



## Capacity Market Launch - Frequently Asked Questions (FAQs)

Issue # 4

Dated: 29/08/2014

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#	Question	DECC response	Rules and Regulations	Date
37	Does the coming into force of Capacity Market (Amendment) Rules 2014 require the Director certificates (exhibits A-D) in the Capacity Market Rules to be updated to also refer to the Capacity Market (Amendment) Rules 2014 and the Capacity Market Rules 2014?	<p>No change is required to the certificates to reflect the Capacity Market (Amendment) Rules 2014 coming into force as:</p> <ul style="list-style-type: none"><li>• The Capacity Market Rules 2014 remain in force, the Amendment Rules do not replace the Capacity Market Rules 2014</li><li>• Therefore taken together the Capacity Market Rules 2014 and the Capacity Market (Amendment) Rules 2014 equal the Capacity Market Rules 2014</li><li>• Only when a new consolidated Capacity Market Rules comes into force would the certificates need to be updated to refer to a new set of the Capacity Market Rules</li></ul>		29/08/2014

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32	What clarifications / corrections will be made to the CM rules?	<p>We have made some immediate amendments to the Capacity Market Rules 2014. These amended Rules, 'The Capacity Market (Amendment) Rules 2014' will be in force on the Friday 22 August. These changes correct a number of minor and technical drafting issues which have been identified and which needed to be corrected to ensure that the Rules governing prequalification for the first auction are clear and operate as intended. More information can be found <a href="#">here</a>.</p> <p>Alongside making these immediate changes to the Rules, we are consulting on proposed amendments to the Capacity Market Rules to provide clarity on eligibility for fifteen-year capacity agreements. More information can be found <a href="#">here</a>.</p>		22/08/2014
33	Can a CMU that forms part of a BMU participate in the Capacity Market and if so, how will it be metered?	<p>A CMU that forms part of a BMU can participate in the Capacity Market provided it meets the definition of a CMU and in particular its metering is able to reflect the different generation/demand components on site(s) in order to provide the data required by rule 3.6.1. and elsewhere.</p> <p>Details of metering configuration options for CMUs are being developed and will be consulted on during the autumn. If necessary, to enable compliance with these metering configuration requirements, we intend to allow affected CMUs to implement any additional metering after the first auction at their own expense.</p>	Rules 3.6.1	22/08/2014

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34	The <a href="#">letter from the Settlement Body</a> dated 1st August 2014 confirmed the approved metering configuration for DSR providers wishing to enter as proven in this prequalification round as being Balancing Services. Rule 14.5.2 states that a capacity provider must submit the metered demand value for each relevant Settlement Period requested by the Settlement Body. Does this mean that the provider is responsible for sending data directly to the Settlement Body and if so, in what format and how?	Yes. During any delivery year every provider will be responsible for submitting or causing the submission of the required Settlement Period data. The ways and means by which these data can and must be submitted (including matters of quality, security, format and integrity) will be subject to consultation in Autumn.	Rules 14.5.2	22/08/2014
35	Is it intended to amend Rule 6.10.4 such that partial termination of a Capacity Agreement may be requested under that Rule? For example, where the Generating CMU comprises several units, can part of the capacity obligation for the CMU be terminated, thereby allowing the Capacity Agreement to continue for those units within the CMU not participating in a Low Carbon Exclusion?	There is currently no provision in the Regulations or the Rules for partial termination in these circumstances. Any such change would therefore require amendments to the Regulations (e.g. Regulation 34) as well as the Rules. We will consider whether it would be appropriate to consult on this issue at a future date but for the first auction applicants will need to take a view, in light of the current provisions, as to how they wish to structure CMUs.	Rules 6.10.4	22/08/2014

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36	If a single unit forming part of a CMU has been co-fired since March 2013, does this satisfy Regulation 16 such that a non-support confirmation can be given for all units for that station?	Yes – if a single generating unit which forms part of CMU i has co-fired since March 2013 (in accordance with the definition of “co-firing CMU” in Regulation 16(4)), then CMU i would be a co-firing CMU under Regulation 16 for the purposes of providing a non-support confirmation, provided that all units are being put forward in prequalification as a single CMU.	Reg. 16	22/08/2014

