



Capacity Market 2023 - Frequently Asked Questions (FAQs)

Dated: 14/08/2023

These FAQs are for information only and do not supersede or replace the requirements contained in The Capacity Market Rules 2014 (as amended) and The Electricity Capacity Regulations 2014 (as amended). These FAQs do not constitute legal or investment advice and prospects are urged to consult their professional advisors. It is our intention to keep these FAQs under review and to publish revised issues from time-to-time but we advise users to refer to relevant delivery partner web pages for updated guidance where appropriate.

#	Question	DESNZ Response	Rules & Regulations reference	Date
1	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 BM Unit Identifiers, MPANs and Metered Entity Identifiers (for non-BSC Settlement Metering options).</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). EMR Settlement, who will be carrying out Metering Tests on behalf of the Settlement Body, has suggested that reasonable approaches could include:</p> <ul style="list-style-type: none">• Allocating auxiliary load to each generating unit in proportion to its capacity (provided that the technologies and anticipated load factors are sufficiently similar	Rule 3.4.3	14/07/14, updated 28/10/16, guidance documents updated 14/08/23

		<p>that this is a reasonable approximation);</p> <ul style="list-style-type: none"> • 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 • 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). <p>Any proportion of auxiliary load to be applied must be based on metered volumes measured by a half-hourly Metering System.</p> <p>The proportion factor should be expressed as a two digit multiplier.</p> <p>Further details of the metering approach are available at:</p> <p>https://www.emrsettlement.co.uk/document/guidance/g1-guidance-capacity-market-metering/</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Connection%20Arrangements%20Guidance%20v3.pdf</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Metering%20Aggregation%20guidance%20v2.3.pdf</p> <p>If you would like to discuss possible approaches to apportioning auxiliary load, or any of the other issues raised in this presentation, EMR Settlement can be contacted by email at: contact@emrsettlement.co.uk.</p>		
2	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.	n/a	01/08/14

3	Are transactions under the Capacity Market subject to	<p>HMRC has confirmed the VAT treatment relating to payments under the Capacity Market – this can be found as a link here:</p> <p>https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/342805/HMRC_letter_on_Capacity_Market_transactions_3_.pdf</p> <p>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.</p>	n/a	01/08/14, Updated 28/10/16
4	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.	n/a	01/08/14
5	Some capacity market bidders have issued securities which are traded on regulated markets and accordingly are bound by the Disclosure and Transparency Rules established under the Market Abuse Directive. Notwithstanding, the capacity market confidentiality provisions, certain of these bidders may come to the view that their end-auction position constitutes inside information and accordingly must be immediately disclosed. What is the position regarding this?	<p>DESNZ (formally BEIS) officials consulted the Financial Conduct Authority and have concluded that it is plausible that certain bidders may feel they are obliged to immediately disclose and in several cases the disclosure could be to the public at large, rendering it impossible to protect confidentiality. Concerns were also expressed by bidders as to a lack of a certain date when provisional results become final or are otherwise annulled - meaning new information could arrive in the market on any of the provided days up to the time limit.</p> <p>In the interest of an orderly release of information, we anticipate publishing a provisional set of auction results after the market closes on the day the auction clears, if it clears in the morning, or before the market opens on the day after the auction clears, if it clears in the afternoon, and before final auction results are published. By doing so, we hope the potential conflict which stakeholders identified between their duties under the Disclosure and Transparency Rules and the confidentiality requirements of the Capacity Market can be avoided.</p>	n/a	09/12/14, updated 28/10/16

6	What is the practical effect of rule 3.7.2(c)?	<p>This note clarifies the practical effect of rule 3.7.2(c) of the Capacity Market Rules.</p> <p>Rule 3.7.2(c) applies to prequalification applications in respect of New Build CMUs and sets out how Total Project Spend (TPS) is to be treated where it was stated in an application in an earlier prequalification window for a New Build CMU which subsequently gained a capacity agreement as such in a previous capacity auction. Rule 3.7.2(c) is also given effect to refurbishing CMUs under the provisions of rule 3.8.1.</p> <p>The practical effect of rule 3.7.2(c) on applications is to require the declaration of TPS which had not previously been declared under the previous application/agreement awarded; in effect eligibility for subsequent multi-year agreements should be based on additional capital expenditure. It does not matter for this purpose what the duration of the original agreement was. Re-stating previously stated TPS will mean that an application does not comply with rule 3.7.2(c).</p> <p>For the purposes of assessing 2016 prequalification applications against the requirements of this rule, therefore, the declared TPS figure will be considered as follows:</p> <ul style="list-style-type: none"> a) Stated TPS of zero – meets the requirements of rule; zero will be taken as the capital expenditure for the purposes of calculating the Qualifying £/kW Capital Expenditure and subsequent Maximum Obligation Period for the current application. b) Stated TPS (other than zero) of equal to or lower than the stated TPS figure in the most recent application for the CMU for which a capacity agreement was awarded – fails to meet requirements of rule. c) Stated TPS higher than the stated TPS figure in the most recent application for the CMU for which a capacity agreement was awarded – meets the requirements of the rule; the difference between the two declared TPS will be taken as the additional capital expenditure for the purposes of calculating the Qualifying £/kW Capital Expenditure and subsequent Maximum Obligation Period for the current application. 	Rule 3.7.2(c)	09/09/16, updated 28/10/16 and 02/02/23
---	--	--	---------------	---

