requirements for a shared auxiliary load circuit that is part of a CMU.	Reject
CP296	ESC	This proposal would establish an obligation to provide additional data to allow the application of Line Loss Factors by ESC.	Reject
CP297	ESC	This proposal would establish a requirement for applicants to specify at Prequalification the volume and multiplier value of ineligible capacity on their site.	Reject
CP298	ESC	This proposal would allow the sharing of Capacity Market application data between ESC and NGET for the purposes of preventing and detecting fraud.	Reject
CP299	ESC	This proposal seeks to amend the Agreement Monthly Penalty Cap in the Elelctricity Capacity Regulations.	Reject
CP300	ESC	This proposal seeks to amend the timescales to implement the metering test rectification plan to account for more complex issues.	Partially Take Forward
CP301	ESC	This proposal seeks to update Schedule 6 to assist Capacity Providers to complete the Metering Test process.	Take Forward
CP302	ESC	This proposal seeks to update the metering standards specified in Schedule 7.	Take Forward
CP303	ESC	This proposal seeks to allow the use of Metering Equipment that does not meet the minimum accuracy classes specified in Schedule 7 where it can be demonstrated that the Overall Accuracy of the Metering Systems is within the allowed limits.	Reject
CP304	ESC	This proposal seeks to clarify the Metering requirements for a CMU that is a subset of a BM Unit.	Take Forward
CP305	ESC	This proposal seeks to oblige Capacity Providers to permit ESC to visit	Partially Take Forward

		generator offices and sites and provide information.	
CP306	WWA	This proposal seeks to remove restrictions on generation unit configurations.	Reject
CP307	WWA	This proposal seeks to clarify the requirement to submit a VAT number at Prequalification.	Take Forward
CP308	WWA	This proposal seeks to amend the Rules to require NGET to update the CM Register when it is notified of changes to CMU Type.	Reject
CP309	First Utility	This proposal seeks to consider "Maximum Credit" and "Credit Assessment Score" in the credit cover calculation.	Reject
CP310	Green Frog	This proposal seeks to amend the Rules to require NGET to update the CM Register when it is notified of changes to CMU Type.	Reject
CP311	Green Frog	This proposal would extend protections for network outages and constraints from transmission-connected generators to distribution-connected generators.	Reject
CP312	Green Frog	This proposal would normalise the schedule for construction reports.	Partially Take Forward
CP313	Innogy	This proposal would introduce 'Other Technology Class' to Schedule 3.	Consider in the future
CP314	Innogy	This proposal would add Wind to the list of 'Technology Class' options in Schedule 3.	Consider in the future
CP315	InterGen	This proposal would modify the obligation in relation to New Build CMUs from the Sixth Full Capacity Auction and all subsequent Full Capacity Auctions regarding the obligation to provide evidence of the Relevant Planning Consents.	Reject
CP316	InterGen	This proposal would establish minimum lengths of time between the auction and the Delivery Year.	Reject
CP317	Manx Utilities	This proposal would facilitate the participation of Distribution Interconnectors as Interconnector CMUs.	Consider in the future
CP318	NGET	This proposal would allow the use of distributed connected generation output data to calculate de-rating factors relevant to Technology Class Weighted Average Availability (TCWAA).	Consider in the future
CP319	NGET	This proposal would amend Rule 3.4.1(g) to permit applicants to enter 'not applicable' on their application if they are not yet VAT registered.	Take Forward

CP320	NGET	This proposal would record the issue of a Meter Test Certificate for all CMUs, rather than just DSR.	Take Forward
CP321	NGET	This proposal would amend NGET's obligation to update the BETA value (β) on the Capacity Market register 5 days after a System Stress Event.	Take Forward
CP322	NGET	This proposal would prevent New Build CMUs from changing location once the Substantial Completion Milestone / Minimum Completion is met.	Reject
CP323	NGET	This proposal would amend Rule 8.4.2(a) so that 'system' tagged Demand Control Instructions do not trigger a Capacity Market Notice.	Take Forward
CP324	NGET	This proposal would implement a dead band following Capacity Market Notice publication when triggered by a DCI or Low Frequency event to mitigate against the potential confusion and lack of confidence in the process.	Reject
CP325	NGET	This proposal would amend the schedule of construction plan submission and change the requirement to provide an ITE report to only if there has been a material change to progress.	Partially Take Forward
CP326	NGET	This proposal would set Auction Acquired Capacity Obligation (AACO) to zero pending Substantial Completion or Minimum Completion by the start of the Delivery Year to avoid providers who have not met their SCM or MCR from being eligible for payments.	Reject
CP327	NGIH	This proposal would require NGET to publish the information calculated by the GB System Operator in determining whether to publish a Capacity Market Notice (CMN).	Reject
CP328	NGIH	This proposal would create a new category of "conditionally prequalified" pending the applicant remedying its error or omission in the Prequalification application form.	Reject
CP329	NGIH	This proposal would ensure that a reduction in TEC caused solely by the failure of the System Operator to deliver a connection does not incur a Termination Fee.	Take Forward
CP330	RWE	This proposal would amend Rule 8.3.1 should to clarify that it also relates to the submission of letters from Private Network owners deferred under Rule 3.7.3(c).	Take Forward
CP331	RWE	This proposal would amend Rule 8.5.1(ba), which relieves	Reject

		interconnectors of obligations when affected by any SO measure reducing output.	
CP332	RWE	This proposal would require interconnectors to demonstrate at least their Capacity Obligation to demonstrate Satisfactory Performance Days.	Reject
CP333	RWE	This proposal would remove the obligation to deliver from a CMU that had been tripped as a result of a system to generator intertrip and was subject to a restriction on its output.	Reject
CP334	RWE	This proposal would allow New Build CMUS to use a letter from a Private Network owner to Prequalify for a T-1 Auction.	Take Forward
CP335	ScottishPower	This proposal would require applicants to specify if the CMU is an alternative to another CMU application and if so provide the CMU ID to which it relates.	Reject
CP336	ScottishPower	This proposal would require applicants to demonstrate that a New Build CMU would be a CMRS CMU and that it will be wholly or mainly used to supply energy to the Distribution Network or the GB Transmission System.	Reject
CP337	ScottishPower	This proposal would remove the need for participants to repeatedly Opt-out stations that hold a connection agreement but have been closed for some time.	Reject
CP338	UK Power Reserve	This proposal would allow Capacity Providers of Distribution connected CMUs to aggregate CMRS CMUs as part of a CMU Portfolio for the purposes of Satisfactory Performance Days.	Take Forward
CP339	UK Power Reserve	This proposal would allow Capacity Providers to submit an updated Metering Assessment for a CMU after an initial Metering Assessment has been submitted.	Reject
CP340	UK Power Reserve	This proposal would allow Capacity Providers of Distribution-Connected CMUs to change whether their CMU is a CMRS metered or Non-CMRS metered CMU.	Reject
CP341	Uniper	This proposal would allow a CMU with an Agreement acquired in a T-4 Auction which then increases its Connection Capacity to bid in the additional capacity in the T-1 Auction.	Reject
CP342	Uniper	This proposal would allow CMUs to amend their Connection Capacity and De-rated Capacity post-auction for Secondary Trading Purposes.	Reject

CP343	Welsh Power	This proposal would allow recently commissioned, non-contracted, Existing CMUs to register for Secondary Trading once the plant has proven its ability to deliver capacity.	Take Forward
CP344	ADE	This proposal would permit the proving of Satisfactory Performance Days from data gathered by Balancing Services Metering.	Reject
CP345	WWA	This proposal would allow new CMUs to be transmission-connected via private wires or a shared connection.	Reject
CP346	Anonymous	This proposal would require all CMUs to demonstrate during Prequalification that they meet all emissions standards.	Reject
CP347	Centrica	This proposal would allow an applicant to nominate a Connection Capacity equal to or less than the Average Highest Output of the Existing Generating CMU.	Partially Take Forward
CP348	Restore	This proposal would add an additional methodology to determine the Connection capacity of a CMU.	Partially Take Forward
CP349	Engie	This proposal would require a Distribution Connection Agreement for a New Build Generating CMU to be firm.	Consider in the future
CP350	Saltend Cogeneration Company	This proposal seeks to allow an Existing Generating Transmission CMU to pre-qualify for the Capacity Market in circumstances where its TEC is zero and it is intending to generate and export to a Private Network.	Reject
CP351	NGET & ESC	This proposal seeks to move when metering information is collected and the level of detail which is collected.	Reject
CP352	Anonymous	This proposal will require all Prospective CMUs to demonstrate as part of the Extended Years Criteria, compliance with the Medium Combustion Plant Directive and Generator Controls.	Reject
CP353	ScottishPower	This proposal would create new Demand Side Response (DSR) Technology Classes with different minimum durations, and apply the extended performance testing to these newly created Technology Classes.	Consider in the future
OF12	Ofgem	DSR Component reallocation	Take Forward (delayed implementation)
OF13	Ofgem	Changes to the storage baseline formula	Take Forward
OF15	Ofgem	Changes to how connection capacity can be set	Consider further
OF16	Ofgem	Changes to the auction clearing algorithm	Reject

Annex B: Proposals and decisions (by Rules chapter)

This Annex sets out a short summary of each proposal, our decision, and our reasoning accompanied by a summary of the consultation responses. Each proposal is referred to by the 'CP' reference number allocated on our website and our own proposals are labelled Of12-Of16.

1. General Provisions

Amendments we will make

CP247 (Alkane) and CP343 (Welsh Power)

These proposals would extend eligibility for Secondary Trading:

- CP247 would make eligible CMUs that were not prequalified for the auction but subsequently fulfil all Prequalification requirements ahead of the delivery.
- CP343 would allow recently commissioned, non-contracted, Existing CMUs to register for Secondary Trading once the CMU has proven its ability to deliver capacity.

Consultation responses and decision

We received twelve responses in favour of our proposal to make the above amendments. One respondent opposed our proposed changes and argued that the ability to participate in the CM as a Secondary Trading Entrant could enable parties to finance their assets with subsidies such as Enterprise Investment schemes (EIS) and Venture Capital Trusts (VCT) and then receive capacity payments.

We have decided to take forward these amendments. We do not share the concerns raised by one respondent regarding subsidies. Cumulation of state aid is prohibited under the General Eligibility Criteria in the Regulations and applicants are required to declare that their asset has not been in receipt of EIS or VCT funding. The Rules, including Rule 9.2.6, set out who is an acceptable transferee for secondary trading purposes and establishes that this includes the requirement for acceptable transferees to abide by the General Eligibility Criteria and to declare that they are not in receipt of other subsidies.

We continue to believe that these changes should increase secondary trading liquidity and reduce non-delivery risk, thereby benefiting consumers. By increasing the pool of CMUs that can trade for a capacity agreement, CMUs that might otherwise have defaulted on their obligation will instead be able to trade that obligation to another party.

Several stakeholders suggested that further amendments would be beneficial to improve liquidity in the secondary trading market. We intend to consider secondary trading as part of the Five Year Review.

Proposals rejected

CP257 (ClientEarth)

This proposal asks that the Rules are amended to allow all types of CMU to bid for Capacity Agreements of at least three, and potentially fifteen years.

Consultation responses and decision

The general intent of the proposal was widely supported. However, all seven respondents agreed with our view that this proposal cannot be taken forward because it requires changes to Regulation 11 which sets the entry criteria and eligibility for agreements exceeding one year for the T-4 auction.

CP286 (Energy UK)

Energy UK proposes that Ofgem publish the open letter inviting rule change proposals at the end of the Prequalification Window and provide a six-week period following this to submit proposals.

Consultation responses and decision

We received four responses on our minded-to position to reject this proposal. Two supported our decision; one of these argued that it is not appropriate to address this in the Rules, while the other requested that our process be considered as part of the Five Year Review. One respondent suggested that a panel with representation from all parties involved in the CM could be convened to assist with the rule change process. A further respondent opposed our decision to reject the proposal and argued that the change would make the process more manageable for participants.

We have decided to reject this proposal. We continue to believe that it is not appropriate for us to make this change in the Rules. Instead, we have previously issued guidance on our process and this remains the most appropriate location for any such changes should they be necessary.

2. Auction Guidelines and De-rating

Amendments we will make

No proposed amendments.

Proposals rejected

No proposed amendments.

3. Prequalification Information

Amendments we will make

CP253 (Centrica), CP347 (Centrica) and CP348 (Restore)

These proposals all relate to Rule 3.6.1, which requires Existing Generating CMUs to provide their three highest historical outputs. The average of these outputs can be used to set the connection capacity of the CMU (Rule 3.5.3). If this is the case, each output must be higher than the de-rated capacity of the CMU in order for the generator to prequalify.

We proposed to take forward parts of this and consulted on allowing a free choice of periods for evidencing historical output with the following conditions:

- The periods should be on separate days, as is the case currently. This should ensure reliability as it requires generators to show that they can perform on multiple different occasions.
- Periods should not be more than 24 months from the end of the Prequalification Window. This should ensure that the periods specified by the generator are recent enough to be representative of the generator's performance, but allow enough time for generators to prove their capacity if – for example – they are mothballed or unavailable.

Consultation responses and decision

We received fourteen responses to our minded-to decision to partially take forward the amendments we consulted on. Thirteen responses were supportive of the principle to increase flexibility for evidencing historical output and agreed that this could decrease barriers to entry. Several responses agreed that changing this Rule will simplify Prequalification.

Several respondents raised concerns with our proposal:

- One respondent was concerned that it may result in capacity being withheld from the auction.
- Another respondent commented that there was insufficient clarity on the start and end dates of the period for evidencing historical output.
- One respondent raised concerns about the application of the rule to mothballed capacity. The same respondent also proposed to remove Rule 3.6.1(a) in its entirety as an additional test of connection capacity will be required for transmission-connected CMUs if Of15 is progressed.
- Two responses disagreed with our minded-to decision to not allow applicants to use different Settlement Periods for each Generating Unit to evidence historical output, as proposed in CP253.

We have decided to implement the changes we consulted on with minor drafting changes to ensure that they also apply for secondary trading entrants. We continue to believe that these changes will simplify the Prequalification process.

Risk of withholding

We do not share the concerns around capacity withholding. We believe our approach is a low risk alternative to the existing framework and will contribute to ensuring that there are as many participants as possible in each auction. Other respondents agreed that this approach is pragmatic, low risk, and will reduce barriers to entry and thereby improve liquidity in the auction.

Start and end date of the period

As noted, one respondent commented that there was insufficient clarity on the start and end dates for the historical output period. We believe that our drafting is sufficiently clear. It refers to the 'Prequalification Window', which is defined in the Rules as the period specified in the Auction Guidelines within which applications for Prequalification are to be made.

Application to mothballed capacity and links to Of15

One stakeholder suggested that there may be circumstances in which an applicant has capacity which has not been demonstrated in the specified 24 month period (for example, because a unit was mothballed). We believe that such scenarios are likely to be rare. We continue to believe that historical output in a 24-month period provides a good

balance between accurately reflecting an applicant's capacity, and not excluding capacity that has been mothballed for a short period. However, we will monitor these provisions and intend to consider testing parameters when we consult further on Of15.

Multiple generating units and CP253

We continue to believe that the changes in the original proposal would not provide sufficient evidence of a generator's capacity. This is because we believe that it is critical to have certainty that the entire capacity of the CMU can export simultaneously. The evidence of historical performance submitted at Prequalification should therefore be in the same Settlement Period for all generating units to demonstrate that this is the case.

CP275 (Endeco)

This proposal would add a missing comma into Rule 3.3.3(a) after the phrase "or is part of a CMU which currently has a Capacity Agreement".

Consultation responses and decision

We received three responses supporting our minded-to decision to take this proposal forward. We have decided to implement this change in view of the unanimous support by stakeholders. It clarifies the meaning of Rule 3.3.3(a).

CP288 (Energy UK), CP307 (WWA) and CP319 (NGET)

These proposals seek to amend Rule 3.4.1(g) in order to permit applicants to enter 'not applicable' on their application if they are not yet VAT registered.

In our consultation document we also referred to a similar issue with the requirement to provide a postcode under Rule 3.4.3. We said that our minded-to position was not to remove references to postcodes in this rule.

Consultation responses and decision

VAT number

We received seven responses to our minded-to decision to take forward these proposals, all of which agreed with our position.