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14	Is a Refurbishing CMU eligible to compete for an agreement of up to 15 years if it proposes to spend above the new build threshold (provisionally set at £250/kW)?	In our view, the State aid decision (to be published shortly) does not allow a 15 year capacity agreement to be offered to existing plants carrying out refurbishment work.  We will be holding a consultation (Q32 for update) on how we ensure that the implementing legislation is consistent with the state aid decision on this point. In that consultation we will be seeking views on whether and how to refine "new" and "refurbishment" in light of the State aid approval.		01/08/2014
15	How is a CMU's Annual Penalty Cap determined?	Our stated policy is that the Annual Penalty Cap (APC) is 100% of the expected capacity payments for any relevant delivery year. This policy remains unchanged and we are aware this is not conclusively set out in the Regulations and Rules and will address this and the result will be that the APC will be stated on the CM Register for every capacity committed CMU at a level equal to 100% of expected payments.		01/08/2014
16	How is Combined Heat and Power defined in the list of generating technology classes?	It is our intent that CHP is defined as 'turbine or engine which generates heat and power, including electricity, simultaneously in a single process. This does not distinguish on the basis of 'good quality' status. This will be clarified by an amendment to the CM rules in advance of the first auction – see question 32 for an update.		01/08/2014
17	Does a Refurbishing CMU have to deliver its Connection Capacity or Maximum De-rated Capacity to reach its Substantial Completion Milestone (SCM)?	Yes. We will be proposing an amendment to the effect that a refurbishing CMU will have met its SCM when it is operational with an aggregate physical generating capacity which, when multiplied by its de-rating factor, is in excess of 90% of its capacity obligation (which aligns this treatment with that of a new generating CMUs.		01/08/2014

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18	It is not clear what value of MEC and RC should be used for a Distribution Connected generator where the Connection Agreement varies MEC at different times of the year. Could you clarify the value to be used?	The lower value of Maximum Export Capacity/Registered Capacity must be used wherever a range is specified in the agreement. This will be clarified by an amendment to CM rules in advance of the first auction – see question 32 for an update		01/08/2014
19	Is the connection capacity of a refurbishing unit only set with reference to Connection Entry Capacity?	We will be proposing an amendment so that rule 3.5.5 (determining connection capacity via the TEC:CEC or MEC:RC ratio) will be available to prospective generating CMUs as well as existing generating CMUs. This will be clarified by an amendment to CM rules in advance of the first auction – see question 32 for an update. Applicants will therefore be able to include a statement with their Application – as other relevant information – that should the amendment come into force they would wish for their connection capacity to be recalculated on this basis. The Delivery Body would be required through the amendment to accept such representation and update the connection capacity accordingly.	CM rules 3.5.5	01/08/2014
20	Can Capacity Market Confidential Information be disclosed under rule 3.4.9 to the wider corporate group of the applicant's shareholders?	We will be proposing an amendment to enable the sharing of information between the applicant and any shareholder of the Applicant and the shareholder's group. See question 32 for an update on the consultation and amendment to the CM rules timetable.	Rule 3.4.9	01/08/2014
21	Is the amount of credit cover required from an applicant prorated where the applicant demonstrates TEC at a level lower than their anticipated de-rated capacity? Is the termination fee for surrendering TEC applied to the TEC deficit?	<p>a) An applicant receiving notification of conditional prequalification is required to lodge credit cover in the amount of £5,000/MW of de-rated capacity of their CMU - as specified in regulation 59. The level is not pro-rated in any way to take account of the CMU's specific circumstances.</p> <p>b) The two termination fees are detailed in regulation 43 and are payable against the capacity obligation in MW of the agreement being terminated. The termination fees are not pro-rated in any way to take account of the CMU's specific circumstances.</p>	Regulations 59 43	01/08/2014