		<p>The definition of Qualifying £/kW Capital Expenditure for the purposes of rule 3.7.2(d) will be treated as, and accordingly shall be interpreted by the EMR Delivery Body as, the correctly stated TPS under 3.7.2(c) divided by the de-rated capacity of the CMU. This aligns with the requirements of rules 8.3.6(a) and (aa), both of which are based on the TPS definition under rule 3.7.2(c).</p> <p>An applicant considered to fail to meet the rule’s requirements under scenario b) who believes that they have only stated additional TPS and has not re-stated previously stated TPS will have the opportunity to set this out in their representations should they wish to request that the EMR Delivery Body reconsiders their prequalification decision under the provisions of Regulation 69 of the Electricity Capacity Regulations 2014.</p> <p>Under scenario c), an applicant wishing to challenge their maximum obligation period as notified by the EMR Delivery Body will be able to request the EMR Delivery Body reconsider their prequalification decision under the provisions of Regulation 69 of the Electricity Capacity Regulations 2014.</p> <p>Where the scope of a relevant CMU varies between applications, the TPS consideration above will be applied relative to the preceding aggregated or disaggregated CMU and constituent generating units as appropriate.</p> <p>Following consultation in October 2016, the rules have been amended to make their practical effect in this area clearer.</p>		
7	Where can I find the latest information on Capacity Market participants / pre-qualified capacity / etc?	<p>The Capacity Market Register, maintained by the Delivery Body, records both pre-qualified and successful Capacity Market participants. The register confirms the existence of a capacity agreement and the right to a capacity payment for that CMU for the stated delivery year. A form of the register will be available at www.emrdeliverybody.com/cm/home.aspx and updated at appropriate times. The entry in the Capacity Market Register is the definitive document.</p>	n/a	28/10/16

8	<p>Changing a metering assessment after the deadline</p>	<p>Within the rules and regulations of the Capacity Market, all applicants must provide the Delivery Body with detailed line diagrams showing electrical configurations and metering arrangements of Generating Units or DSR CMU components in order that the Delivery Body can then consider whether or not a Metering Test and resulting Metering Test Certificate are required. Should a Metering Test Certificate be required, the Electricity Settlements Company as Settlement Body conducts a Metering Test. There are controls in place to ensure that certain metering configurations are scrutinised in detail.</p> <p>It has come to our attention that there are, however, particular circumstances in which amendments to metering configuration are made after the Metering Assessment has been conducted or the Metering Assessment is corrected. In some cases metering arrangements that would not otherwise have required a Metering Test are put in place or such metering arrangements were in place but were wrongly described in the Assessment.</p> <p>It is the policy intention that revisions to metering arrangements after the initial Metering Assessment should be set out in a revised metering assessment and should be considered by the Delivery Body on the same basis that the initial Metering Assessment is considered. That is that the Delivery Body should determine from the Assessment whether a Metering Test Certificate is required. Following consultation in July 2017, amendments were made in the rules to clarify that Capacity Providers can re-take a metering assessment where necessary.</p> <p>If you would like to discuss your Metering Assessment, or any of the other issues please contact the Delivery Body at: emr@nationalgrid.com</p> <p>Further details of the metering assessment can be found at:</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Metering%20Assessment%20-%20Metering%20Test%20Certificate%20Guidance%20-%20v2.0.pdf</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Metering%20Aggregation%20guidance%20v2.3.pdf</p>	Rule 8.3.3.	29/03/17, updated 02/02/23
---	--	---	-------------	----------------------------------

9	Is VAT registration at prequalification a requirement for all Capacity Market applicants?	<p>Following amendments to the Capacity Market Rules in July 2017, each prequalification application must include the value added tax (VAT) identification number of the applicant. The framing of this requirement does not provide additional guidance for applicants who are not VAT registered at the time of application.</p> <p>The introduction of this requirement was to provide a unique 'beneficiary identifier' for the purposes of EU state aid transparency, with VAT identification numbers being common throughout member states. It was not, as may have been inferred from the rules, policy intent to mandate VAT registration at the point of application.</p> <p>In satisfying the requirements of the rules, applicants who are not VAT registered should record their VAT identification number as "n/a".</p>	Rule 3.4.1, 3.4.1A and Exhibit A	12/09/17
---	---	--	----------------------------------	----------