Given the unanimous support, we are taking forward amendments to 3.4.1(g) to reflect circumstances where a VAT identification number has yet to be issued. We have clarified the drafting to reflect that Applicants must notify NGET once they have received the VAT identification number. We have also taken this opportunity to remove 3.4.1A and the reference in Exhibit A to provision of VAT details. These provisions were a temporary requirement for the 2017 process while NGET's systems were under construction.

Postcodes

We received two comments on our intention to maintain the requirement to submit a postcode at Prequalification. One respondent argued that the postcode used often differs from the one associated with the grid reference number. The respondent argued that the grid reference provides a more accurate representation of the site's location, and so the post code may be redundant information since applicants must also supply the grid reference. ESC supported our minded-to position, arguing that this is key information to locating project sites and for conducting due diligence checks.

We continue to believe that there is benefit from Applicants providing accurate postcodes as part of the Prequalification Application. As highlighted by ESC, this information is key for conducting due diligence checks. We therefore do not think that it is redundant information, as suggested by one respondent.

However, we have decided to clarify arrangements for parties who have yet to receive a postcode at the point of submitting an Application. We have amended Rule 3.4.3 in line with the approach we have taken on VAT identification numbers. As with VAT identification numbers, Applicants will be required to update NGET once they have received a postcode from Royal Mail. We have also made consequential changes to 7.4.1 (information on the Capacity Market Register) and to Schedule 1 (Template Capacity Agreement Notice).

CP293 (EP UK Investments)

This proposal would remove the exclusion preventing Existing CMUs from participating in the T-1 Auction, if they have opted out of the T-4 Auction for the relevant Delivery Year on the basis that they would be closed down. The proposer argued that this would provide greater optionality for market participants and could increase auction liquidity.

In the form proposed, the change would enable participants who opted out in past T-4 Auctions to participate in forthcoming T-1 Auctions. In our consultation, we welcomed views from stakeholders on whether it would be necessary to implement these changes only for future opt-out decisions.

Consultation responses and decision

We received fifteen responses on our minded-to decision to take forward this proposal. Eight respondents agreed with our proposal to remove this prohibition. They argued:

- Participants can already achieve the same effect by exiting the T-4 auction, but this undermines the spirit of the opt-out mechanism.
- The change should improve auction liquidity and market transparency.
- Plant circumstances may change in the three years between the auctions, and this change may enable additional genuine capacity to participate in the T-1 Auction.

Four respondents opposed our minded-to position:

- One expressed concern at the potential for participants to withhold capacity. Another respondent suggested that, while they do not oppose this proposal, analysis should be conducted to ensure that this proposal does not lead to gaming.
- Two respondents noted that the ability to speculatively opt out of the T-4 and enter the T-1 could create an advantage for existing generators, and that the existing prohibition contributes to 'fleet renewal'. Another respondent suggested that this proposal could "provide coal generators with an arbitrary opportunity to bid into CM auctions."

We have decided to take this proposal forward. We continue to believe that this change should improve auction liquidity and market transparency on future plant availability, and therefore increase the competitiveness of the process. If a plant wishes to maintain the option of participating in the T-1 auction, under the current rules it is incentivised to opt out as intending to remain operational even if it intends to close. This could distort market information on future plant availability.

Withholding

Concerns were raised by some respondents that this change could increase the risk of auction withholding and gaming. Respondents referred in particular to the Charles Rivers Associates report on gaming in the Capacity Market.[5] We do not share these concerns. Participants are already able to opt out as operational in the T-4 and then participate in a T-1 Auction; this change will simply extend that provision to participants who opt out as non-operational. Participants will be able to make the commercial decision that is appropriate for them and give the best possible information in their opt-out notification.

We will monitor the opt-out decisions of providers as part of our ongoing monitoring of Auction outcomes in line with our powers. Should we see any grounds for concern, we are able to take enforcement action in line with our Enforcement Guidelines.[6]

Treatment of existing generators

We do not believe that this change creates an advantage for existing generators. In fact, by enabling genuine existing capacity to enter the T-1 auction we believe this promotes a level playing field between existing and new generators. Nor do we believe that the satisfactory level of liquidity in the most recent T-1 Auction is a good reason not to seek to improve liquidity going forward. This change would improve market transparency, and to give potential providers the opportunity to respond to changing market conditions.

Timing

Only two stakeholders suggested that this change should only be implemented for the corresponding T-1 Auctions of future T-4 Auctions. Others have expressed support for our proposed approach and drafting. We believe that the benefits to competition, liquidity and transparency are such that this change should be implemented as soon as practicable. As a result, we have decided to implement this proposal with effect for all future T-1 Auctions, including those that correspond to past T-4 Auctions.

CP334 (RWE)

Rule 3.6.3(d) permits Existing CMUs which are not directly connected to the Distribution System to use a letter from the Private Network owner as evidence of their connection rights. This proposal would extend that provision to enable New Build CMUs bidding into the T-1 Auction to demonstrate their rights to use a Private Network.

Consultation responses and decision

We received seven responses to our minded-to decision to take forward this proposal. All of these responses agreed with our position with two respondents highlighting the benefits to auction liquidity and competition.

Two respondents noted that the change should also extend to address transmission-connected private networks to avoid undue discrimination. We address these comments as part of our decision on CP242, CP243, CP261, CP345, and CP350.

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5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/252746/CRA_Report_on_the_Capacity_Market_Gaming_Risks.pdf

6 https://www.ofgem.gov.uk/system/files/docs/2017/10/enforcement_guidelines_october_2017.pdf

We have decided to take forward this proposal. We continue to believe it is reasonable to extend this provision to T-1 Auctions. It will contribute to aligning the Prequalification requirements for Existing CMUs and New Build Private Network –connected CMUs and, as a result, help reduce barriers to entry.

Proposals rejected

CP242 (ADE), CP243 (ADE), and CP261 (E.ON)

These proposals all relate to removing barriers to participation of behind the meter generation, notably Combined Heat and Power (CHP) Generators. Several issues were identified which may prevent the participation of these generators:

- the Regulations require Generating CMUs to export onto the transmission or distribution network. For CHP generators this is often not the case, as they often supply an onsite customer directly without exporting to the network;
- CHP generators may not be able to participate as Demand Side Response (DSR) CMUs because they often have high load factors, meaning the current baseline methodology is not appropriate; and
- the Regulations define Demand Side Response as a non-permanent reduction in demand, whereas CHPs are often run semi-continuously.

CP243 and CP261 propose to address the first barrier. CP261 suggests removing the requirement to export to the distribution network. CP243 suggests amending Rule 3.6.1, which requires generators to specify previous Settlement Period performance, to help non-exporting units to qualify. CP242 seeks to address the second and third barriers by allowing CHPs to be included within aggregated DSR portfolios, and suggests an alternative to the standard DSR baseline methodology which can be applied to them.

Consultation responses and decision

We received eleven responses to our minded-to position to reject these proposals. Six of the respondents opposed our minded-to decision on the basis that they agreed with the intent of the proposals. However, the majority of respondents acknowledged the inconsistencies we highlighted in our consultation between the proposals and the Regulations, and three respondents supported our view.

We have decided to reject these change proposals because they would conflict with the Regulations, which limit the definition of DSR and Generating CMUs. We continue to believe that there may be available capacity which in practice faces technical barriers that preclude participation in the Capacity Market due to the Regulations.

CHPs as Generating CMUs (CP243 and CP261)

As noted in our consultation, the definitions of "non-CMRS distribution unit" and "CMRS distribution unit" in the Regulations require export onto the distribution network. CP261 proposes to amend the definition of "non-CMRS Distribution CMU" in the Rules, however such a change would be inconsistent with the Regulations.

Similarly, CP243 attempts to provide an alternative method which removes the obligation for some generators to provide a Distribution Connection Agreement. However, removing this obligation would not have effect unless and until the Regulations are amended by BEIS, since the Regulations require export onto the distribution network.

CHP Generators as DSR (CP242)

We continue to believe that the definition of DSR under the Regulations is not compatible with CHPs and other behind-the-meter high-load factor units which provide permanent reduction in electricity use but with variable magnitude. Therefore, we are unable to implement CP242.

CP350 (Saltend)

CP350 seeks to address similar issues to CP242, CP243 and CP261. It would allow a generator which is directly connected to a customer (via private wires) but does not export onto the network to prequalify.

This proposal was received with insufficient time to be considered fully ahead of our consultation, but was included in the document for stakeholders to provide views.

Consultation responses and decision

We received thirteen responses specifically to CP350. Nine respondents supported the change proposal. They argued that it would enable genuine additional capacity to enter the CM, and correct an inconsistency between the treatment of transmission and distribution connected private wires. One respondent questioned how consumers benefit from this change, and three respondents suggested that it should be considered further.

We have decided to reject this proposal. As with CP243 and CP261, this proposal would enable the participation of generators which do not export to the distribution or transmission network. This is inconsistent with the Regulations, and therefore this change would not have effect unless and until the Regulations are amended by BEIS.

CP254 (Centrica), CP341 (Uniper) and CP342 (Uniper)

These proposals seek to allow CMUs which have won agreements in the T-4 Auction to bid "incremental capacity" into the T-1 Auction (CP254 and CP341) or the Secondary Trading market (CP342). Two hypothetical examples are given of when this may be needed: one where a CMU does not enter its full capacity into the T-4 Auction because one of its units is mothballed; and one where a Capacity Provider upgrades their site, increasing their connection capacity between the T-4 and T-1 Auctions.

Consultation responses and decision

We received twelve responses to our minded-to decision to reject these proposals. All apart from one response supported the principle of these proposals, whilst four supported our minded-to position. Seven responses suggested Ofgem should consider this further in the future, acknowledging our concerns but suggesting that there is merit to facilitating incremental capacity.

One respondent proposed that incremental capacity could be verified from construction contracts and testing by NGET as evidence of new capacity. This respondent also suggested that a CMU with two obligations for the same Delivery Year could demonstrate Satisfactory Performance Days (SPDs) on the aggregate obligation, while payments and penalties would continue to be administered at their relevant prices.

We have decided to reject these proposals. We recognise that there is merit in allowing genuine incremental capacity into T-1 Auctions and the Secondary Trading market as it may incentivise Capacity Providers to upgrade their generating assets. However, implementation of these proposals would require a verification process to ensure that

incremental capacity is truly additional and the development of an appropriate testing and penalty mechanism.

This would require significant changes to the wider CM framework, beyond those in the original proposals. We believe the proposed changes would be best considered in conjunction with our connection capacity changes as the testing and penalty arrangements may address the verification, testing, and penalty issues.

CP255 (ClientEarth)

This proposal would introduce a requirement that generating units participating in T-4 Auctions, for Delivery Years from 2022 onwards, must meet an Emissions Performance Standard of 450 g/kWh of CO2.

Consultation responses and decision

We received eight responses agreeing with our proposed decision to reject this proposal. The respondents agreed that the purpose of the CM Rules is not to enforce wider environmental legislation. The respondents argued that these policies should be enforced by the relevant regulatory authorities and any wider emissions limit should be set by the Government.

We have decided not to take this proposal forward. Implementing this proposal would require changes to Chapter 3 of the Regulations to insert a specific exclusion for this type of capacity. We do not have the power to amend the Regulations.

The CM Rules should not be used to enforce or pre-empt the Government's wider environmental policy, rather they should complement the existing legislative and regulatory framework. The Government has stated that it intends to prevent coal-generating units from being able to bid into CM auctions for delivery in 2025/26 and beyond, unless they can demonstrate that they will be able to meet the emission intensity limit of 450gCO2/kWh[7].

CP258 (Drax) and CP315 (InterGen)

These proposals would allow more flexibility around the provision of planning consents:

- CP258 proposes to reinstate the option for applicants to defer provision of Relevant Planning Consents until 22 working days before the auction, but with an application fee payable if the consent is not provided.
- CP315 proposes to require Relevant Planning Consents to be submitted by the end of the Prequalification Window, but to allow them to be varied until 22 working days before the auction.

Consultation responses and decision

We received fourteen responses:

- Nine of these opposed our minded-to decision to reject these proposals, arguing that a Capacity Provider has no control over how long it would take for the local authority to grant planning permission, delaying consent for up to two years and

[7] "Implementing the end of unabated coal by 2025 – Government response to unabated coal closure consultation," BEIS https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672137/Government_Response_to_unabated_coal_consultation_and_statement_of_policy.pdf

incurring large financial costs. Some respondents also noted that the proposals would have provided greater flexibility when small aspects are changed to a planned project.
- Four supported our minded-to decision, arguing that the change would encourage speculative applications and increase the workload of NGET, with minimal benefits.
- One response agreed with our minded-to decision, but instead supported the original deferred planning option being implemented on a permanent basis.

We introduced the requirement to submit planning consents at Prequalification in 2016 with implementation delayed until the Sixth Full Capacity Auction in 2019. This ensured there were no short term adverse effects on competition and liquidity.

The ability to defer Relevant Planning Consents to 22 working days before the auction has resulted in the submission of speculative or duplicate applications. In many instances, these applications were subsequently withdrawn when Planning Consents were not secured, or were valid for only one version of the CMU.

Planning consents are necessary to ensure that a CMU can meet its obligation, and therefore the deferral provision has undermined this assurance process and generated an administrative burden. We continue to believe that our change will simplify the process, and therefore we are rejecting CP258 and CP315. Since CM Auctions have now been held for four years, market participants have had sufficient opportunity to plan ahead of time so as to secure planning consents by the annual Prequalification Window.

Application Fees (CP258)

We have decided to reject the proposal to introduce application fees, as the Authority does not have the power to impose fees. In addition, the proposal does not give evidence or consideration to which body should impose this fee.

Varying of planning permission (CP315)

CP315 proposes to allow planning permission to be varied between Prequalification and the auction. We have decided to reject this proposal, as enabling substantial changes to the planning permission in the four months between Prequalification and the auction could undermine the validity of the application submitted during the Prequalification. Furthermore, the additional flexibility of only four months does not appear to be of sufficient benefit in terms of the planning process to justify the associated risks.

Timings

We decided to implement CP190 last year on the expectation that Applicants would by now be able to account for the timings of the annual CM cycle in timing their planning consent applications. We appreciate in particular that the planning consent process can be lengthy and complex for larger projects seeking a Development Consent Order. We understand that a DCO application process can take in excess of 12 months and, as a result, can be difficult to align with the Prequalification Window.

If the timings of the Auctions or Prequalification change substantially, we can understand that this would be more difficult and we would be open to considering the merits of a proposal on this issue.

CP269 (WWA) and CP283 (EnergyUK)

These identical proposals would remove the requirement to name a holding company during Prequalification.

Consultation responses and decision

We received eight responses to our minded-to decision to reject these proposals:

- Two responses agreed with our minded-to decision to reject the removal of the requirement to name a holding company during the Prequalification. One of these respondents noted that the disclosure of the holding company helps to provide better transparency to all stakeholders about the identity of market participants.
- Six respondents disagreed, stating that the requirement to name a holding company creates a barrier to the sale of companies during Prequalification and requested clarification on how this information is used by NGET and ESC. One response suggested that the Rules should set out that this information can be changed at any time after the application for Prequalification.

We have decided to reject these proposals. We consider it necessary to collect holding company names for CMUs because this information is used to validate information provided by the applicant and to control for state aid cumulation.

Cumulation of state aid is prohibited under the General Eligibility Criteria in the Regulations and ensuring that parties do not receive payments from multiple schemes is a condition of the Capacity Market's state aid clearance. Therefore, we do not believe that removing these requirements altogether is appropriate.

CP291 (Engie) and CP295 (ESC)

These proposals seek to clarify the treatment of auxiliary load in the Rules.

- CP291 intends to clarify how any auxiliary load is netted off the CMU output, when the auxiliary load is a separate Balancing Mechanism Unit (BMU). The proposal suggests that Rule 8.6 does not make clear how any auxiliary load is netted off the CMU output when the auxiliary load is a separate BMU (or proportion of one).
- CP295 seeks 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 for each unit. ESC proposes the introduction of 'multipliers', which would be specified at Prequalification and which would subdivide the CMU's auxiliary load between units based on the unit's share of the overall capacity of the site.

Consultation responses and decision

We received seven responses to our minded-to decision to reject these proposals.

