



Department for
Energy Security
& Net Zero

Capacity Market

Rule Amendments to support Auction
Liquidity

Closing date: 5 May 2024

April 2024



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Executive Summary

This consultation seeks views on five proposals designed to support liquidity in future Capacity Market (CM) auctions by ensuring the functionality and optimisation of the CM emissions verification process.

Since the introduction of Emissions Limits to the CM in 2019, it has been our policy intent to introduce independent verification of Applicants' declared emissions. The introduction of the requirement for independent verification of emissions declarations has previously been postponed, however verifications will now be required for all Fossil Fuel Emissions Declarations (FFEDs) from the 2024 Prequalification Window onwards.

Verifications are now taking place, with verified FFEDs submitted for the 2023 prequalification remaining valid for the 2024 prequalification as a result of the phased implementation process we consulted on in our January 2023 consultation. The commencement of CM emissions verifications has led to feedback which has identified a number of risks linked to the process which could affect future prequalifications.

The proposals in this consultation are intended to remove or minimise these risks ahead of the 2024 Prequalification Window. It is prudent to take steps ahead of prequalification so as to not unnecessarily restrict participation in future capacity auctions or impose undue administrative burdens on Applicants and the delivery body, National Grid Electricity System Operator (NGESO).

We believe these proposed measures are necessary to facilitate the CM in achieving its objective of ensuring security of electricity supply in Great Britain in future years at least cost to consumers.

The proposals are as follows:

- Rules amendments to enable CM Applicants to have access to a deadline extension for the requirement to verify their emissions to prequalify for the CM. This is to insure the CM against security of supply risks should Applicants be unable to secure a verification slot in time.
- Amendments to the CM Rules which currently require some CMUs to use a Combined Heat and Power Quality Assurance Programme (CHPQA) certificate which evidences their emissions for a given calendar year, a requirement which is misaligned with the definition of an 'Emissions Year' in the Rules. As such the policy is either technically impossible to implement or unnecessarily challenging for Applicants to comply with. This is a mistake in the Rules which requires amendment.
- Amendments to the CM Rules to require Applicants relying on previously verified Fossil Fuel Emissions Declarations (FFEDs) to resubmit the relevant document.
- Amendments to remove outdated sections of the Exhibit ZA and improve functionality.
- Amendments to the CM Rules to enable older versions of the FFED to be accepted at prequalification, provided they were verified no later than four weeks after an updated version of the declaration was inserted into the CM Rules.

This consultation will run for four weeks until 5 May 2024. We will then consider responses received in determining whether to implement proposals. The short consultation period is necessary to ensure that, should we decide to implement our proposed changes, we have time to do so before the Prequalification Window for the next auction round opens in July 2024.

1. General information

1.1 Why we are consulting

The purpose of this document is to consult on proposals to support auction liquidity and avoid undue administrative burdens on Applicants. The proposed amendments set out in this consultation are intended to facilitate the CM in achieving its objective of ensuring security of electricity supply in Great Britain in future years at least cost to consumers.

1.2 Consultation details

Issued: 8 April 2024

Respond by: 5 May 2024.

Enquiries to:

Electricity & Market Arrangements
Capacity Market Team
Department for Energy Security and Net Zero
3-8 Whitehall Place
London
SW1A 2JP

Email: electricity.security@beis.gov.uk

Consultation reference:

Capacity Market: Rule Amendments to support Auction Liquidity

Audiences:

We are seeking the views of industry and other organisations who have an interest in Capacity Market emissions verifications.

Territorial extent:

Great Britain. Electricity security is a devolved matter for Northern Ireland

1.3 How to respond

This consultation will run for four weeks until 5 May 2024. We will then consider responses received in determining whether to implement our proposals. The short consultation period is necessary to ensure that, should we decided to implement our proposed changes, we have time to do so before the Prequalification Window for the 2025 auction round opens in July 2024.