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22	Is an amendment to the connection agreement which sets out the TEC that will be secured for the Delivery Year sufficient to meet the prequalification requirement to demonstrate TEC? When is the credit cover returned?	Applicants unable to provide in their Application the confirmation in respect of the required Transmission Entry Capacity under rule 3.6.3(a), and therefore relying on rule 3.6.3(b), must lodge credit cover as per rule 4.6. The credit cover will be returned when the TEC confirmation is provided - with TEC confirmation being defined under regulation 87(8).	Regulations 87(8) Rules 3.6.3 4.6	01/08/2014
23	Does the reference to pumping of water in the definition of auxiliary load include water that is pumped for use as a fuel?	No - it is our intent that the reference to the pumping of water only relates to water used for cooling purposes. The pumping of water at a pumped storage hydro generating unit is not intended to fall within the definition of auxiliary load.		01/08/2014
24	Can a CMU change owners between prequalification and the auction?	No - as there are no provisions to update an applicant's identity under such circumstances (this is intentional). Rule 9.2.9 refers to transfers, sales and disposals of capacity committed CMUs post auction.	Rules 9.2.9	01/08/2014
25	How will CHP sites that have both generation and demand units be metered?	Non CMRS CMUs will be able to use the approved metering configuration solutions which need to accurately reflect onsite demand and supply. We are drafting the legislation and will consult during the autumn at which point stakeholders will get greater clarity on the proposals. Under Rule 3.4.3 (b) CMUs that share an MPAN will need to explain the relationship between the CMUs and also how each CMU is separately metered.	Rules 3.4.3	01/08/2014
26	Are transactions under the Capacity Market subject to VAT? Are Obligations Trading transactions liable for stamp duty?	HMRC has confirmed the VAT treatment relating to payments under the capacity market – this can be found as a link here: <a href="https://www.gov.uk/government/collections/electricity-market-reform-capacity-market">https://www.gov.uk/government/collections/electricity-market-reform-capacity-market</a> . Stamp Duty treatment for Obligation Trades will depend on the parties involved and individual circumstances of each of the transactions and accordingly is a matter best dealt with on a bilateral basis with HMRC. To note, the Regulations are being revised to add provisions related to Obligation Trading to ensure that provisions already set out in the Rules have the necessary statutory backing.		01/08/2014
27	How and when will the Settlement Body confirm the approved metering configuration solutions for the purposes of DSR Tests?	The Settlement Body has confirmed the approved metering configuration for DSR Tests for prequalification in 2014 in a letter to the Delivery Body which can be found as a link here: <a href="https://www.gov.uk/government/collections/electricity-market-reform-capacity-market">https://www.gov.uk/government/collections/electricity-market-reform-capacity-market</a>		01/08/2014

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28	What should a long term STOR withdrawal declaration cover?	The withdrawal declaration in respect of a CMU which is subject to a relevant STOR contract should follow the requirements of Regulation 18. It should be noted that the National System Operator <b>will</b> accept any such offers to withdraw or terminate made under this provision should the prospect become successful at auction.	Regulations 18	01/08/2014
29	Does rule 3.3.2 restrict an applicant to submitting only a single application in the prequalification window?	For the avoidance of doubt, an applicant may submit multiple Applications in respect of different CMUs, provided that only a single Application is submitted in respect of an individual CMU – subject to rule 4.2.3.	Rule 3.3.2 4.2.3	01/08/2014
30	How should I convert kVA capacity figures specified in my connection agreement to MWs?	Applicants converting a kVA figure stated in a connection agreement to MWs should utilise a Power Factor based on their own judgement and specify the factor used in their Application. Applicants may wish to use a default Power Factor of 0.95 for the conversion from kVA to kW.		01/08/2014
31	Can you provide an example of a line diagram should look like for the purposes of Rules 3.6.4(a) and 3.6.9(a)?	A illustrative example of a line diagram for prequalification purposes is attached here: <a href="https://www.gov.uk/government/collections/electricity-market-reform-capacity-market">https://www.gov.uk/government/collections/electricity-market-reform-capacity-market</a> Applicants should use this example to inform the line diagrams they submit, but should note that they will not fail pre-qualification due to insufficient information being provided in a line diagram. There will be a further opportunity to provide revised line diagrams if needed subsequent to prequalification.	Rule 3.6.4 3.6.9	01/08/2014