- One respondent agreed with our position.
- One respondent supported CP295 in principle, but questioned ESC's proposed approach and suggested that CP291 would be dependent on CP279, CP289 and CP290 implementation. NGET and ESC both set out that the changes in CP295 are necessary to successfully implement Of12.
- Two respondents suggested that further clarity in the Rules on the treatment of auxiliary load would be beneficial, and one response suggested that FAQs were the wrong approach to understanding the Rules.

We have decided to reject these proposals. As we noted in our consultation, CP291 is closely linked to a BSC code modification proposal recently approved on the Applicable Balancing Services Volume Data Methodology (P354).[8] Until this change is fully implemented, we do not think it is appropriate to take forward CP291 at this stage. However, we welcome further proposals in this area once the data is available to facilitate the required changes.

CP295 aims to better facilitate data flows between Delivery Partners. However, given the concerns expressed by NGET we are not able to take these changes forward in their current form. We note that there are ongoing discussions between NGET and ESC around data requirements, sharing and transfers. We encourage Delivery Partners to consider further the best way to implement the changes.

CP296 (ESC)

This proposal would obligate Capacity Providers using Balancing Services and Bespoke metering configurations to submit distribution boundary point Meter Point Administration Numbers (MPANs) or Metering System Identifiers (MSIDs) during Prequalification. ESC argues that this is necessary to allow them to apply line loss adjustment to metered volumes. An exception would be for Unproven DSR and New Build CMUs who would supply the data as part of their DSR or Metering Tests as applicable.

Consultation responses and decision

We received five responses to our minded-to position to reject this proposal. Three respondents agreed that requiring submission of this information at Prequalification would increase the complexity of the application process. ESC indicated that the proposed changes are a requirement for allowing effective implementation of Of12.

We have decided to reject these proposals, because we have not seen any evidence to show that collecting Boundary Point MPANs and MSIDs during Prequalification would provide any additional benefit beyond the current status quo. As noted in our decision on CP295, discussions are ongoing between NGET and ESC around data requirements, sharing and transfers. We understand that one approach under consideration is whether whether the data requirements of CP295 and CP296 could be collected as part of the Metering Assessment process.

CP297 (ESC)

This proposal seeks to provide NGET and ESC with additional information in order to exclude ineligible capacity (for example capacity which is part of a low carbon support scheme) that is located behind a Meter Point used by a CMU.

Consultation responses and decision

We received seven responses with regard to CP297:

- Two of the respondents supported our minded-to decision to reject this proposal.
- Three respondents opposed our minded-to decision, supporting the intent of the proposal to better facilitate co-location of resources. However, two of these

[8] https://www.elexon.co.uk/mod-proposal/p354/

respondents recognised that it is not possible to accommodate this change at this point due to wider systems and Rules implications.
- Two respondents accepted our minded-to decision but argued that the proposal should be worthy of further consideration in the future.

We have decided to reject this change proposal because we continue to believe that it would require wider changes to the Rules, systems, and data arrangements and therefore is not practicable in this round of changes.

However, we continue to see benefit in better facilitating the participation of new technologies in the future, including 'hybrid' sites. This should be facilitated in a way that ensures that providers are unable to receive state aid payments through multiple schemes, and that appropriate metering arrangements are in place.

CP298 (ESC) and CP351 (NGET/ESC)

These proposals relate to data sharing arrangements between Delivery Partners.

- CP298 seeks to give NGET an explicit right to share applicant information with the ESC and require all applicants to consent to NGET sharing its information. It also seeks to formalise ESC's role in fraud prevention and detection.
- CP351 would mean that ESC collect and validate metering information after the auction by ESC. Currently, NGET are responsible for completing these tasks during Prequalification.

Consultation responses and decision

We received nine responses to our minded-to decision to reject this proposal. Most parties agreed with our position, but supported greater data sharing between Delivery Partners.

We have decided to reject these proposals. ESC and NGET are currently progressing a bilateral data sharing agreement. We will continue to work with ESC and NGET as they develop arrangements with the aim of ensuring that data is collected and validated by the right party and that fraud prevention is addressed appropriately in the CM framework.

CP298 requested a formalisation of ESC's role in fraud detection and prevention and CP351 looked to establish a data validation role for ESC. We consider this to be beyond the scope of our existing powers as set out in the existing Regulations and therefore do not intend to make any amendments to do this. Governance and the roles and responsibilities of Delivery Partners will be considered in BEIS' Five Year Review.

CP317 (Manx Utilities)

This proposal would enable Distribution Interconnectors to take part in the Capacity Market, thereby allowing the Isle of Man interconnector to prequalify.

Consultation responses and decision

We received seven responses on our minded-to position regarding CP317. Six respondents agreed with the rejection, while another suggested that the principle of the change should be taken forward.

The changes proposed would have enabled Distribution Interconnectors to prequalify as Balancing Mechanism Units, as opposed to Interconnector CMUs. This change would permit the Distribution Interconnector to act as a Despatch Controller for CMUs located on the Isle of Man. CMUs located on the Isle of Man fail to comply with General Eligibility Criteria set out in Regulation 15(3) and are not eligible to participate in the GB Capacity Market. As such, the changes would be inconsistent with the Regulations and cannot be taken forward.

Prior to and throughout the consultation period, we have been in dialogue with Manx Utilities, the proposer of CP317. During this period, Manx have proposed a suite of alternative changes to the Rules, which would facilitate Distribution Interconnectors participation in the Capacity Market. We have decided to consider further an amended proposal in line with the Rules and Regulations with a view to consulting on the Rule changes in 2019.

As Interconnectors are eligible to participate in the Capacity Market, we believe that this should extend to Distribution Interconnectors. Given the substantial difference between the changes originally proposed and subsequent amendments from Manx, we believe market participants should have a suitable opportunity to comment on the new proposed changes to the Rules before taking them forward.

CP318 (NGET)

This proposal follows a previous rules change proposal (CP191) which sought 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. This proposal asks that Ofgem consider the issues further.

Consultation responses and decision

We received seven responses to our minded-to decision to reject this proposal.

- Three of these responses agreed with our position. In addition, NGET recognised the concerns we identified in our minded-to decision, in particular that there are challenges to de-rating Distribution Connected CMUs and further analysis needs to be completed with the endorsement of the Panel of Technical Experts once the data is available to NGET.
- One response supported the idea of utilising historic output data as proposed by NGET, in the absence of any other viable alternative.
- Two respondents supported the idea of re-visiting the de-rating factors by allowing parties to select their own Capacity Obligations rather than continue with the de-rating determined by NGET.

We have decided to consider this proposal further, once the required data flows and methodologies are available. We are supportive of changes which would improve the accuracy and robustness of the de-rating methodologies. However, we cannot make this change at this time as the data is not yet available to NGET in a useable format. In their response, NGET indicated that it is keen to work with us to develop a robust Rule proposal on de-rating factors for Distribution Connected CMUs. We intend to engage with NGET as they develop the proposal.

CP335 (Scottish Power)

This Rule proposes to require applicants to specify whether their Prequalification application is a mutually exclusive alternative of another Prequalification application and if so provide the CMU ID to which it relates.

Consultation responses and decision

We received four consultation responses. Three responses agreed with our minded-to position to reject this proposal while one response agreed with the proposal but considered it a low priority.

We have decided to reject this proposal. As stated in our consultation document, due to credit cover requirements, this information should be available after the credit cover deadline under the current rules. Applicants are also constrained by the need to submit planning consents and connection agreements. Given the required systems changes to track and verify duplication of applications, we are not convinced that the benefits of this proposal cover the costs to the IT system that would be incurred in order to effect the change.

CP336 (Scottish Power)

This proposal would require applicants to demonstrate that their New Build CMU would be a CMRS CMU and that it will be wholly, or mainly, used to supply energy to the Distribution Network or the GB Transmission System. The effect of this Rule would be that behind-the-meter generation would be treated as DSR and therefore only eligible for one-year agreements.

Consultation responses and decision

We received six responses to this change proposal. Four respondents supported and one respondent opposed our minded-to decision, while one respondent stated that it does not understand our reasons for rejection.

We have decided to reject this proposal. We continue to believe that requiring all New Build CMUs to be CMRS-metered could decrease competition in the Capacity Market and would not be beneficial for consumers. The choice between CMRS and non-CMRS metering solutions is a commercial decision for participants and should not be restricted by the Capacity Market Rules. We also continue to believe that some generators located behind the meter may run regularly and it is correct to continue to classify them as generation. These CMUs could be excluded if they had to instead participate as DSR.

We also recognise that there are incentives to be located behind the meter and this is why we initiated the Targeted Charging Review (TCR) to assess how residual network charges should be set and recovered in Great Britain.

CP337 (Scottish Power)

This proposal would remove the requirement for generators to opt-out of the Capacity Market if they hold a connection agreement but have been closed for a long time.

Consultation responses and decision

We received three responses to our minded-to decision to reject this proposal. Two of these responses agreed with our proposed decision to not remove the requirement for generators to opt-out of the CM annually. One respondent stated that it is not in favour of unnecessary administrative burden on any party in the Capacity Market.

We have decided to reject this proposal. Responses to our consultation did not present new evidence to suggest that the change proposed would be necessary or beneficial for consumers. We believe that it is appropriate to require opt-out notifications for each relevant auction to ensure that information is current and reliable. This information is important as it affects annual decisions on parameters for the Capacity Market.

The CM Prequalification process has a general principle that an Applicant must provide appropriate evidence for each CM Auction that it intends to apply for, including annual submission of new certificates and declarations. Removing the requirement to opt out annually would have been inconsistent with this principle. We appreciate the administrative challenge of Prequalification for applicants and we are making several changes in this area this year to improve the process, including through simplification of Exhibits by implementing CP252 and CP285.

CP345 (WWA)

This proposal seeks to allow New Build Transmission CMUs to prequalify when locating on existing sites and sharing an existing connection agreement. Currently, each Transmission CMU must provide a copy of their Bilateral Connection Agreement (BCA) in order to prequalify. A BCA only applies to one party and therefore New Build Generating CMUs who wish to locate on the same site as an Existing CMU and make commercial arrangements to share the TEC on the site may not be able to prequalify.

The proposal suggests two ways to enable these CMUs to prequalify:

- By signing a Bilateral Embedded Generation Agreement (BEGA) and providing this in order to prequalify.
- By treating the new generator as being connected via a Private Wire to the existing site and requiring the provision of an agreement with the owner of the private wire.

Consultation responses and decision

We received nine responses to our minded-to decision to reject CP345:

- One respondent supported our position.
- Eight respondents agreed with the principle of the changes. They argued that the proposal would level the playing between transmission and distribution, and enable genuine capacity to compete in the CM.

We have decided to reject this proposal, as we do not believe that either proposed solution is compatible with the wider connections and legislative framework.

BEGA

We continue to believe that the first option would not provide the desired solution. While we can understand the parallels between this situation and a distribution connected generator requiring a BEGA, we believe this would not meet the requirements and the purpose of the BEGA.

Under the current connection framework, the only option for a generator to connect directly to the Transmission Network is the BCA. It is not possible for a party to share its BCA with another party, unless it submits a Modification Application to the System Operator. The first option proposed would therefore not be consistent with this framework.

Private wire

The second option to create a provision for Transmission-connected Private Networks is not possible because the amendments necessary to implement this would bring the Rules into conflict with the Regulations and the Electricity Act 1989. Specifically, there are no licence exemptions for the transmission network in the existing Class Exemptions of the Electricity Order 2001.

Of15 (Ofgem)

We have considered amendments to the calculation of connection capacity in previous consultation rounds. We continue to believe that the most appropriate approach is the one set out in our 2016 and 2017 decisions. This would allow applicants a wider choice of being able to set the capacity that they could provide at Prequalification and subsequently test applicants to this level.

However, implementation of our proposed changes requires amendments to the Regulations including changes to establish partial terminations and penalties for not passing tests. Without these in place we cannot take forward our proposal fully.

Consultation responses and decision

Stakeholders expressed widespread support for implementing these changes in the future. Of the nine responses we received to this change proposal, eight respondents supported these changes. Another respondent expressed disappointment that the new approach of calculating the Connection Capacity will not be implemented in time for the next T-4 Auction.

We will continue to work with BEIS and industry to progress the required changes to the Regulations and Rules, and intend to raise this proposal as part of the Five Year Review. In the meantime, we have decided to take forward CP253, CP347 and CP348 which will implement some of the identified benefits of our Of15 proposal and which do not require changes to the Regulations.

4. Determination of Eligibility

Amendments we will make

No proposed amendments.

Proposals rejected

CP272 (EDF), CP281 (Energy UK), and CP306 (WWA)

These proposals all seek to amend Rule 4.4.4, which currently prevents a change to the configuration of Generating Units or DSR CMU Components after Prequalification.

- CP272 seeks to allow limited changes to the configuration of CMUs as long as the physical assets do not change. The proposer argues that over the lifetime of a Capacity Obligation, industry changes could require CMUs to alter their Balancing Market identifiers and other relevant IDs.
- CP281 and CP306 suggest deleting Rule 4.4.4 altogether, arguing that it stops participants from delivering capacity in the most efficient manner because it limits choice over plant type and configuration once a CMU has prequalified.

Consultation responses and decision

We received 15 responses on our minded-to position to reject these proposals:

- Three respondents agreed with our approach. The remainder saw merits in these proposals. Respondents were generally keen for clarification, but there was no clear consensus on how to accommodate flexibility for participants.
- Some parties have felt constrained by the existing Rules. Similarly, the current requirement may drive more experienced parties to provide limited information at Prequalification to minimise the potential impact of 4.4.4 should they subsequently wish to make a change to their configuration.
- One respondent also argued SPDs and the penalty regime should be sufficient for delivery assurance.
- No respondents disagreed with our view that changes to technology class should not be permitted, since these would require a change in the de-rating and therefore to the capacity of a CMU.

We have decided to reject these proposals, as we believe that the proposed approach for amending Rule 4.4.4 alone does not sufficiently clarify the process, nor does it address wider issues around configuration. There was no clear consensus among stakeholders about how to best facilitate these changes.

However, we believe that allowing limited changes to configuration could provide welcome flexibility for Capacity Providers. We also recognise that Rule 4.4.4 may give an advantage to informed or experienced parties. As noted above, parties may choose to provide limited information at Prequalification to retain more flexibility over their configuration.

In addition, we continue to believe that it is not appropriate to allow changes to aspects that affect a CMU's de-rated capacity, including its Generating Technology Class. Such a change could introduce an inconsistency between a CMU's capacity and the size of obligation it received in the auction.

The Five Year Review offers an opportunity to consider wider changes to the CM framework, such as those affecting CMU configuration. We intend to engage with stakeholders as part of this review to explore how we can best enable flexibility for providers, while retaining the required delivery assurance.

CP284 (Energy UK), CP308 (WWA), CP310 (Green Frog) and CP340 (UK Power Reserve)

CP284, CP308, CP310, and CP340 all propose to allow CMUs to change their CM Unit Type from CMRS to non-CMRS or vice versa. They would provide NGET with an explicit permission to amend the Capacity Market Register when this occurs.

Consultation responses and decision

We received four responses to our minded-to position to reject this proposal. These responses suggested that further clarification is required on whether such changes are allowed.

We have decided to reject these proposals. We do not think that amendments to the CM Rules are necessary to achieve this flexibility. It is already possible to change between CMRS and non-CMRS via the notification under Rule 8.3.3(f)(ii).

CP287 (Energy UK)

CP287 seeks to allow Capacity Providers to alter their site connection point from Distribution-connected to Transmission-connected or vice versa.

Consultation responses and decision

We received five responses to our minded-to decision to reject this proposal:

- One respondent supported our position, on the basis that the change would require extensive amendments to the rules but be of limited benefit.
- Two respondents disagreed with our position, arguing that CMUs should be encouraged to choose the most economic route of connection to the electricity system.
- Two further respondents commented without expressing explicit support or opposition to the proposal. One argued that providers are unlikely to switch connections in the manner envisaged by the proposal, and that a rule change may not be required to allow them to do so. The other suggested that the proposal could benefit from further work as opposed to outright rejection.

We have decided to reject this proposal. We recognise that in limited circumstances the proposed changes would benefit providers by allowing them to change from Distribution to Transmission-connected or vice versa. However, we believe that the circumstance this proposal looks to address is rare and therefore the benefits of the change are limited.

We also believe that extensive changes to the Rules could be required to accommodate this, in addition to the amendment to Rule 7.5.1 outlined in the proposal. We did not receive any specific suggestions or proposed drafting for this. Given the limited benefits and the extensive and unevaluated changes required to the Rules, we have decided to reject this proposal.