Email to: electricity.security@beis.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Respond online at: energygovuk.citizenspace.com/clean-growth/capacity-market-improving-auction-liquidity

or

Email to: electricity.security@beis.gov.uk

Write to:

Electricity & Market Arrangements
Capacity Market Team
Department for Energy Security and Net Zero
3-8 Whitehall Place
London
SW1A 2JP

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

1.4 Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

1.5 Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: bru@energysecurity.gov.uk.

2. The proposals

2.1 Deadline Extension for the Verification of Fossil Fuel Emissions Declarations (FFEDs) submitted at prequalification

Context

Under the CM's Emissions Limits framework, all Applicants whose CMUs include Fossil Fuel Components are required to provide a Fossil Fuel Emissions Declaration that demonstrates compliance with the Fossil Fuel Emissions Limit or Fossil Fuel Emissions Yearly Limit (as applicable) as part of their application.

Since the introduction of Emissions Limits to the CM in 2019, it has been our policy intent to introduce independent verification of Applicants' declared emissions. However, the introduction of the requirement for independent verification of emissions declarations has previously been postponed due to the timeframes needed for the accreditation of Independent Emissions Verifiers (IEVs) for the CM. IEV checks will now be required for all FFEDs from the 2024 Prequalification Window onwards, in line with Rule 3.15.1.

The United Kingdom Accreditation Service (UKAS) is the organisation responsible for the accreditation of IEVs in the UK. UKAS has successfully accredited four IEVs and verifications are now taking place, with verified FFEDs submitted for the 2023 prequalification remaining valid for the 2024 prequalification as a result of the phased implementation process we consulted on in our January 2023 consultation. The commencement of CM emissions verifications has resulted in feedback that has identified a number of risks linked to the process.

Verification is still a novel requirement, both for CMUs and verifiers. At the same time there may never be another Prequalification Window after this year's in which so many verified FFEDs have to be provided. This is because, in many cases, as long as a CMU does not undergo an Emissions Related Material Change, an Applicant can continue to rely on the same verified FFED, rather than having to prepare a new one for each Prequalification Window.

Given the high volume of verifications required and the novelty of the process, it is possible that some CMUs will not prequalify in 2024 as the result of Applicants failing to secure a verification in time. In a worst-case scenario, this could lead to significant numbers of Applicants being impacted, causing a security of supply risk at a time when auctions are increasingly illiquid and capacity targets are high.

This could also be an ongoing annual risk, whereby a CM Applicant may be unable to verify in time for prequalification for reasons outside their control. We believe it to be prudent to have the deadline extension in place as a permanent measure to safeguard against future unknowns, and to prevent a situation whereby a risk is identified and there is insufficient time to put in place another deadline extension. Because verification is a requirement for some Applicants to successfully prequalify, a permanent option of a deadline extension can avoid this becoming a single point of failure and would secure the CM against unforeseen future complications in the verification process.

Proposal

We therefore propose to enable a deadline extension for the submission of a verified FFED which would be aligned with the final deadline for new build CMUs to provide their relevant planning consents. This is 22 working days prior to the commencement of the relevant auction.

To access this deadline extension, an Applicant would need to provide evidence with their application that they have booked a verification slot prior to the extended deadline.

We intend to deliver this extension in a way that does not impact on any other obligations arising under the CM Rules. Wholesale postponements to the requirement for IEV checks were previously delivered in 2021, 2022 and 2023; we are therefore confident that this less impactful amendment can be made without disruption to the CM's broader functioning.

It remains the duty of the CM applicant to ensure their application meets all of the requirements of the CM Rules, and this proposal is not intended to countermand this principle. Applicants would still be expected to make every effort to secure a verification prior to the completion of prequalification and ensure their application is completed correctly.

Impact

We would expect that any implementation of the deadline extension measure would facilitate a continuation of the current functioning of the CM for the 2025 auctions and beyond. Failure to implement this measure would potentially have considerable impacts as it could result in otherwise eligible capacity failing to prequalify due to an inability to secure the necessary IEV certification. This could potentially reduce the amount of capacity participating in future auctions, which can have an impact on the clearing price resulting in higher costs being passed on to electricity consumers, and may lead to risks to security of supply.