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2	What are the requirements for TEC for applicants at pre-qualification?	<p>The requirements for TEC at pre-qualification are mainly set out in chapter 3 of the Rules. These are summarised below:</p> <ul style="list-style-type: none"> <li>(i) Applicants with an existing generating CMU with TEC, see Rule 3.6.3(a). In addition, applicants should be mindful of Rule 6.10.1(g).</li> <li>(ii) Applicants with an existing generating CMU which does not have TEC at the time of pre-qualification, see Rule 3.6.3(b). In addition, applicants should be mindful of Rules 6.10.1(f) and (g). Note that this Rule only applies to the first full capacity auction.</li> <li>(iii) Applicants with a new generating CMU, see Rule 3.7.3(a). In addition, Applicants should be mindful of Rule 6.10.1(g).</li> </ul> <p>These are not necessarily an exhaustive list of requirements that you may wish to consider and the Rules and Regulations should be read in their entirety..</p>	<p>Rules: 3.6.3 6.10.1 3.7.3</p>	14/07/2014
3	Does the definition of 'Bidding CMU' and also to a lesser extent 'Bidder' inadvertently exclude large number of CMUs due to its link with 5.5.14 declaration?	<p>Yes the drafting does not currently reflect the policy intention and we will bring forward an amendment to ensure that this is resolved ahead of the first capacity auction.</p> <p>To confirm only New Build CMUs, Refurbishing CMUs and DSR CMUs need to re-confirm with the Delivery Body their intention to participate in the auction. Rule 5.5.16 will also be updated to better clarify the policy intent.</p>	<p>Rules: 5.5.14</p>	14/07/2014

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4	Does Rule 8.6.2 need correcting as the formula for calculating storage contribution during a stress event does not appear to be correct?	<p>Yes the drafting does not currently reflect the policy intention and we will bring forward an amendment.</p> <p>The policy intention is that the rule should calculate storage's contribution during a stress event settlement period as <math>A+B-C</math>, where <math>A</math> is the generation during that settlement period, <math>B</math> is the demand being taken before the CM warning was issued (treated as a constant during the stress event) and <math>C</math> is any demand still being taken during the stress event. So the calculation for delivery during a stress event settlement period is: delivered generation + demand response – demand still being taken.</p> <p>Taking a worked example, the intention is that:  A CMU that is taking 40MW of demand before the CM warning, generates 100MW during the stress event and still takes 20MW during the stress event should look like:  <math>100+40-20 = 120\text{MW}</math> delivered during the stress event</p>	Rules: 8.6.2	14/07/2014
5	What is the first delivery year for which suppliers will be liable to pay the capacity market supplier charge to fund capacity payments, and what is the earliest date that demand forecasts need to be submitted by suppliers?	<p>The first delivery year for which suppliers will be liable to pay the capacity market supplier charge will be the DSR Transition Delivery Year commencing 2016/17- see Regulation 29 and chapter 11 of the Rules.</p> <p>Suppliers will need to submit a forecast of their demand by 1<sup>st</sup> June 2016 in order for the Settlement Body to calculate each supplier's share of the supplier charge for the 2016/17 delivery year.</p> <p>The liability for paying the Settlement Body's costs (a separate charge) begins when the regulations come into force – these will be collected as a single payment at the end of FY14/15 (reg 44), after which they will be collected monthly (to be set out in upcoming payment regulations).</p>	Regulations: 29 Rules Chapter 11	14/07/2014
6	Can the net output ( $E$ ) be negative?	The policy intention is that $E$ is freely calculated and accordingly may be negative for generating CMUs, and we will consider whether any amendment to rule 8.6 or associated definitions is needed to clarify this.	Regulations: 39	14/07/2014