CP328 (NGIH)

This proposal aims to change the Prequalification process to allow applicants to correct errors. Specifically it suggests that NGET, where it believes that capacity would be eligible but for an error or omission in the application form, could conditionally prequalify a CMU pending the applicant remedying its error or omission.

Consultation responses and decision

We received 13 responses to our minded-to decision to reject this proposal:

- Ten respondents agreed with either the proposal or its intent. These respondents either called for us to reconsider our decision or to find a practical solution for correcting errors in an application for Prequalification. One respondent suggested that Applicants could attain a Conditional Prequalification status until mistakes in their Prequalification Application are corrected.
- Two respondents agreed with our decision. One proposed to address the error issue through better Prequalification guidance. The other party recognised the frustration around 69(5) but highlighted the importance of applying a robust scrutiny of Prequalification Applications.

We have decided to reject this proposal. Participants are expected to provide all the necessary information required of them at Prequalification, and Regulation 69 establishes a Request for Reconsideration as the means by which errors in Applications for Prequalification can be corrected. This proposal is inappropriate because it would circumvent the existing process set out in the Regulations and make the Rules inconsistent with the Regulations.

Further, this proposal would create a two-tier Prequalification process that would require substantial additional resource for NGET to ensure that all applicants have an equal opportunity for a provisional assessment of their application. This would not be feasible without significant changes to NGET's operational arrangements.

CP322 (NGET)

CP322 proposes to limit CMUs from changing their location until after the Financial Commitment Milestone (FCM) has been met, and then to prevent changes in location after either the Substantial Completion Milestone (SCM) or Minimum Completion Requirement (MCR) is met.

Consultation responses and decision

We received nine responses to our minded-to decision to reject this proposal.

- Seven respondents were supportive of our position. Respondents suggested that there are sufficient safeguards in place to ensure that gaming will not take place because of location changes.
- Two further respondents commented without expressing explicit support or opposition to the proposal. One respondent requested clarification of the Rule 8.3.7 and the circumstances under which a CMU would be able to alter its location, while another response proposed clarifying Rule 8.3.7(c).

We have decided to reject this proposal. We believe that implementing the change as proposed could prevent legitimate changes in site location. For example, a site could become unusable for reasons outside of the developer's control, without affecting a CMU's ability to ultimately deliver on its agreement.

We note stakeholder concerns about Rule 8.3.7(d), which currently requires applicants to submit a report confirming they have met the FCM when notifying NGET of a change in location. This is beyond the scope of the original proposal, but we welcome further proposals in this area.

5. Capacity Auctions

Amendments we will make

CP273 (EDF)

This proposal suggests amending the way that excess capacity is communicated to participants in the auctions. Currently it is rounded to the nearest 100MW in T-1 auctions and the proposer suggests amending it to be rounded to the nearest 1GW, which would mirror the T-4 auctions.

We consulted on taking forward a version of this proposal, requiring the Auctioneer to set the excess capacity parameter for each auction.

Consultation responses and decision

We received eight responses to our minded-to position:

- Four respondents were supportive of our approach.
- Three disagreed with our position, arguing that it would give the Auctioneer too much discretion.

- One stated that parameters should be consistent between T-1 and T-4 auctions.

We have decided to take forward the change to require the Auctioneer to set the excess capacity parameter for each auction. We continue to believe that rounding may need to change depending on auction characteristics. Having the Auctioneer set the excess capacity future-proofs this parameter and avoids a requirement for future changes to the Rules if auction characteristics change. This also creates a consistent approach between T-1 and T-4 but allows for the specific excess capacity-rounding threshold to be adapted to reflect the target capacity and relative sizes of portfolios within an individual auction.

NGET is responsible for the discharge of the Auctioneer's functions and the Auctioneer's performance is therefore subject to our oversight of the CM. We will be considering the excess capacity parameters chosen by the Auctioneer as part of our regular monitoring of the CM.

Proposals rejected

CP249 (Anonymous), CP250 (Anonymous) and CP251 (Anonymous)

These proposals seek to publish Price Maker/Price Taker status on the CM Register (CP250 and CP251) and to prohibit Price Maker CMUs from submitting exit bids below the Price Taker Threshold (CP249).

Consultation responses and decision

We received six responses on our minded-to decision to reject these proposals. Three respondents supported our position. Three stakeholders disagreed and argued that publishing CMUs' Price Maker status improves transparency and that this could aid other participants' bidding strategies.

We have decided to reject these proposals. We believe that it is unnecessary and undesirable to publish the Price Maker status on the CM Register because this could expose commercially sensitive information on the CMU's expected costs and revenue. Ofgem is already able to monitor the submission of Price Maker Memorandums and bidding behaviour in the auction and is able to investigate any irregularities. Publication of this sensitive information on the CM Register would add no additional protection for consumers. While some stakeholders argued that this may bring benefits to other participants, we do not consider this an appropriate justification given the commercially sensitive nature of this information.

We reiterate that it is reasonable for a CMU to adjust its bid during the auction on the basis of information revealed during the auction. We also continue to believe that preventing Price Makers from bidding below the threshold is undesirable and could cause a higher clearing price and increase costs for consumers.

CP264 (E.ON) and CP266 (E.ON)

These proposals would allow Existing Generating CMUs who successfully prequalify to have the option of withdrawing from the auction (CP264) or amending their bidding capacity (CP266) before the auction.

Consultation responses and decision

We received five responses to our minded-to position to reject CP264 and CP266.

- Three respondents agreed that where a provider's forecast economic situation changes between Prequalification and auction it can change its bidding strategy, including bidding at the price cap to exit the auction.
- Two responses suggested that there are challenges under the current arrangements that make this change necessary. One respondent noted that a CMU could be uneconomic even at the price cap, while another suggested that low liquidity in the secondary trading market and the SPD requirement make trading obligations away not viable.

We have decided to reject these proposals. As we outlined in our consultation, Capacity Providers are currently able to opt-out from the process at Prequalification or amend their bidding strategy if the economics of its operation change. Similarly, the Secondary Trading Market can be used to trade away part or its entire obligation.

Secondary trading arrangements continue to develop, however there is room for further progress. BEIS introduced changes to the Rules in December 2017 to establish that if the entirety of an obligation is traded away for a full Delivery Year, the accompanying SPD requirements are also traded away. In addition, we are making several changes to secondary trading arrangements to improve market liquidity as part of this process. We will work with stakeholders to consider further improvements in this area as part of the Five Year Review.

Giving CMUs the opportunity to either withdraw or reduce their capacity between Prequalification and the auction is administratively burdensome, and could increase the risk of parties withholding capacity from the auction. We have not received further evidence to suggest the proposed changes provide sufficient benefit to outweigh potential adverse effects.

CP316 (Intergen)

This proposal would add into the rules a defined minimum time between the end of a Capacity Market Auction and the start of the relevant Delivery Year. InterGen proposes that this is 9 months for a T-1 Auction and 45 months for a T-4 Auction.

Consultation responses and decision

We received six responses from stakeholders on our minded-to position to reject this proposal:

- Two of these responses supported our position and provided no further comments.
- Four respondents disagreed with our position. Three of these highlighted the benefits of clarifying the auction timelines while acknowledging that the proposal in its current form may not be the best way of achieving this. One respondent disagreed with our position but did not provide additional reasons why the proposal should be progressed further.

We have decided to reject this proposal. We agree that clarity on auction timetables is beneficial to both providers and consumers. However, we continue to believe that this is already possible within the existing framework.

As noted in our consultation, there may be genuine reasons to vary the auction start date. Regulation 26 recognises the needs for this discretion and gives the Secretary of State the ability to delay or cancel an auction. We therefore believe that amending the Rules in the way proposed is unnecessary and would be inconsistent with the Regulations.

Of16

We proposed amendments to section 5.9 of the Rules (Capacity Auction clearing) to specify that an exit bid is required for the auction to clear.

Currently, due to the slope of the demand curve, the auction may clear even if there is no Exit Bid in the clearing round. This may not be the most efficient outcome for consumers as there could be participants willing to commit to a lower price for the same capacity.

Consultation responses and decision

We received eight responses to this change proposal:

- Two respondents supported our position.
- Five respondents opposed the proposal, or expressed concerns about its design. One respondent argued that it could change the nature of the auction process, while another noted that its highly technical nature requires further information and examples to be fully considered. In addition, one respondent argued that it is not convinced that this change is necessary and questioned how the Net Welfare Algorithm would function if this change is implemented.
- NGET stated that this change proposal is not a simple parameter setting and would involve code changes to the auction clearing algorithm with associated system and cost impacts.

We have decided to reject this proposal. Liquid auctions are unlikely to clear without an Exit Bid and, as upcoming auctions are forecast to be liquid, we do not believe the change is urgent. Instead, implementation would require changes to the auction algorithm and so could create uncertainty for the next set of auctions. We continue to believe that this change may be appropriate for auctions with low volume and could provide a more efficient outcome for consumers.

We have also taken note of respondents' concerns suggesting that such changes would require further clarification, including explaining how the Net Welfare Algorithm would function under these circumstances. We believe that it would be appropriate to run the Net Welfare Algorithm to compare the clearing bid achieved in the round with the highest Proxy Bid below the existing round price floor. This calculation would determine whether it would be more beneficial for consumers to clear the Auction in the existing round or continue the Auction to the next one.

6. Capacity Agreements

Amendments we will make

CP329 (NGIH)

This proposal would amend the Rules so that a reduction in Transmission Entry Capacity (TEC) caused solely by the failure of the System Operator (SO) to deliver a connection would not lead to a Termination Fee under Rules 6.10.1(g) or 6.10.1(ga).

This Rule change is intended to correct an oversight in the Rules and align the requirement to hold TEC with the provision to extend the Long Stop Date due to failures by the SO or DNO to provide an active connection. The Rules already accommodate failures by the SO to deliver connections; in Rule 6.7.7 the Long Stop Date is extended

day-for-day to account for this. However, not holding TEC at any time during the Delivery Year is an Automatic Termination Event under rule 6.10.1. This means that a CMU could face termination if its active connection is not delivered in time for the Delivery Year.

Consultation responses and decision

We received eleven responses to our minded-to position to take forward this proposal:

- Nine supported our position and drafting, with four stakeholders commenting that this provision should also be extended to Distribution CMUs.
- One stakeholder opposed our changes, saying that providers should continue to be liable for penalties due to loss of TEC because no parallel provision exists for Distribution CMUs. Another respondent suggested that the amendments to 6.10.1(ga) in case of reduced TEC may incentivise capacity providers to voluntarily reduce their TEC.

We have decided to make these amendments to align the requirement to hold TEC with provisions accommodating delays in the SO delivering an active connection. This ensures that CMUs do not face terminations where the Rules would otherwise allow them to extend their Long Stop Date.

The provisions extending the Long Stop Date in line with the SO's failure to deliver an active connection are clear, but the Rules require NGET to terminate a CMU if it does not hold sufficient TEC at any time during a Delivery Year. A CMU's connection agreement may have its date of entry into force postponed where the active connection is delayed. The TEC associated with the connection agreement could also only become active from the postponed date. As a result, the CMU would be exposed to £35,000/kW penalties and a ban from participating in further Capacity Market Auctions for two years.

We do not share the concerns raised by stakeholders. The amendments only apply where insufficient TEC is held as a result of failure by the SO to provide a connection point in accordance with a valid Grid Connection agreement; it does not free providers from termination where they have been unable or unwilling to secure TEC for other reasons.

Distribution CMUs do not have a similar requirement to hold TEC so this provision cannot be extended to them. The provision extending the Long Stop Date day for day due to a failure to connect already exists for Distribution CMUs.

Proposals rejected

CP326 (NGET)

NGET recommends that the Auction Acquired Capacity Obligation (AACO), defined in Rule 8.5.3, is set to zero until a CMU has met the Substantial Completion Milestone (SCM) or Minimum Completion Requirement (MCR). The aim is to manage the risk of a New Build CMU being incomplete at the start of the Delivery Year but still receiving payments.

As a related change, NGET propose an amendment to Rule 6.7.1 (Achieving the Substantial Completion Milestone) to allow changes to the AACO where the party has not met the SCM but has met the MCR. They also propose that there should be more formal reporting requirements on MCRs.

Consultation responses and decision

We received five responses regarding CP326. Four respondents supported our minded-to decision to reject this proposal. NGET agreed with our minded-to decision, but suggested that some form of amendment to Rule 6.7.1 is still required.

We have decided to reject this proposal. We continue to believe that the proposed changes are not required because a Capacity Agreement will not take effect until either the SCM or MCR is met in accordance with Rule 6.7.4 and Rule 6.8.5. In such cases, a CMU will not receive any payments.

We note the suggestion by NGET that amendments may be required to 6.7.1 beyond the scope of this proposal, and welcome further proposals in this area.

7. Capacity Market Register

Amendments we will make

CP321 (NGET)

The original proposal would change the timing of updates to the BETA value (β) following a System Stress Event. The BETA value indicates whether a Relevant Balancing Service has been provided in a relevant Settlement Period, and is used in the Adjusted Load Following Capacity Obligation (ALFCO) calculation.

The proposal would amend Rule 7.5.1(o) to require NGET to update β on the Capacity Market Register six working days after the end of the month in which a System Stress Event occurs, rather than the current timescale of five working days after a System Stress Event.

Consultation responses and decision

We received four responses to this change.

- One respondent was supportive, commenting only that the CM register should set out clearly whether a DSR provider is composed of generation or turn down DSR units.
- One respondent stated they were unclear on our reasoning.
- Two respondents did not agree with our minded-to position to take this proposal forward. These responses outlined that the proposed change might result in the process being unnecessarily long to the detriment of providers.
- All responses agreed that the current deadline in Rule 7.5.1(o) means NGET's ability to comply with its obligation to update the Register is not within its control.

We have decided to take forward an amended version of this proposal. We continue to believe that amendments are required to ensure that the deadlines in Rule 7.5.1(o) are relevant. However, we have decided to require NGET to update the BETA value on the CM Register within five working days of receipt of the relevant data from EMRS. This addresses stakeholders' concerns about the potential for delays in updating the register and should ensure that the CM Register is always updated as soon as possible.

Proposals rejected

CP270 (EDF) and CP271 (EDF)

These proposals recommend publishing detailed information about individual CMU components on the Capacity Market Register (CMR).

- CP270 proposes that the connection capacity, de-rated capacity and technology type for each component making up each Generating CMU is published. Currently, the CMR only includes the aggregate capacities for CMUs. In cases where a CMU consists of multiple components, information about individual components is not available.
- CP271 suggests that the CMR should make a distinction between "DSR – Turn down" and "DSR – Generating" CMUs for Proven DSR CMUs, and whether the DSR CMU is supported by onsite generation.

Consultation responses and decision

We received eight responses to our minded-to position to consider these proposals further:

- Six respondents agreed with the intent of these proposals. Most of these respondents agreed with aligning the implementation of these proposals with Of12 but urged rapid implementation. Several respondents welcomed greater transparency of information and our intention to publish DSR types in the CMR for proven DSR CMUs in our annual Capacity Market Operational Report.
- Two respondents opposed these proposals.
- Three of the respondents commented on the implementation and practicality of the proposals. One respondent expressed concern that impact on IT systems was prioritised above benefit to the market. This respondent also questioned the benefit of taking this proposal forward while rejecting a proposal to publish the Price Maker status of CMUs.

We continue to believe that implementing CP270 and CP271 will increase transparency of Capacity Market providers (without revealing confidential information). This can provide valuable information for market participants, benefit policymaking, and result in better value for money for consumers.

However, we have decided that these proposals should progress but due to systems impact we are delaying their implementation to align with Of12 implementation. These proposals require significant changes to NGET's systems to accommodate for component tracking and reallocation. As similar changes are due for implementation of Of12, we intend to consider the practicalities of publishing component level information in the CM Register after the implementation of Of12 is complete.

8. Obligations of Capacity Providers and System Stress Events

Amendments we will make

CP256 (ClientEarth), CP346 (Anonymous), and CP352 (Anonymous)

These proposals would all add new standards for generators participating in the Capacity Market.

- CP256 would require a generator covered by the Large Combustion Plant (LCP) Best Available Techniques Reference (BREF) documents to hold a permit stating that it will comply with the best available techniques in relation to emissions and energy efficiency set out in the LCP BREF. It would also amend the Rules to refer to the latest version of the LCP BREF, dated April 2017.