10	<p>What does the P448 Balancing and Settlements Code modification (and GC0160 Grid Code modification) mean for Capacity Providers?</p>	<p>This note clarifies the effect of the industry code modifications to the Balancing and Settlements Code (P448) and the Grid Code (GC0160), implemented on 7 December 2022, on the Capacity Market.</p> <p>Following Ofgem’s decision on 6 December 2022 to approve the Balancing and Settlements Code (BSC) change proposal P448 (‘Protecting Generators subject to Firm Load Shedding during a Gas Supply Emergency from excessive Imbalance Charges’) and corresponding Grid Code Change proposal GC0160 (‘Grid Code Changes for BSC Mod P448’), there have been changes implemented to the settlement of deemed Bids for the purposes of the BSC.</p> <p>The new deemed Bid Acceptances under the BSC introduced by P448 are not considered an instruction from the System Operator under the Capacity Market Rules – as such, for the purposes of the Capacity Market Rules, there are no impacts on Capacity Market terms on the determination of System Stress Events, Capacity Market Notices and delivery obligations for Capacity Providers as a result of the implementation of P448 and GC0160.</p> <p>Further information on the code changes is available at:</p> <p>P448 - https://www.elexon.co.uk/mod-proposal/p448/</p> <p>GC0160 - https://www.nationalgrideso.com/industry-information/codes/grid-code-old/modifications/gc0160-grid-code-changes-bsc-mod-p448</p> <p>Ofgem decisions:</p> <p>P448 - https://www.ofgem.gov.uk/publications/authority-decision-bsc-modification-p448-mitigating-gas-supply-emergency-risks</p> <p>GC0160 - https://www.ofgem.gov.uk/publications/gc0160-authority-decision</p>	Rule 8.4 and Rule 8.5	02/02/23
----	--	---	-----------------------	----------

11	<p>What changes have you made to the Capacity Market for prequalification 2023?</p>	<p><u>Capacity Market Changes 2023 – Phase 1 proposals</u></p> <p>Following the publication of our Government Response to our consultation on strengthening security of supply and alignment with net zero (available at: https://www.gov.uk/government/consultations/capacity-market-consultation-strengthening-security-of-supply-and-alignment-with-net-zero) we would like to confirm that the updated Capacity Market Rules 2023 and Electricity Capacity (Amendment) Regulations 2023 are in force from July 2023.</p> <p>The Capacity Market (Amendment) Rules 2023 and Informal Consolidation July 2023 are available at: https://www.gov.uk/government/publications/capacity-market-rules</p> <p>The Electricity Capacity (Amendment) Regulations 2023 are available at: https://www.legislation.gov.uk/uksi/2023/860/contents/made</p> <p>Amendments to the Capacity Market Rules implement the following:</p> <ul style="list-style-type: none"> • Changes to connection capacity arrangements; • Temporary changes to enable mothballed plant participation; • Clarifications to auction clearing mechanics; • Changes to Prospective CMU progress reporting requirements; • Temporary delay to implementing Independent Emissions Verifier requirements (further information below). <p>Amendments to the Electricity Capacity Regulations 2014 implement the following:</p> <ul style="list-style-type: none"> • Extension of penalty calculation timelines for the Settlement Body; • Changes to the requirements for Secretary of State’s auction announcement so that an announcement will be made if it is determined that an auction will <u>not</u> be held; • Amendments to the definition of the Contracts for Difference Transfer Notice. <p>Temporary delay to Independent Emissions Verifier (IEV) requirements:</p> <ul style="list-style-type: none"> • The amendment to the Capacity Market Rules is temporary and aims to ensure there is enough time for affected Capacity Market Units (CMUs) to undertake the necessary verification ahead of the prequalification window in 2024. • All affected CMUs must have their emissions verified ahead of the 2024 prequalification window. Any verifications completed in 2023 will still be valid for prequalification 2024, including complex verifications which would usually be required annually. • The government strongly encourages Capacity Providers to continue getting their FFED verified this year to avoid oversubscription of the IEVs before the 2024 	14/08/23
----	---	---	----------