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7	Can the Capex thresholds for the 2014 auction be reviewed and changed before the auction, after the prequalification window closes?	Regulation 13 and Rule 4.11 cover the process for any amendment of auction parameters post prequalification.	Rules: 4.11.3	14/07/2014
8	Do CMUs that are ineligible as they are in receipt of low carbon support (Reg 16) but fall under the definition of a "mandatory CMU" have to enter pre-qualification and then opt out?	The policy intention is that there should not be a requirement for mandatory CMUs in receipt of low carbon support to pre-qualify and then opt-out. We will amend the Rules to make this clear.	Regulations: 16	14/07/2014
9	How is despatch control defined in relation to a generating unit?	Despatch control is defined in Rule 1.2 and relates to the commercial control, rather than the operational or physical control, of a generating unit. The despatch controller can be the Applicant in respect of a CMU where declaration is made (refer to Rules – Exhibit D).	Rules: 1.2	14/07/2014
10	Can a CMU participate in the Capacity Market and the Transitional Arrangements at the same time?	<p>Eligibility for the Transitional Arrangements is set out in Rule 11.3.2.</p> <p>To confirm, an Applicant cannot enter the Transitional Arrangements if they hold or have ever held a Capacity Agreement for the prospective CMU or CMU component (for the avoidance of doubt, if they participate in a previous auction, but been unsuccessful, they may still be eligible for Transitional Arrangements).</p> <p>These rules apply to individual CMU components as well as CMUs – the restriction is at the CMU component or the CMU itself. Components cannot be entered as part of a different CMU if they are also part of a CMU that holds an agreement from a previous Capacity Market auction.</p> <p>The current drafting is incomplete insofar as it potentially might allow unproven CMUs (who by definition holds a Capacity Agreement for yet to be specified CMU components) to subsequently take on components which were used in the Transitional Arrangements. This would circumvent the prohibition above and we will make an amendment to clarify rectify this. This will also cover trading an unproven CMU with a CMU containing Transitional Arrangements components.</p>	Rules: 11.3.2	14/07/2014

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11	How should applicants declare their CMUs auxiliary load at pre-qualification?	<p>All applicants are required to provide a description of the CMU in their Application including details of their metering configuration under the relevant provisions. The Application must identify all relevant auxiliary load and state whether the auxiliary loads associated with the CMU are separately metered. It should also clearly identify the relevant generation and associated demand MPANs.</p> <p>Where the auxiliary loads are not separately metered, i.e. shared between more than one CMU/generating units, the applicant should identify the relative proportions of the auxiliary loads associated with each individual CMU and any other relevant generating units which will not be participating in the CM, for example as a result of ineligibility or an opt out declaration. The method used to identify the proportion of auxiliary load associated with each generating unit is for the Applicant to decide, but should be a reasonable attempt to estimate the likely average proportion of the auxiliary load that each unit will use over the life of the contract (and this may be checked as part of the Metering Test, should the CM Unit be subject to one). ELEXON (who as EMR Settlement Services Provider is likely to be carrying out Metering Tests on behalf of the as Settlement Body) has suggested that reasonable approaches could include:</p> <ul style="list-style-type: none"> <li>• Allocating auxiliary load to each generating unit in proportion to its capacity (provided that the technologies and anticipated load factors are sufficiently similar that this is a reasonable approximation);</li> <li>• Allocating auxiliary load to each generating unit in proportion to its capacity, with an additional adjustment made to reflect differences in technology or anticipated load factor (e.g. reducing the proportion of auxiliary load allocated to a generating unit that requires very little auxiliary load, or would be expected to run infrequently); or</li> <li>• Allocating auxiliary load to each generating unit in proportion to its total output over a recent historic period (provided there was no reason to believe that in future the plant would be operated in a way that significantly changed the split of auxiliary load between generating units).</li> </ul> <p>Further details of the metering approach were set out by Elexon at National Grid's June Implementation Co-ordination event and are available at <a href="http://www2.nationalgrid.com/UK/Our-company/Electricity/Market-Reform/Capacity-Mechanism-Implementation/">http://www2.nationalgrid.com/UK/Our-company/Electricity/Market-Reform/Capacity-Mechanism-Implementation/</a></p>	Rules: 3.4.3	14/07/2014

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11 (cont.)		If you would like to discuss possible approaches to apportioning auxiliary load, or any of the other issues raised in this presentation, ELEXON can be contacted by email at <a href="mailto:contact@emrsettlement.co.uk">contact@emrsettlement.co.uk</a> .		
12	What metering options will be available to non-BSC participants and when?	DECC has confirmed that 3 metering options will be available, including using existing settlement meters, Balancing services metering and a bespoke option based on the BSC Code of Practice requirements. We are drafting the legislation and will consult during the autumn at which point stakeholders will get greater clarity on the proposals. The intention is to ensure all the metering systems are incorporated into the rules and the systems are in place to deliver them by March 2015.	<i>Rules (addition)</i>	14/07/2014