- CP346 would require all CMUs to demonstrate during Prequalification that they hold a valid Greenhouse Gas Emissions Permit, as required under the European Union's Emissions Trading Scheme (EU ETS).
- CP352 would require all CMUs to demonstrate during Prequalification their compliance with the Medium Combustion Plant Directive (MCPD) and Generator Controls.

In our consultation, we outlined our minded-to position to reject these three proposals, but update the definition of BREF to reflect the most recent documentation issued by the European Commission.

Consultation responses and decision

We received eight responses to these proposals:

- Six respondents supported our position. Three agreed that the CM Rules should not be used to enforce environmental legislation or deliver wider objectives. The other three provided no further comment.
- Two respondents opposed our decision. One of these argued that the requirements to be compliant with BREF and the Large Combustion Plant Directive disproportionately affect new-build Transmission-connected thermal generation, compared with Distribution-connected generation. The other provided no further comment.

We have decided to amend the definition of BREF to align existing compliance requirements in the CM Rules with up to date iterations of wider policy. We are rejecting the other two proposals to require all CMUs to demonstrate compliance with best available techniques under LCP BREF, emissions standards including EU ETS, and compliance with MCPD and Generator Controls.

The CM Rules should not be used to enforce compliance with external environmental legislation and should instead complement the wider regulatory framework. Existing environmental and emissions legislation is market-wide and compliance mechanisms are established in the relevant legislation.

Any generator that fails to meet relevant environmental legislation such as the MCPD and Generator Controls faces the risk of not being able to generate. Therefore any such capacity provider would risk not being able to meet its CM obligations and face the associated penalties. The changes we are making are in line with existing provisions in the Rules, and therefore consistent with the original policy intent. We continue to believe that a further change to the Rules is not required to enforce compliance with other standards.

CP323 (NGET)

This proposal would amend Rule 8.4.2(a) so that Capacity Market Notices (CMNs) are not triggered when a Demand Control Instruction has been issued for a 'system' tagged event, such as those related to demand control or voltage tests.

Consultation responses and decision

We received six responses on this proposal. All were in favour of our minded-to decision to take forward this proposal.

We have decided to take forward changes to 8.4.2 and 8.4.6 to avoid Capacity Market Notices being issued as a result of a demand control event caused by a 'system' issue.

Such 'system' issues are the result of local constraint circumstances or DNOs' voltage testing arrangements; they are not themselves indicative of any capacity challenge.

CP305 (ESC)

This proposal would permit ESC to visit generator offices and sites and oblige Capacity Providers to assist ESC with its queries. It would also shorten the notice ESC is required to give to conduct site visits for metering purposes.

We consulted on partially taking forward this proposal, by reducing the notice that ESC must give to conduct site visits from two months to one month and the amount of time that capacity providers have to respond to requests for information from ESC from 21 Working Days to 10 Working Days.

Consultation responses and decision

We received eight responses to our minded-to position to take forward part of this proposal:

- Six respondents supported our proposal. One of these suggested that ESC will need to liaise with capacity providers to ensure that metering inspectors can secure access to sites. Another respondent agreed with our view that the Rules are not the appropriate place to make major changes to the roles and responsibilities assigned to ESC. ESC supported our reduction of the window to one month but suggested that a further reduction could be beneficial.
- Two respondents did not expressly disagree with the intent of our minded-to position, although one suggested that one month may not be sufficient to arrange access to a site.

We have decided to implement this proposal in the form specified above. Reducing the window for accessing metering equipment from two months to one month is necessary to allow ESC to better mitigate metering fraud, for example in instances of units in receipt of low carbon subsidies in a CMU. We encourage ESC to work with providers who have difficult-to-access sites to ensure that access can be arranged appropriately. However, we did not receive any evidence to justify parties requiring more than a month's notice.

We continue to believe that it is inappropriate for us to grant ESC the ability to conduct site visits through the Rules. We agree that ESC needs certainty that both it and Capacity Providers are compliant with Anti-Money Laundering and other financial crime legislation. However, the original proposal would be a major change to the roles and responsibilities assigned to ESC as envisaged by the current CM framework. Were a change desired, it would be more appropriate for the Government to address this through the Regulations.

CP330 (RWE)

This proposal seeks to add a clarification to Rule 8.3.1 in order to explicitly state that where a CMU has deferred the submission of its Distribution Connection Agreement the submission of letters from Private Network owners is also acceptable.

Consultation responses and decision

We received three responses regarding CP330. Two respondents opposed our minded-to decision to reject this proposal and one respondent suggested that we should either confirm definitively that a Private Network letter is equivalent to a connection agreement or update Rule 8.3.1(a) to make it explicit in the Rules.

We have decided to implement this change proposal. This clarifies that a letter from the owner of a Private Network is also acceptable to satisfy requirements in Prequalification. This should ensure alignment between the requirements and therefore simplify the Prequalification process for applicants.

Of12

We consulted last year on amending the Rules to allow DSR CMU Components to be altered during a Delivery Year. We did this in order to provide Capacity Providers with greater flexibility and so that DSR CMUs have the capability to maintain reliability of their portfolios throughout the Delivery Year.

In our 2017 consultation response, we decided to take forward the principle of DSR component reallocation, but following stakeholder feedback we removed the requirement for additional tests of the CMUs within the same Delivery Year. We also noted that the changes would not take effect until the 2018/19 Delivery Year due to systems implications, and that we would consult on the final legal drafting this year.

We understand from NGET and ESC that these proposals require a fundamental system change. The current system is built on the basis of CMUs rather than components and implementation of Of12 would require the system to be rebuilt on the basis of components. In order to introduce these changes into the Rules without disrupting the efficient operation of their systems, we are publishing the drafting of our proposal but do not plan to implement the changes until next year, in time for the 2019/20 Delivery Year.

Consultation responses and decision

We received fourteen responses to this change proposal:

- Seven respondents supported our minded-to decision to take this proposal forward, and one respondent opposed our minded-to decision.
- Three respondents are disappointed that Of12 will not be implemented in time for the 2018/19 Delivery Year, while another respondent argued that there are other change proposals that must be taken forward to enable the full functionality of Of12.
- Two responses suggested that it is inconsistent to allow the flexibility of DSR changing components, but not to allow similar flexibility for generators.
- Respondents also provided comments on specific aspects of the drafting, such as the proposed limit on the number of reallocations.

Decision and implementation

We have decided to take this proposal forward with delayed implementation. These changes will provide Capacity Providers with greater flexibility to ensure DSR CMUs or portfolios are able to maintain reliability throughout the Delivery Year. However, as stated in our consultation, we understand that this proposal requires a fundamental system change. When considering implementation timelines, we have taken into account potential disruption on the efficient operation of systems, cost implications, and effect on NGET's capacity to implement other changes. In this case, the size and cost of this change means that implementation must be delayed.

We have also discussed potential interim solutions or trials with limited component reallocation with the EMR Delivery Partners. However, such solutions would still require

significant development work, which would have been carried out at increased risk of delivery and functionality. We therefore believe that it is more appropriate to delay implementation to allow the necessary time for a fully scoped and robust solution.

We are not including the amendments as part of the legislated Rules at this time because NGET has informed us that it will not be able to implement the changes until 2019 and laying the amendments at this time would cause NGET to be non-compliant. However, we intend the set of amendments included in Annex D to be our final position. The principles of our changes to facilitate DSR component reallocation have been set out in this consultation and we expect NGET's system solution to reflect these principles.

Policy intent

The CM Rules change process should help enable the access of different technologies, without providing an unfair advantage to one of them. In this context, we continue to believe that a DSR component reallocation mechanism is beneficial to consumers, as it will ensure that DSR CMUs or portfolios have the capability in the Rules to maintain reliability throughout the Delivery Year.

Hence, since it is in the nature of DSR services that they are comprised of a portfolio of individual customers, the flexibility to switch DSR components to respond to these changes is necessary to maintain reliability.

Amendments to the Rules

Some respondents suggested that the reallocation limit should be defined by CMU rather than by the number of components as proposed in our consultation. We believe that this could undermine delivery assurance and increase administrative burden on NGET, potentially undermining some of the wider benefits of the change. We therefore maintain the limits as proposed under consultation. However, we will continue to monitor this following implementation to ensure that these limits remain appropriate.

We have also made several clarification changes to our proposed amendments based on stakeholder feedback. We are publishing this updated drafting in Annex D and plan to implement these changes next year in time for the 2019/20 Delivery Year.

Of13

The baseline for storage CMUs is currently calculated from the level of consumption directly before the relevant Settlement Period. We believe this creates a perverse incentive and may allow a Storage Facility to be over-rewarded, as it could choose to consume more electricity just before the System Stress Event to manipulate the baseline and make its demand reduction in the relevant Settlement Period seem larger. To mitigate this, the methodology needs to consider a longer period and align more closely with the existing DSR baseline methodology.

As noted in our decision last year, we recognise that there could be a seasonal pattern in storage consumption and we consulted on amendments to reflect this. In addition to the six weeks of historical consumption data used to create the baseline, it will also now include the last 10 days (both working and non-working). This will reduce the possibility of baseline manipulation while better taking into account seasonal changes in consumption. We also intend to include a requirement on ESC to monitor for any manipulation of the baseline, in line with the requirement it already holds for DSR CMUs.

To bring the storage baseline methodology closer in line with the DSR methodology, the mean average of the "Adjusted Demand Sample" in a Settlement Period will be set at the Provisional Baseline Demand for the storage CMU during that period. This amendment

helps to capture accurately the 'demand reduction' that a storage facility can provide by ceasing to consume when it might normally be doing so. It aligns the formula with the original policy intent while making the baseline methodologies for DSR and storage more consistent.

Finally, in the event of a Capacity Market Warning (CMW), the Provisional Baseline Demand for a storage CMU will be determined for each of the six Settlement Periods prior to the Settlement Period in which the CMW is issued. It would be appropriate for storage units, in a similar way to DSR CMUs, to ignore any Settlement Period where data is not available, or where a CMW is in force.

Consultation responses and decision

We received 10 responses to our minded-to decision to take forward this proposal:

- Seven of these supported our amendments, two opposed and one provided comments without explicitly supporting or opposing the proposal. In these responses, respondents made several comments on the detailed drafting of this proposal:
    - One respondent argued that the term 'B' is not necessary for a Storage Facility in Rule 8.6.2 and that it should be removed.
    - One respondent disagreed with our minded-to decision and stated that the baseline methodology for storage is problematic, especially for any storage unit that does not have a relevant balancing services contract such as a FFR/EFR agreement at the time of the event.
    - Three respondents argued that the 'Pre-CMW Adjustment' that includes the last six Settlement Periods should not be used for Storage CMUs because this could enable baseline manipulation and because it is a "random adjustment" depending on the metering of the CMU before the stress event.

We have decided to implement the changes we consulted on. Changing the baseline formula in these ways will provide a more accurate reflection of the consumption behaviour of a storage CMU. We have worked with ESC and NGET on the final drafting and we expect the amendments to be implemented for the 2018/19 Delivery Year.

Storage facilities' DSR contribution

We continue to believe that the methodology should be aligned as closely as possible with the DSR baseline methodology, as the term 'B – C' element of the baseline methodology allows the demand side response of the storage to be recognised during a stress event. We do not agree that the term should be removed altogether as storage CMUs are able to reduce consumption as well as generate and the baseline methodology should take this into account in order to measure the true contribution of a storage CMU to security of supply.

Relevance to storage not providing a balancing service

One respondent raised concerns that the proposed methodology would be problematic if a System Stress Event occurs the day after the end of a short-term FFR/EFR contract. The stakeholder was concerned that the baseline would erroneously take into account periods where the CMU was providing FFR.

We do not share these concerns. Such examples are likely to be rare, and our drafting (3.1.2) makes adjustments in the instances where a unit is providing a balancing service.

Pre-CMW adjustment

Our intention is to align the storage baseline methodology as closely as possible with the DSR baseline methodology. Therefore, the six Settlement Periods should only be considered in the baseline in a stress event as part of the 'Pre-CMW Adjustment'. We also do not believe that the 'Pre-CMW Adjustment' is random because it will, just as for DSR CMUs, adjust the historical baseline to reflect the actual demand profile of the storage CMU ahead of the stress event.

We have also updated our drafting to reflect BEIS' amendment to rename 'Capacity Market Warning' as 'Capacity Market Notice'.

Proposals rejected

CP267 (E.On)

This proposal seeks to allow a New Build CMU applicant to submit a Parent Company Guarantee (PCG) instead of either a letter of credit or cash deposit when required to submit credit cover.

Consultation responses and decision

We received four responses to our minded-to decision to reject this proposal. All of these responses recognised that Ofgem does not have the relevant powers to make amendments to the Regulations. One respondent disagreed with our minded-to decision stating that allowing an alternative route for Capacity Providers to provide credit cover would facilitate new build capacity.

We have decided to reject this proposal. As the proposal notes, this change would require amendments to the Regulations (Regulation 53 (3)) and we do not have the relevant powers to make amendments to the Regulations.

Part 7 of the Regulations – and Regulations 53 and 54 in particular – sets out specific arrangements for credit cover, including defining acceptable counterparty banks, how credit cover is provided, and how credit cover is held by ESC. In our view, these arrangements should not be undermined by the lower threshold of issuing a PCG in the manner proposed, which does not take into account the creditworthiness of the parent company. Credit cover applies to CMUs which are conditionally prequalified as a safeguard mechanism and this financial check should remain robust.

CP278 (National Grid Gas)

This proposal seeks to relieve a Capacity Provider of their Load Following Capacity Obligation (or to reduce it) in any Settlement Period in which its Capacity Committed CMU is affected by an Operating Margins instruction from the gas transmission System Operator.

Consultation responses and decision

We received six responses to our minded-to decision to reject this proposal. Five respondents supported our rejection. One respondent expressed sympathy with our decision, but noted that there should be a consistent approach to different types of interruptions, such as the ones considered in this proposal and interruptions to distribution connections.

We have decided to reject this proposal. CCGTs can price the risk of coincident Capacity Market and Operating Margin events into their bids for both products. We continue to believe that making this change would introduce differential treatment in favour of CCGTs as other technologies do not have equivalent provisions for fuel shortages.

Finally, we also continue to believe that it is not appropriate for electricity consumers to bear the risk of non-delivery in the event that a System Stress Event coincides with an Operating Margin instruction.

CP282 (EnergyUK) and CP311 (Green Frog Power)

CP282 and CP311 would remove the Capacity Obligation of Distribution CMUs in periods when they are subject to an interruption by a DNO. Relevant Interruptions (as defined in the CUSC) currently only affect the Capacity Obligations of Transmission CMUs.
Consultation responses and decision

We received ten responses regarding CP282 and CP311:

- Six respondents opposed our minded-to decision to reject these proposals. They argued, as provisions exist for Transmission CMUs, Distribution CMUs should also be protected from network interruptions.
- Four respondents supported our minded-to decision, agreeing that the proposal could risk inappropriately rewarding Distribution CMUs with non-firm access rights.

We have decided to reject these proposals. We continue to believe that it would not be appropriate for Distribution connected CMUs with non-firm access rights to be absolved of their Capacity Obligation and exempt from penalties if subject to an interruption by a DNO.

We agree that Distribution connected generators with firm access rights should not be penalised in the event of a network interruption beyond their control. However, we believe that Distribution connected generators with interruptible or non-firm access rights are more likely to be curtailed when the network is constrained. They may have chosen to agree interruptible or non-firm access rights in return for lower connection costs and this commercial decision should not release them of their obligation under a capacity agreement. Instead, these providers factor the risk of being unable to meet their Capacity Market obligation into the decision to agree a non-firm connection.

The existing Rules, and the proposal in its current form, do not differentiate between firm and non-firm connection agreements and Distribution connected generators with non-firm access rights are not precluded from participating in the Capacity Market. As set out in our response to CP349, we believe the most accurate way to account for non-firm distribution-connected capacity in the CM is by de-rating it for the likelihood of interruption.

CP292 (Engie)

This proposal would amend the storage baseline formula to prevent the 'electricity generated' from turning negative, which could cause double penalties to apply if a storage CMU is consuming in a System Stress Event.