		<p>prequalification window, which could result in emissions not being verified in time and providers failing to prequalify.</p> <ul style="list-style-type: none"> • It is crucial that CMUs which require complex checks book their verification as soon as possible as the emission profile of the Fossil Fuel Component may vary over time and calculations will be required to be carried out using datasets from a continuous 12-month period during the 14 months leading up to the application being submitted. • The UKAS (United Kingdom Accreditation Service) has now accredited four organisations as Independent Emission Verifiers (IEVs) which can carry out the verification: https://www.ukas.com/accreditation/about/developing-new-programmes/development-programmes/ecm-verification/ <p><u>Next steps – Phase 2 proposals</u></p> <p>As set out in our government response, the following proposals will be subject to further development and analysis as part of a Phase 2 of Capacity Market reforms. Through Phase 2, we will make a decision on whether to proceed with implementation with a view to implement relevant changes from 2024 at the earliest:</p> <ul style="list-style-type: none"> • Changes to Satisfactory Performance Days (SPD) framework – we consulted on proposals to reorganise the SPD framework through the introduction of pass windows and included • Enduring changes to enable the participation of mothballed plant, proposing new requirements for existing generating CMUs which are not able to demonstrate past settlement performance subject to credit cover; • Changes to the penalty rate targeted at strengthening signals to deter non-delivery of capacity during System Stress Events; • Changes to emissions limits from 1 October 2034 for new and refurbishing capacity which secures multi-year CM agreements. The new emissions limits are intended to apply to new multi-year agreements awarded after the legislative changes implementing the revised emission limits come into force; • Introduction of new multi-year agreements for low carbon, low Capex CMUs to incentivise further low-carbon participation in the CM; • Changes to 3-year and 15-year Capex thresholds; • Introduction of a 9-year Capex threshold to capture new and refurbishing projects for whom the existing 3- and 15-year agreement Capex thresholds may present a barrier to entry in the CM; 		
--	--	--	--	--

		<ul style="list-style-type: none"> • Changes to the definition of Total Project Spend to align the window to account for Capex costs for refurbishing units to those of new build CMUs; <p>Through the January consultation we also sought evidence on the following Phase 2 reforms and as outlined in the government response we will continue to explore options raised in respondent feedback:</p> <ul style="list-style-type: none"> • Gathering views on the potential barriers to entry for storage CMUs resulting from performance and duration testing requirements, such as the Extended Performance Test (EPT framework); • Seeking evidence on plans to decarbonise CMUs as well as exploring barriers to decarbonisation and decarbonisation pathways through a call for evidence; and • Exploring routes to addressing barriers to projects with long build times, for example through the introduction of a later first Delivery Year. <p>The government will continue to ensure that future changes to the CM are considered within the context of REMA’s emerging direction of policy in relation to both the CM and wider energy markets</p> <p>The updated CM Rules and Electricity Capacity Regulations are linked at the top of this section. More detail of the changes is available in the government response linked above and further information on how the changes apply for prequalification 2023 is set out in delivery partner guidance at https://www.emrdeliverybody.com/CM/Guidance.aspx and additional FAQs available at https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/EMR%20Customer%20Events%2019%20and%2025%20July%20-%20Q%20and%20A.pdf</p>		
--	--	---	--	--

12	<p>What changes have been made to connection capacity arrangements for 2023 onwards?</p>	<p>As set out in our government response to our consultation on Capacity Market 2023: strengthening security of supply and alignment with net zero (available at: https://www.gov.uk/government/consultations/capacity-market-consultation-strengthening-security-of-supply-and-alignment-with-net-zero), changes to connection capacity have come into force on 12 July 2023 to implement the following:</p> <ul style="list-style-type: none"> • Applicants may use Transmission Entry Capacity (TEC), Maximum Export Capacity (MEC), or Average Output to determine connection capacity, as defined in the Capacity Market (Amendment) Rules 2023; • Prospective CMUs who are connected to the distribution network may continue make an estimate in good faith of their connection capacity; • For units that do not have TEC or MEC specified at the site level and are not able to determine an individual Average Output value, options have been retained for units to determine an appropriate connection capacity for the individual unit, as a portion of the site TEC or MEC, provided that the sum of the connection capacities at that site does not exceed the total site TEC or MEC; • The sum of connection capacities at a site cannot exceed the total TEC or MEC for that site, so that the connection capacity appropriately reflects the credible export capabilities of units within that site. <p>This rule change applies to applicants applying from the 2023 prequalification window, which opens on 26 July 2023, and onwards.</p> <p>Further information on how to determine connection capacity following the introduction of this rule is available at:</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/General%20Prequalification%20Information%202023.pdf</p> <p>https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Connection%20Arrangements%20guidance%202023.pdf</p>	Rule 3.5 and Rule 3.5A	14/08/23
13	<p>How many registered independent verifiers are there now?</p>	<p>There are currently four Independent Emissions Verifiers that can verify Fossil Fuel Emission Declarations in the Capacity Market. The list is available here:</p> <p>https://www.ukas.com/accreditation/about/developing-new-programmes/development-programmes/ecm-verification/</p>		14/08/23