Consultation responses and decision

We have decided to reject this proposal. We received four responses, all of which agreed with our minded-to decision. As stated in our consultation document, ESC has confirmed that the 'electricity generated' term cannot take a negative value and there is no risk of double penalties in the storage output formula. This change is therefore not required.

CP294 (ESC)

This proposal relates to the obligation and output of an Interconnector CMU. It proposes to:

- introduce a methodology for calculating the ALFCO for Interconnector CMUs; and
- amend Chapter 8 of the Rules so that actual metered volume is used to calculate an Interconnector CMU's output during a System Stress Event, rather than the Interconnector Scheduled Transfer (IST)

Consultation responses and decision

We received nine responses to our minded-to decision to reject the proposed change.

Three respondents agreed with our minded-to decision, and six respondents disagreed. Those who opposed our position argued that actual metered volumes provide a more accurate assessment of Interconnector performance during a System Stress Event than IST. They argued that this was an example of Interconnectors facing less onerous obligations than generating CMUs.

We have decided to reject this proposal. As noted in our consultation, BEIS introduced a methodology for calculating ALFCO for Interconnector CMUs in December 2017, which addresses the first aspect of this proposal.

Some stakeholders expressed concerns that IST may not give an accurate reflection of an Interconnector CMU's performance if there is a change to its output after Gate Closure. We do not share these concerns. The Balancing and Settlement Code (BSC) includes provisions that allow an IST to be amended after Gate Closure to accurately reflect performance during a Settlement Period, including where an Interconnector trips during a Settlement Period.

Nonetheless, as noted in our response to CP331, we continue to believe that changes to the ALFCO formula for interconnectors would be beneficial. We continue to believe that metered output, if appropriately adjusted through the ALFCO formula, could give a more accurate representation of the performance of an Interconnector CMU in a System Stress Event. However, we did not receive any proposals that sufficiently addressed this point.

CP324 (NGET)

The proposed change would introduce a 'dead band' period for any Capacity Market Notices (CMNs) triggered as a result of an unexpected demand control or low frequency event. Rule 8.4.6(d) requires that a CMN should remain in place until "an Inadequate System Margin is no longer forecast to arise […] at any time within the next four hours". The dead band would prevent the cancellation of the CMN until a set time had elapsed.

Consultation responses and decision

We received three responses to this proposal. All supported our minded-to position to reject and we did not receive any views providing any additional comments in favour of taking this proposal forward.

We have decided to reject this proposal. We have not seen sufficient evidence that this change is necessary or that the potential scale of impact would justify a change. The proposal to introduce a 'dead band' period for CMNs did not address whether the perceived risk of data flow lag was created by the SO's operations and could be addressed outside of the Rules.

CP327 (NGIH)

This proposal would put a requirement on the GB System Operator SO to publish the information it uses to calculate whether a Capacity Market Notice (CMN) should be issued every half hour in real time.

Consultation responses and decision

We received eight responses on our minded-to position to reject this proposal:

- Two supported our position with no further comments.
- Three disagreed or expressed disappointment but provided no further comment or argument. Another respondent considered the issue warranted further consideration and that information on a half hourly basis would be particularly useful for turn down DSR, but didn't provide any new evidence as to whether this required a Rules change.
- Two others, including from the original proposer, gave no comment on our minded-to decision but did support calls for improved margin information and alerts. The original proposer observed that this could be realised if the SO was to provide guidance on the relationship between de-rated margins and CMN calculations.

We have decided to reject the proposal. We have received no new evidence to explain why the change is required. However, this is the second consecutive year that a similar amendment has been proposed and we note that several respondents to the consultation requested more and clearer information from the SO. On this basis, we expect the SO to review how it communicates the relationship between CMNS and de-rated margin calculations to participants, and how it directs all participants to available information outside of the CM to inform despatch decisions.

CP331 (RWE)

The proposal requests the removal of Rule 8.5.1(ba). This rule relieves Interconnectors of all obligations when affected by SO actions to reduce output below the level of their Interconnector Scheduled Transfer (IST). RWE argue that this is necessary to achieve technology neutrality and fairness between different CMU types as other CMUs do not have an equivalent carve out.

Consultation responses and decision

We received eight responses to our minded-to position to reject CP331:

- Two respondents supported our position. They argued that it could lead to a scenario whereby the interconnector is judged to have not met its Capacity Obligation because it was responding to a request from the System Operator to

reduce output, even though it would have met its obligation without such an intervention from the SO.
- Six respondents opposed our position, arguing that the change proposal would help achieve technology neutrality. One respondent suggested that if an Interconnector CMU's output is reduced as a result of an action by the SO, its obligation should not be removed entirely, but should be adjusted to the extent that SO action impacts on it.

We have decided to reject this change proposal. We believe that it could impose an obligation on Interconnector CMUs which would have the undesirable effect of leaving them more vulnerable to factors beyond their control; in particular they would need to meet their full obligation even where a SO intervention has decreased their output.

This change could result in a scenario where an Interconnector CMU faces under delivery penalties as a result of it responding to an instruction from the SO to reduce output. For example, if an Interconnector's IST and ALFCO are both 1000MW and the SO requests the Interconnector reduce output to 500MW, the Interconnector would be judged to have failed to deliver its Capacity Obligation (ALFCO) as the SO action is not accounted for in the ALFCO formula. The current Rules are necessary to guard against this.

Further, the Balancing and Settlement Code (BSC) includes provisions that allow an Interconnector's IST to be amended post Gate Closure in certain circumstances. The provisions allow IST to be amended to more accurately reflect interconnector performance during a Settlement Period. This minimises the risk that SO intervention will have the impact of reducing an Interconnector's Net Output below IST and relieving it of its Capacity Obligation.

While we do not believe the change proposed would be appropriate, we agree in principle with the suggestion to adjust an Interconnector CMU's obligation in line with the magnitude of the SO action. A modification to the ALFCO formula would be required to achieve this.

CP333 (RWE)

The proposal seeks to remove the CMU's delivery obligation where a system to generator intertrip has fired. System to generator intertrips provide a service designed to protect the transmission system from overload in the event of failures on transmission lines. In such an event, where an intertrip scheme has been 'armed', a generator may be instructed by the SO to restrict their output so as not to overload the local transmission system.

The proposed amendment would incorporate intertrips into the existing carve out for 'relevant interruptions' under rule 8.5.1(c).

Consultation responses and decision

We received eight responses to our minded-to position to reject this proposal:

- One respondent supported our minded-to decision.
- Four respondents opposed our minded-to decision to reject this proposal. Two of the respondents argued that our minded-to decision is inconsistent with the treatment of interconnectors.
- Three respondents suggested that more work is needed to develop an appropriate solution. One noted that adjustment of the ALFCO could be a solution.

We have decided to reject CP333 as we continue to believe that it is not appropriate to remove a CMU's obligation in its entirety due to an intertrip. As we stated in our consultation, intertrip services could only affect part of the CMU's ability to meet its Capacity Obligation, and in these cases it would be disproportionate to remove the full obligation.

System to generator operational intertripping schemes are commercial arrangements between the System Operator and generators in order for the former to operate and manage the GB Transmission System following credible unplanned faults. Providers participating in such commercial agreements may be disconnected or have their export capability reduced and are compensated for the interruption.

We continue to believe that a more suitable approach may be to account for intertrip services within the ALFCO formula, as currently occurs for Relevant Balancing Services. This approach would modify the Capacity Obligation proportionately to the level of service provided. However, this would require further consideration as well as consequential amendments to the Rules, including to Schedule 4.

This solution is also consistent with our reasoning in circumstances where Interconnector CMUs are affected by any SO measures resulting in reducing their output. In such cases, we stated that a better way to take into account those SO actions would be though modifying the ALFCO formula.

CP339 (UK Power Reserve)

This proposal seeks to allow Capacity Providers to submit an updated Metering Assessment for a CMU after an initial submission has been made.

Consultation responses and decision

We received three responses in support of our minded-to decision to reject this proposal.

We have decided to reject this proposal because recent changes made by BEIS include a provision that enables participants to update their Metering Assessments. BEIS' changes to the Rules in December 2017 amended Rule 3.6.4 to allow an applicant to update a completed Metering Assessment provided the approved Metering Assessment is compliant with Rule 3.6.4(a)(ii) and the updated Metering Assessment is submitted by the required Metering Test Certificate deadline.

9. Transfer of Capacity Obligations

Amendments we will make

CP279 (EnergyUK), CP289 (Engie), and CP290 (Engie)

These proposals all concern incorrect definitions or formulae relating to a Capacity Obligation where a CMU includes more than one BMU/component.

- CP279 suggests amendments to the Adjusted Load Following Capacity Obligation (ALFCO) in Rule 8.5.2. It argues that the current definition of the term QMEij is too narrow, and it should not refer just to CMUs providing Relevant Balancing Services.
- CP289 identifies some issues when a CMU includes more than one BMU/component. These issues are exacerbated when some, but not all, of the BMUs comprising a CMU are providing Relevant Balancing Services. Adjustments to the ALFCO are required to address the ambiguity as to whether the subscript 'i'

refers to a CMU or a BMU. In addition, it is suggested that the System Operator should notify ESC of the units (BM or non-BM) that provide Relevant Balancing Services.
- CP290 argues that the Rules that are used to determine the actual output (Eij) of a Generating CMU in a System Stress Event should change in order to distinguish the CMU from its constituent BMUs.

Consultation responses and decision

We received nine responses regarding these proposals:

- Eight of the respondents supported our minded-to decision to take these proposals forward with delayed implementation.
- ESC suggested that the draft Rules changes to incorporate P354 have to be available by April 2019 for them to be implemented in the Delivery Year 2019/2020.
- Two of the respondents argued that it is urgent to implement these changes since they are necessary for the calculation of CMUs' obligations and penalties. Another two respondents noted their concern for changes being delayed due to significant impact on IT systems.

We have decided to take these change proposals forward. They clarify definitions and formulae relating to a Capacity Obligation where a CMU includes more than one BMU or component. However, the proposed changes cannot have effect until the BSC Modification P354 and ABSVD C16 is implemented. We have therefore decided to delay implementation until 2019 to ensure that the necessary data flows are in place to enable these amendments.

While we note that stakeholders see these changes as urgent, the implementation of P354 is necessary in order to appropriately introduce them into the Rules. In this way, the SO will provide Balancing Services volume data at the unit or component level, which will facilitate the required data flows to implement these proposals.

We believe that Capacity Obligations can be calculated at an adequate level at present and that the issue these proposals seek to address only arises under certain limited circumstances. However, we will explore alternative solutions with Delivery Partners to ensure that these calculations can be executed correctly in a System Stress Event, ahead of the entry into force of P354.

CP304 (ESC)

This proposal aims to clarify the metering requirements for a CMU which is a BMU. Rule 8.3.3(g)(ii) requires a Capacity Provider for a CMU that is a subset of a BMU to select the relevant Bespoke Metering Configuration Solution when they confirm the Metering Configuration Solution. The Bespoke Metering Configuration Solution is defined within Schedule 7. This proposal argues that the arrangements should be tested against the Code of Practice in place at the time of Registration for Settlement, rather than current industry standards.

Consultation responses and decision

We received five responses on CP304 all in support of our minded-to decision. We have decided to take forward this proposal. We continue to believe that this proposal will clarify the standards for the metering system of a CMU that is a subset of a BM unit and remove current ambiguity around which standards this metering must comply with. We

have introduced a requirement to complete a Proving Test to confirm the validity and accuracy of the data submission.

Proposals rejected

CP245 (ADE)

This proposal seeks to facilitate Secondary Trading by removing the requirement that a Capacity Obligation transferred is at least equal to the Minimum Capacity Threshold of 2MW, and replace it with a new "minimum trading threshold" of 500kW.

Consultation responses and decision

We received seven responses from stakeholders on our minded-to decision to reject this proposal.

- Two supported our proposed decision, while one accepted the limitations in making system changes this year but proposed it should be reconsidered in the future.
- Four stakeholders opposed our proposed decision but did not provide any new evidence on the benefits of the change.
- ESC's assessment of the impact of this change indicated that it would require substantial changes to the settlement systems, in particular to the parameters for penalty management.

We have decided to reject this proposal. Although we recognise that lowering the secondary trading threshold could provide greater flexibility for smaller CMUs to trade parts of their agreements, we do not have evidence that the benefits of this change would outweigh the costs of implementing systems changes. As discussed above, implementing this change would require fundamental changes to ESC's systems, including in penalty management.

We note stakeholders' requests for secondary trading to be reviewed more widely. The Five Year Reviews will present this opportunity and stakeholders will be able to provide further evidence of the benefits of this and other related changes in that process.

CP248 (Alkane)

This proposal seeks to amend Rule 9.2.5(a) in order to allow the transfer of Capacity Agreements at any time outside of the Prequalification Window. Currently, transfers can only take place after the T-1 Auction for the relevant Delivery Year has concluded.

Consultation responses and decision

We received seven responses on our minded-to decision to reject this proposal. All seven of these responses opposed our position and supported allowing secondary trading at any time, including before the T-1 Auction. Respondents suggested that this would be beneficial to the overall efficiency of the scheme, and also raised wider concerns about secondary trading arrangements more generally.

We have decided to consider this proposal further as part of the Five Year Reviews. We agree with stakeholders that increased liquidity in the secondary trading market would be beneficial to consumers. However, this proposal would represent a structural change to the CM framework, and therefore would be best considered as part of a wider review of secondary trading arrangements.

As noted in our consultation, it would have consequences for auction liquidity and wider procurement decisions. We intend to consider secondary trading in the Five Year Review, and we will include this proposal in our considerations.

CP262 (E.On)

This proposal would amend the Rules such that the transfer of a Capacity Market agreement, in whole or part, for a whole Delivery Year, also transfers the associated obligation to demonstrate Satisfactory Performance Days for the capacity transferred.

Consultation responses and decision

We received three responses to our minded-to decision to reject this proposal. Two agreed that BEIS has already made changes to the effect of this proposal in the most recent round of changes to the Rules. A third respondent argued that this proposal would address a shortcoming in BEIS' changes and allow CMUs to trade away parts of their obligations for part of the Delivery Year to reduce their Satisfactory Performance Day obligations.

As we stated in our consultation document, we agree that these changes are necessary to give providers the right incentives to participate in secondary trading, particularly by allowing Capacity Providers to securely trade away their obligations without retaining legacy performance requirements. BEIS has already made changes to this effect in its most recent round of changes to the Satisfactory Performance Day framework.

We believe that the situation described by the third respondent would require wider changes than those proposed, and therefore merits further consideration as part of a broader review of secondary trading arrangements. We intend to consider secondary trading in the Five Year Review.

10. Volume Reallocation

Amendments we will make

No proposed amendments.

Proposals rejected

No proposed amendments.

11. Transitional Arrangements

No proposed amendments.

Proposals rejected

No proposed amendments.

12. Monitoring

Amendments we will make

CP312 (Green Frog) and CP325 (NGET)

These proposals seek to simplify and clarify the timeframes for submitting the construction reports required under Rule 12.2.1 (regarding monitoring of progress of construction).

- CP312 proposes to fix the timings of these reports to take place midmonth every quarter until the Substantial Completion Milestone.
- CP325 proposes to set the requirement for the frequency of these reports to every six months following 1 June after the CM Agreement has been awarded, and proposes to limit the requirement on an Independent Technical Expert (ITE) update to circumstances in which the information provided under Rule 12.2.1 has changed in the preceding six-month period.

Consultation responses and decision

We received ten responses relating to our minded-to decision to fix the deadlines for the six-monthly construction reports:

- Eight respondents agreed with our minded-to position.
- Four respondents also commented on the three and nine-month reports, which did not form part of the original proposals. Three respondents suggested that we should also fix the timing of these construction reports, while one respondent proposed to remove this requirement altogether.
- One respondent considered the cost of an ITE to be prohibitively high for smaller participants and proposed that we remove this requirement, whilst another respondent suggested that relaxing the ITE requirement could undermine the integrity of the progress reporting arrangements.

We have decided to make the changes outlined in our consultation with amendments based on stakeholder feedback. While construction reports provide reassurance that New Build CMUs are making progress to deliver capacity in the Delivery Year, we believe that the current arrangements are unnecessarily complex. Fixing the dates for the six-monthly report creates certainty for the Capacity Providers and simplifies the reporting process. Whilst we are relaxing the requirement to include ITE only when the information in the report has changed, the requirement will remain in place until the final construction update is due to ensure the integrity of the reporting process.

The requirement to provide the additional three and nine-month reports will remain. These provide valuable information for the Delivery Partners on progress of individual projects. Furthermore, as the timing of the CM auctions are not currently predetermined, fixing the deadlines for these reports would only bring limited benefits to Capacity Providers. Some respondents queried how evenly spread out the reports would be across the calendar year. To clarify, we have amended our proposal so that if the period between the three-month report and the 1st of June, or the nine-month report and the 1st of December, is less than 40 working days the Capacity Provider will be required to submit only the report due on 1st June, or 1st December, as applicable.

We have further clarified the drafting relating to 'material' changes in 12.2.1(c) and (ca). By a material change, we refer to changes in the expected completion date, CMU Type, or changes to the location of the CMU, its metering arrangements, or any relevant unit identifiers.

Proposals rejected

No proposed amendments.

13. Testing Regime

Amendments we will make

CP244 (ADE)
This proposal seeks to only require a new DSR (Joint) test for affected components, rather than the entire CMU in three situations:

- where there are inconsistencies in metering configuration details between the Metering Test Certificate and the DSR Test Certificate;
- where metering arrangements have changed since the initial DSR Test;
- where ESC becomes aware that a Capacity Provider has failed to notify it about faulty meters, a change in metering configuration, or has submitted incorrect information, and where the situation is not effectively remedied.

The proposal also sought to add a 'catch-all' provision, which would allow new DSR (Joint) Tests to cover any potential circumstances where a DSR Test Certificate is no longer valid.

Consultation responses and decision

We received seven responses with regard to CP244, all of which supported our minded-to decision to take the proposal forward for circumstances where metering arrangements have changed. Two of the respondents suggested that this proposal should be extended to circumstances where a Capacity Provider has unintentionally submitted incorrect information or failed to notify ESC, since the requirement to carry out New DSR tests seems unreasonable and punitive.

We have decided to partially take forward this proposal in circumstances where metering arrangements have changed. This is consistent with our wider planned changes to arrangements for DSR CMUs through Of12. As a result, changes to metering will require a new Metering Assessment and, if required, Metering Test for the affected components only. The DSR Test Certificate for the CMU will continue to be valid for the ongoing Delivery Year but this additional flexibility is balanced by the requirement to complete New (Joint) DSR Tests for subsequent Delivery Years to ensure ongoing compliance and reduction of the non-delivery risk.

Accuracy of metering information

We continue to believe that DSR Tests should be based on correct and verified metering configuration information and that the provision of precise information is within the control of Capacity Providers. Hence, if there are inconsistencies between a DSR Test Certificate and the Metering Test Certificate, it is appropriate that a New DSR (Joint) Test of the entire CMU is undertaken. This is regardless of whether the incorrect information has been submitted unintentionally.

The onus is on Capacity Providers to adequately prove their capacity through the DSR Test and adequate metering arrangements through the Metering Assessment and Metering Test. Capacity Providers can avoid having to carry out New DSR Tests by complying with the Rules (i.e. notifying ESC once changes arise). The prospect of a New DSR (Joint) Test should serve as an incentive to do so.

CP276 (Endeco)

This proposal aims to clarify the process for providing DSR Alternative Delivery Period data to NGET. It would confirm that metering data using a time sampling frequency higher than half-hourly will be acceptable to NGET.

Consultation responses and decision

We received twelve responses with regard to CP276:

- Nine respondents supported our minded-to decision to take this proposal forward.
- Two respondents opposed our minded-to decision, and one respondent argued that all technologies should be allowed to use DSR Alternative Delivery Periods because otherwise DSR CMUs would receive differential treatment.

We have decided to take forward this proposal as this would clarify the existing process that a DSR CMU may use the DSR Alternative Delivery Period data to demonstrate its capacity volume for Prequalification as a Proven DSR CMU. A DSR Test is undertaken by DSR Providers to prove that a DSR CMU can achieve its stated capacity, and it would not be reasonable to impose an obligation on parties with DSR CMUs to repeat their capacity demonstrations simply because they did not coincide precisely with the starting second of a Settlement Period.

In addition, the Balancing Services Metering Configuration Solution and the Bespoke Metering Configuration Solution are Approved Metering Solutions, and therefore correct and verified metering configurations are in place.

Finally, some of the respondents argued that it is unfair that DSR CMUs could receive differential treatment. However, in our view, this treatment is appropriate. We note that DSR participants must go through the DSR Testing process to prove the stated capacity, a requirement that other technologies do not currently have to fulfil.

CP280 (Energy UK)

This proposal aims to clarify the requirement to perform additional SPDs. Currently any CMU which fails to deliver energy during System Stress Events in two separate winter months is obliged to demonstrate six additional SPDs. This is required even when a Provider may have been exempted from their obligation to deliver, for example as a result of transmission constraints or providing balancing services.

Consultation responses and decision

We received five responses to our minded-to decision to take forward this proposal. All five of the responses supported our position, but two parties raised concerns about the change:

- One respondent suggested that the proposed rule drafting did not cover all the scenarios intended. Specifically, the respondent requested for the change to be extended to include Providers that had met their Delivery Obligations through volume reallocation.
- Another respondent expressed concern that this change might offer an advantage to Transmission-connected capacity over Distribution-connected capacity when combined with the rejection of CP311.

We have decided to take forward this proposal. There are legitimate reasons for a Provider's Delivery Obligation to be set to zero during specific System Stress Events as set out in the Rules. We continue to believe that it is not appropriate for a CMU which has met its Delivery Obligation of zero to subsequently be required to demonstrate additional Satisfactory Performance Days.

Volume reallocation

We do not believe it would be appropriate at this time to extend this provision to instances where a CMU has fulfilled its Delivery Obligation through volume reallocation. Fulfilling the Delivery Obligation through volume reallocation frees a CMU from associated penalties, but given the CMU has not demonstrated its ability to respond to a System Stress Event, we believe it should continue to be required to demonstrate further SPDs for delivery assurance purposes.

Impact on Transmission and Distribution CMUs

We do not share the concerns of the respondent arguing that this change might offer an advantage to Transmission-connected capacity. This proposal will affect CMUs in two situations: where their Delivery Obligations are adjusted to zero to account for either successfully providing a Relevant Balancing Service or as a result of a 'relevant interruption'. Both Transmission and Distribution-connected CMUs can have their Adjusted Load Following Capacity Obligation set to zero if they provide Relevant Balancing Services.

As set out in our decision on CP311, it would not be appropriate for Distribution connected CMUs with non-firm access rights to receive the same protection as transmission-connected CMUs affected by "relevant interruptions". These CMUs may be curtailed when the network is constrained (an "allowed interruption" as defined in the CUSC) and may benefit from lower connection costs as a result. This is not equivalent to the outcomes of taking forward this change proposal and could have unfavourable impact on consumers.

ESC (CP300)

This proposal seeks to allow Capacity Providers more time to rectify issues identified in a failed Metering Test where the Capacity Provider has been notified of the failure significantly in advance of the relevant Metering Test Certificate deadline. The proposal suggests that the current rectification timeframe of 40 working days may not be sufficient to rectify complex changes to Metering Arrangements.

The proposal also intends to clarify that the 40 working day time limit given to the Capacity Provider may not exceed the Metering Test Certificate deadline specified in Rule 8.3.3(e). Specifically, the proposal suggests that Ofgem introduces a new provision in Rule 13.3.8(b) that requires Capacity Providers to implement their rectification plans before the Metering Test Certificate deadline.

Consultation responses and decision

We received seven responses all supporting our minded-to position to remove the current 40 working day time limit on Capacity Providers to implement rectification plans on their Metering Arrangements following an unsuccessful Metering Test.

We have decided to implement the changes outlined in our consultation. All respondents agreed with our proposed approach. This change will ensure that Capacity Providers will have sufficient time to implement a rectification plan in the event of an unsuccessful Metering Test. Capacity Providers are still required to complete their Metering Assessments sufficiently early to meet the deadline for submitting their Metering Test Certificate to NGET by the current deadline in the Rules taking into account the processing time required by ESC [9].

[9] EMRS Working Practices (February 2018) outline that EMRS will carry out a Desk Based Metering Test within 10 working days of receiving a Metering Statement from the

CP320 (NGET)

This proposal seeks to amend Rule 7.5.1(l) to record the issuing of a Meter Test Certificate on the CM Register for all CMUs, rather than just DSR CMUs.

Consultation responses and decision

We received two responses agreeing to our minded-to decision to take forward this proposal. One respondent was supportive of the change, while the other expressed concerns that the proposal may bring additional administrative burden to NGET.

We have decided to take forward this proposal. We continue to believe that these changes will help to streamline processes carried out by Delivery Partners by making clear in the CM Register if the required metering milestones have been met by all CMUs. This proposal was raised by NGET, and we are comfortable that it would not significantly increase the administrative burden on Delivery Partners

CP338 (UK Power Reserve)

This proposal will allow Capacity Providers of Distribution connected CMUs to aggregate CMRS CMUs as part of a CMU Portfolio (with aggregate capacity no greater than 50MW) for the purposes of Satisfactory Performance Days.

We proposed to also extend this provision to Transmission CMUs where the aggregate capacity of the CMUs is less than 50MW.

Consultation responses and decision

We received seven consultation responses to our minded-to position to take forward this proposal:

- Five of these respondents supported our minded-to position because it promotes equal treatment between CMRS and non-CMRS Distribution CMUs.
- Two stakeholders questioned why this position has not been extended to Transmission CMUs and raised concerns that this results in differential treatment between Transmission and Distribution CMUs.

We have decided to take forward an amended version of this proposal. We have taken note of arguments made by stakeholders and decided to extend this provision to small Transmission CMUs.

Both Distribution and Transmission CMUs will now be able to jointly demonstrate satisfactory performance for a group of Capacity Committed CMUs. This will only be possible where the aggregate connection capacity of all generating units is no greater than 50MW. We believe that extending this provision to include non-CMRS Distribution, CMRS Distribution, and Transmission CMUs will promote technology neutrality.

<u>Proposals rejected</u>

CP259 (E.On)

Capacity Provider, https://www.emrsettlement.co.uk/documentstore/workingpractice/wp197-capacity-market-metering-test.pdf

This proposal seeks to allow an additional window for completing DSR Tests, up to 30 working days after Prequalification Results Day. This would allow Capacity Providers to complete tests for Unproven DSR CMUs prior to the auction, confirming their proven capacity and adjusting the CMU's size accordingly, before entering it into the auction.

Consultation responses and decision

We received five responses to our minded-to position on this proposal. Four respondents opposed our minded position, arguing that the change would distribute DSR testing more evenly throughout the year, bring benefits to DSR providers, and improve the reliability of DSR assets.

We have decided to reject this proposal. Stakeholders did not raise any new evidence which could persuade us to change our views. We continue to believe the Capacity Market Rules give ample time for Capacity Providers to complete DSR Tests. The Rules ensure that Capacity Providers can undertake the necessary DSR Tests or Joint DSR Tests prior to the Prequalification Window or after an award of a Capacity Agreement up to one month prior to the Delivery Year taking place.

CP260 (E.ON) and CP332 (RWE)

Both CP260 and CP332 seek to amend the testing regime under Chapter 13 in order that Interconnector CMUs should demonstrate SPD equal to or greater than their Capacity Obligation, rather than demonstrating an output greater than zero. This would align Interconnector CMUs' SPD obligations with those of other CMU types.

Consultation responses and decision

We received twelve responses to our minded-to position to reject CP260 and CP332. Eight respondents opposed our minded-to position while four supported it. Stakeholders in opposition to our minded-to position raised two main arguments:

- The Rules are ineffective in ensuring Interconnector CMUs can fulfil their Capacity Obligations. Interconnectors' inability to control the directional flow of electricity does not justify their exemption from demonstrating satisfactory performance in the same way as generators.
- The current requirement for generating CMUs to demonstrate historic performance at Prequalification is discriminatory given Interconnector CMUs must simply demonstrate non-zero output. These stakeholders suggested the current Rules are not compatible with a technology neutral Capacity Market.

We have decided to reject both proposals. We believe that the changes proposed do not provide a suitable alternative for demonstrating satisfactory performance by Interconnectors and that the current Rules on SPDs are more appropriate for the specific functioning of Interconnector CMUs.

This proposal would not better indicate an Interconnector CMU's ability to deliver on its obligation during a System Stress Event. Direction of flow is the result of the price differential between bidding zones and this is a variable beyond the control of an Interconnector. Requiring an Interconnector to meet its Capacity Obligation for SPDs in winter would not test whether it was able to deliver on its obligation, but would test whether price differentials between the interconnected markets were sufficient at any point during winter for the Interconnector to import to GB.

CP277 (Endeco) and CP344 (ADE)

These identical proposals would permit SPDs to be demonstrated through DSR Alternative Delivery Periods, with data gathered by Balancing Services Metering. This is in acknowledgement of the potential for CMUs to be delivering Balancing Services which would meet the Satisfactory Performance Day criteria, but which may not fall precisely on the beginning of a Settlement Period.

Consultation responses and decision

We received thirteen responses to these proposals:

- Nine respondents supported our minded-to decision to take these proposals forward.
- Two respondents argued that all technologies should be allowed to use Alternative Delivery Periods because otherwise DSR CMUs would receive differential treatment.
- Both Delivery Partners highlighted significant implementation issues with the current proposal, suggesting that further consideration is required. They also noted that the policy intent of SPDs was to assess a CMUs ability to deliver in a stress event, and this proposal was not consistent with this intent.

We have decided to reject these proposals. We continue to believe there could be benefits to allowing a DSR CMU to meet its Satisfactory Performance Day obligation with periods that may not align precisely with a Settlement Period. However, we also agree with stakeholders who argued that other technologies would also benefit from similar flexibility. We therefore believe that adding this option only for DSR CMUs could provide them with an advantage over other technologies.

As highlighted in the responses by Delivery Partners, the proposals in their current form would require significant systems and processes changes, and would therefore not be practical to implement for the coming Delivery Year.

While we remain supportive of the principle of this proposal, any change in this area will need to consider other technologies in addition to DSR, and also give consideration to the wider systems implications of moving to periods that do not align precisely with a Settlement Period.

14. Data Provision

Amendments we will make

No proposed amendments.

Proposals rejected

No proposed amendments.

15. Schedules & Exhibits

Amendments we will make

CP252 (Centrica) and CP285 (Energy UK)

These proposals suggest rationalising the number of certificates and declarations required as part of Prequalification. At present, where the applicant for a Generating

CMU is not the Legal Owner of each Generating Unit comprised in the Generating CMU, they are required to obtain either a Legal Owner Declaration signed by two directors of the Legal Owner or an Applicant Declaration signed by two directors of the Legal Owner. These proposals suggest removing those requirements, as the Prequalification Certificate (Exhibit A) and Certificate of Conduct (Exhibit C) already require an applicant to confirm the veracity of their Application.

In our consultation, we said that we will not make the proposed changes and instead align the requirements for Existing and Prospective Generating CMUs to rectify an inconsistency in the Rules. This change will mean that where the Existing or Prospective Generating CMU consists of Generating Unit(s) with the same single owner and a separate Despatch Controller, the applicant would be required to provide only Exhibit D.

Consultation responses and decision

We received nine responses to our proposed approach to rationalise the existing certificates and declarations:

- Eight of these responses were supportive with four agreeing with our minded-to position.
- Five respondents thought that we should go further in simplifying the Prequalification process to reduce the burden on Applicants. One response suggested merging Exhibits A and C into one form. Another response proposed to allow declarations in different but legally equivalent formats. This could, for example allow employees who have delegated authority from company directors to sign the certificates.

We have decided to reject the original proposals as each of the existing Exhibits has a distinct purpose:

- Exhibits A and C are the Applicant and Owner Declarations and relate to matters such as the solvency and conduct of the applicant.
- Exhibits D, F, and G confirm and identify the applicant, the bidder in the auction, and Capacity Provider.

Due to the specific purpose of each of these declarations, we do not believe that it is appropriate to remove the requirement to submit the relevant forms, or to amend their format. Capacity Market Payments are a significant source of revenue for participants and are a substantial financial commitment of public money.

Further, we believe that Exhibits should be signed by an appropriate company official who has adequate authority to certify that the Applicant will be able to deliver its Capacity Obligation if successful in the auction. We continue to believe that it is appropriate for this to be at the company director level. This decreases the risk borne by consumers.

We have decided to take forward our proposed amendments to Exhibit Forms. We believe that our changes will simplify the Prequalification process whilst retaining the distinct roles each of the Exhibits serve. NGET also intends to introduce automated Exhibits as a part of the Delivery Body Portal and we believe this will help to clarify and simplify Prequalification requirements relating to Exhibits.

CP301 (ESC)

ESC has proposed revisions to Schedule 6 (the Metering Statement). These are to improve efficiency for both participants and ESC. Metering testing arrangements have

now been in operation for two years and ESC has identified a number of recurring issues arising from current drafting. In particular, these concern information participants must provide to reduce metering test delays or, potentially, failed tests.

Consultation responses and decision

We received five responses to our minded-to decision to take forward this proposal. All respondents agreed with our minded-to decision, and none provided any further points of consideration or comments on the Rules drafting.

We are taking forward the proposed changes to Schedule 6 (the Metering Statement). These changes are to improve efficiency for both participants and ESC by providing greater clarity as to the information needed by ESC for metering tests. They are necessary to reflect changes to metering types since the original drafting and to manage potential settlement risks.

CP302 (ESC)

This proposal would update the standards specified in Schedule 7 to account for older standards in effect at the time of Metering Equipment installation. Schedule 7 sets out the Bespoke Technical Requirements for Metering Equipment under the CM Rules. This proposal would update the specified standards for Measurement Transformers.

Consultation responses and decision

We have decided to take forward this proposal. We received five responses to CP302, all of which supported our minded-to position. We continue to believe that Schedule 7 (Bespoke Technical Requirements) should reflect the latest International Electrotechnical Commission (IEC) and British Standards (BS) standards, and that existing metering equipment should be compliant with standards in effect at the time of installation. As a result, we are implementing changes to ensure that this is the case.

Proposals rejected

CP246 (ADE)

This proposal suggests that the definitions for Relevant Balancing Services in Schedule 4 are either missing or do not adequately account for how STOR sites interact with the Capacity Market. It proposes to modify the definitions of Declared Availability and Contracted Output to solve this.

Consultation responses and decision

We received five responses regarding this change proposal. One of the respondents opposed our minded-to decision to reject this proposal, one respondent agreed with our minded-to decision, while three respondents indicated that they would support this change proposal but they accept our minded-to decision given that enabling modifications to the BSC and to NGET's procurement guidelines are not in place.

We have decided to reject this proposal. We continue to believe that the proposed change may facilitate the participation of additional capacity and clarify how STOR sites participate in the CM. However, the proposed changes would not be possible to implement until the BSC Modification P354 and ABSVD C16 are implemented. These modifications should provide the SO with Balancing Services volume data at the unit or component level, which should facilitate the data flows required for CP246.

CP263 (E.ON), CP313 (Innogy), and CP314 (Innogy)

These proposals seek to enable onshore wind and other renewable technologies to participate in the Capacity Market:

- CP263 proposes that renewable energy generators not in receipt of low carbon subsidies be added to the list of Generating Technology Classes in Schedule 3;
- CP314 would specifically add onshore and offshore wind to Schedule 3;
- CP313 suggests the introduction of an 'Other Technology Class', which would enable any technologies not currently specified to participate.

Consultation responses and decision

We received eighteen responses to our minded-to decision to defer these proposals until the Five Year Reviews.

- One respondent supported technology neutrality without specifying a preferred timeframe for implementation.
- Nine respondents supported our proposal to consider this issue further as part of the Five Year Reviews - together with BEIS.
- Sevenrespondents disagreed and said that the changes should be made immediately. They argued that the necessary changes to the Rules are limited, the risk of unintended consequences is low, and the contribution of wind to security of supply is already acknowledged in procurement decisions.
- One respondent opposed the introduction of intermittent renewable technologies into the CM and argued that only firm power should be able to participate.

The principle

We agree with the proposers that the CM was intended as a market-wide, technology neutral mechanism to reward providers for their de-rated capacity.

We consider that allowing renewable technology not in receipt of other forms of State Aid would be consistent with the European Commission's Capacity Market State Aid clearance, so long as preference is given to low-carbon generators "in case of equivalent technical and economic parameters."[10].

Therefore, we believe that the long-term goal should be that onshore wind, wider renewable technologies, and hybrid CMUs composed of multiple technologies should be able to participate in the CM. However, we believe that it is necessary to properly understand and define the "equivalent technical and economic parameters" before making the change to Schedule 3 to add on-shore wind as a technology class.

Implementation challenges

We must consider the practicalities involved in implementing this proposal. Were we to include onshore wind in the list of eligible Generating Technology Classes immediately, this would only enable prospective applicants to take part in the auction if a de-rating methodology were to be implemented in time.

[10] State aid SA.35980 (2014/N-2), Paragraph 153
http://ec.europa.eu/competition/state_aid/cases/253240/253240_1579271_165_2.pdf

Setting appropriate de-rating factors is necessary in ensuring that the "equivalent technical and economic parameters" requirement is satisfied. An excessively high de-rating factor will mean that consumers bear unnecessary costs for the lifetime of the capacity agreement, and would increase risks to security of supply. An excessively low de-rating factor may under-reward providers of capacity. Neither would ensure that this generating technology would be participating on equivalent technical and economic parameters with other technologies.

We have sought NGET's view on whether it would be able to develop, consult on, and set a robust de-rating factor before this year's auctions. NGET has said that while it has commissioned a model for creating the required de-rating factors, it is not able to guarantee that robust de-rating factors could be created in the period available. Given the development plan for the model it will not be possible to deliver new de-rating factors prior to Prequalification and there will be limited opportunity to consult with industry on the proposed methodology

We are aware that NGET already uses de-rating factors for wind in calculating the volume to procure via the capacity market. We have therefore carefully considered whether it would be appropriate to use this existing methodology. While the methodology is appropriate for modelling the renewables fleet as a whole, there are additional factors that would also have to be considered when making CMU-specific calculations. For example:

- Wind output in a stress event is also likely to vary by location. Therefore, NGET will need to consider whether de-rating factors should apply on a project-by-project basis or a regional basis.
- The current methodology does not explicitly differentiate between wind technologies. Given the substantial development of wind in GB, additional work is required to ensure that the contributions derived from historical factors remain relevant to future projects.
- Likewise, an approach will need to be established on whether wind sites are de-rated on an 'incremental basis (i.e. the contribution of additional capacity to security of supply), or whether the de-rating factor should represent the average contribution of the wind fleet as a whole in a stress event.

The above factors could be accounted for by establishing different technology classes of wind in the Rules, as there are for duration-limited CMUs. Therefore, the nature of the Rules changes required will also depend on the final methodology.

Wider considerations

We also have concerns about whether the existing penalty regime would be appropriate for intermittent technologies. The CM penalty regime was not designed to form a dispatch instruction for providers. Instead, the incentives for providers to perform in a stress event were intended to come from existing market signals (particularly cash out) and the penalty regime was designed to complement this.

Because intermittent renewables are non-dispatchable, these signals alone will be insufficient to incentivise a provider to generate where it otherwise might not have. This leads us to believe that the penalty regime requires further consideration in light of the proposed changes, and stronger penalties may be needed to incentivise providers to engage in secondary trading if they are unlikely to generate in a stress event.

Our decision

We note the Government has confirmed that BEIS' 5 Year Review will look at penalties, contract lengths, and potentially opening up capacity market to new technologies such as renewables.

On balance, we have decided that it would be most appropriate for these issues to be considered further as part of the Ofgem and BEIS Five Year Reviews.

In order to facilitate this process, we hereby instruct NGET pursuant to Rule 2.3.8 to develop and consult on a new de-rating methodology for onshore wind.

CP265 (E.On)

This proposal seek to undo BEIS' decision to amend Schedule 3 (Generating Technology Classes) to separate out the storage technology class into multiple categories with different durations. As a result, all storage CMUs would have the same de-rating factor regardless of their duration.

Consultation responses and decision

We received five responses to our minded-to decision to reject this proposal. One respondent supported and three respondents opposed our position. Those opposed argued that the changes BEIS have made to the Capacity Market Rules are discriminatory towards storage and that they create additional costs for storage capacity providers. The final respondent commented that this issue would not be a problem if providers set the capacity of their own obligations.

We have decided to reject this proposal. BEIS amended the de-rating methodology to reflect that some technologies have a limited duration, which may affect their ability to deliver in a stress event. We continue to support an approach to de-rating that gives an accurate representation of the differing reliability of technologies. Further, we believe that it is appropriate for the duration to be tested in order to verify the capacity of the provider.

Respondents also raised concerns about wider de-rating factors and suggested that duration should be included in the de-rating methodologies for all technologies, including DSR, interconnectors, and conventional generation. As noted in our response to CP353, we believe that the issue of DSR duration merits further consideration.

CP303 (ESC)

This proposal would allow the use of Metering Equipment that does not meet the minimum accuracy classes specified in Schedule 7 (Bespoke Technical Requirements) where it can be demonstrated that the Overall Accuracy of the Metering Systems is within the allowed limits.

Consultation responses and decision

We received six responses to this proposal at consultation. Five of these disagreed with our minded-to position to reject; one agreed with our position. Respondents argued:

- the proposal is a proportionate measure to enable some flexibility;
- the change would be appropriate for CMUs commissioned before the Regulations were enacted; and
- if ESC thought there were no risks, there was no reason for Ofgem to do so.

We have decided to reject the proposal. As is appropriate, the Schedule provides detailed requirements for the minimum accuracy levels for the various parts of the metering system. We have received no new evidence for why it would be appropriate to establish special arrangements for some measurement transformers in some circumstances.

Given that the Rules (and the original Schedule 7) followed the enactment of the Regulations in 2014, it is also unclear from the evidence received why a change is particularly necessary for pre-2014 equipment. The Overall Accuracy level acts as an aggregate across the various components of the System that is intended to complement the requirements for these individual components. It is not intended to circumvent the individual requirements.

If parties consider the requirements on measurement transformers to be unduly burdensome for certain CMUs, this should be addressed through a change to the minimum accuracy levels rather than through a carve-out as envisaged in this proposal.

CP274 (EDF)

This proposal seeks to amend the DSR baselining methodology to take account of System Stress Events which fall on non-working days. Currently, the baseline is created from data points that include the equivalent Settlement Periods on the same day of the week for the last six weeks, except where those equivalent Settlement Periods are on non-working days (in which case they are disregarded).

The baseline does not explicitly take into account situations where the System Stress Event itself falls on a non-working day, for example a Bank Holiday Monday.

Consultation responses and decision

We received four responses to our minded-to decision to reject this proposal:

- Three of these responses agreed in principle with our position. They agreed that, although the current DSR baseline formula may yield less accurate results, the probability of an error occurring is limited and the cost of implementing the change are disproportionately high.
- Two responses suggested that the proposal warrants further consideration. One respondent said that the failure to make such change could undermine confidence in the integrity of the market and questioned the scale of changes required to ESC's systems.

We have decided to reject this proposal. We continue to believe that the error in the baseline formula only occurs under limited and improbable circumstances and we can expect the formula to yield accurate results in nearly all circumstances. Thus, the cost of system changes for ESC outweighs the limited benefit provided by implementing the change.

16. Other

Amendments we will make

No proposed amendments.

Proposals rejected

CP268 (E.On)

This proposal asks that NGET publish the specific dates for key milestone reporting and independent technical expert progress reports.

Consultation responses and decision

We received six responses to our minded-to decision to reject this proposal:

- One of these responses agreed with our minded-to position to reject the proposal but suggested that requirements explicitly set out in the Rules would improve NGET's performance.
- Three respondents accepted our view that Rules amendments are not required to implement this change, but encouraged us to engage closely with NGET in order to ensure that participants had better clarity on milestones and reporting requirements.
- Three responses disagreed with our minded-to position. Two respondents stated that the proposed change would clarify the requirements and minimise the number of CMUs that fail to meet these key milestones. One respondent noted that it has limited confidence in NGET to deliver appropriate IT systems solutions in a timely manner.

We have decided to reject this proposal. We do not believe that Rules change is required to achieve the aim of this proposal. NGET released the "EMR Capacity Market Deadline Tool" in March 2018. The tool is designed to provide users with reporting deadlines for all relevant auctions and enable export into Excel, PDF, or Outlook. We are also implementing CP312 and CP325 which will clarify the timeframes for submitting construction reports under Rule 12.2.1.

CP299 (ESC)

This proposal seeks to amend the formula for the Agreement Monthly Penalty Cap. When a System Stress Event occurs and CMUs are subject to Capacity Provider Penalties for under-delivery those Penalties are subject to an Agreement Monthly Penalty Cap.

However, the Rules and the Regulations currently allow for that cap to become a negative value; and do not provide for month-to-date penalties to follow Physically Traded Capacity Obligations to other CMUs. This proposal seeks to address both of these issues.

Consultation responses and decision

Three stakeholders responded to our minded-to decision to reject this proposal. One agreed with our rejection and one appreciated the need for regulatory change. The final response expressed frustration at the division of policy between the Regulations and the Rules, and an intent to raise this in response to BEIS' Five Year Review.

We are unable to take forward this proposal because it would necessitate amendments to the Regulations. The Authority does not have the ability to make amendments to the Regulations and this power rests with BEIS. We note concerns expressed by stakeholders that the Regulations may contain some detail that could be better contained in the Rules. We expect that the Five Year Reviews conducted by BEIS and Ofgem over the next year will consider wider governance questions.

CP309 (First Utility)

This proposal seeks to amend the credit cover calculation set out in The Electricity Capacity (Supplier Payment etc.) Regulations 2014 Part 6 provision 27. It proposes that

the calculation of the amount of credit cover required takes into account the "Maximum Credit" (MC) value and the "Credit Assessment Score" (CAS), as calculated for independent assessor credit reports.

Consultation responses and decision

We received three responses to this proposal. One of these responses was in favour of the intent of the proposal, but all three agreed with our minded-to position to reject CP309.

As stated in the consultation document, we are unable to take forward this proposal because the provisions that would need to change in order to give effect to this proposal are in The Electricity Capacity (Supplier Payment etc.) Regulations 2014. The Authority does not have the ability to make amendments to these Regulations.

CP349 (Engie)

This proposal would amend the Prequalification requirements to necessitate that Distribution Connection Agreements are 'firm'. For a connection to be firm, it must not be part of a scheme that could result in curtailment of access when the network is operating normally.

We received this proposal too late to consider it fully, but in our consultation we welcomed initial stakeholder views to help inform our thinking.

Consultation responses and decision

We received seventeen responses to CP349:

- Four respondents supported our initial view to de-rate distribution connected generators with non-firm connections and disagreed with the intent of the original proposal to prevent these generators from participating.
- One respondent agreed with the original proposal, arguing that connection agreements are already less stringent for embedded generators.
- Another four respondents disagree with both the proposal to prevent participation and our initial view to de-rate these generators.
- Stakeholders also made a range of comments related to this proposal. One respondent noted that this issue should be addressed in Ofgem's charging review, while another suggested that it would not be fair to implement this change retrospectively.

As noted, we received this proposal too late to consider it fully, and therefore we intend to consult on a minded-to position in 2019. We continue to believe that de-rating generators with non-firm agreements is the most appropriate way of accounting for their reliability. We will engage with stakeholders as we consider this proposal further.

CP353 (Scottish Power)

This proposal would create new Demand Side Response (DSR) Technology Classes with different minimum durations, and apply the extended performance tests to these newly created Technology Classes.

This proposal was received with insufficient time for us to fully consider it for this round of rule changes. In our consultation, we invited views on the proposal to inform future policy development.

Consultation responses and decision

We received eighteen responses to CP353:

- Four responses opposed the proposal, voicing concerns about the potential impact on DSR providers.
- Fourteen respondents supported the proposal. They argued that the provisions for duration- limited storage should be extended to DSR behind the meter storage assets, whilst others suggested alternative approaches to address this proposal. Many of the respondents in favour suggested that this change proposal should be implemented this year

We continue to believe that further consideration and consultation is required to ensure that these changes will continue to provide reliable and affordable energy for consumers. We need to consider how DSR CMUs incorporate duration- limited technologies and how to ensure that the arrangements for de-rating can accurately reflect the reliability of DSR, while taking into account additional costs and burdens placed on participants.

We will consider the views received during this consultation round and intend to consult on a minded-to position in 2019.