There is uncertainty over how far Applicants will be able to successfully navigate the process, and whether IEV capacity will be sufficient to process the necessary verifications in time. As such it is not possible to provide a more detailed assessment as to the extent of potential IEV capacity constraints, nor of the risk that Applicants could fail to prequalify as a result. However, given the potential risks to auction liquidity outlined above, we consider that implementing this proposal would be a reasonable precaution to take to enable prequalification for eligible capacity.

Unlike previous wholesale delays to the requirement for validation by IEVs there is no risk of higher carbon emissions from falsified claims as all relevant Applicants would still be required to have a verified FFED ahead of participation in a CM auction.

- 1. Do you agree with the proposal to introduce conditional deadline extensions for the statutory requirement for FFEDs to be independently verified?**
- 2. Do you foresee any unintended consequences as a result of the proposal to introduce conditional deadline extensions?**

2.2 Amendment to the misaligned CHPQA definitions with the definition of an 'Emissions Year'

Context

As part of the emissions declaration process, Applicants may choose, or be required to use a Qualifying CHPQA certificate to underpin the use of various formulae applied to a Combined Heat and Power (CHP) plant. This certificate would need to evidence emissions values for the time period specified under the definition of an 'Emissions Year'.

It has come to our attention that the Rules currently have a misalignment whereby the definition of an 'Emissions Year' is inconsistent with the definition of a 'Qualifying CHPQA certificate'. This is because a Qualifying CHPQA certificate will only cover a specific calendar year, while an Emissions Year covers 12 continuous months within a 14-month timeframe prior to the provision of FFED.

This makes the current formulation of the Rules unworkable in regard to a certificate used with an application at prequalification, or would otherwise unnecessarily exclude applicants who wish to use it as part of a declaration submitted outside of prequalification, posing a risk to security of supply.

Applicants submitting a FFED with an application

Applicants utilising a CHPQA Certificate to source data for an emissions formula, who submit their FFED with their application during prequalification, have the following definition of an 'Emissions Year' applied to them:

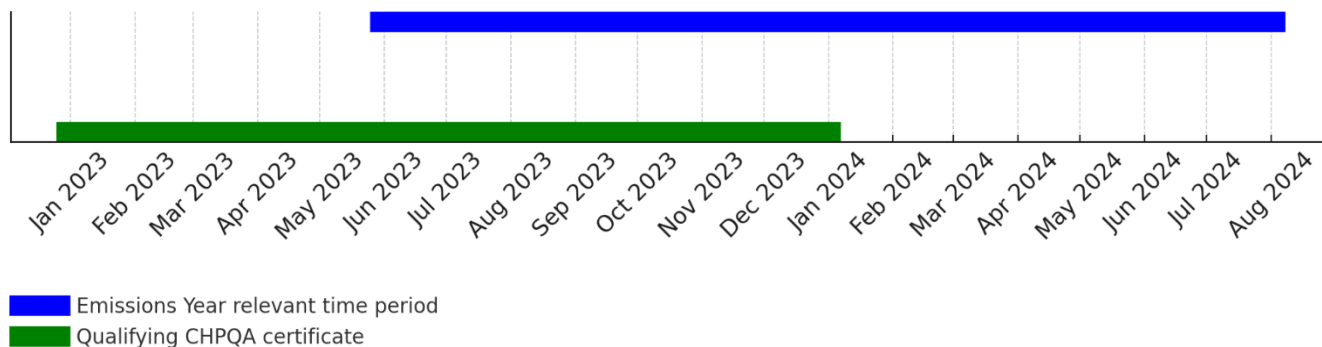
- a continuous period of 12 months starting no earlier than the date which is 14 months before the commencement of the Prequalification Window in which the Application is made and ending no later than the commencement of that Prequalification.

This is misaligned with the definition of a 'Qualifying CHPQA certificate', which for Applicants who submitted a FFED with their application is:

- a CHPQA Certificate which has an issue date which is no earlier than 1 January in the calendar year during which the Prequalification Window occurs in which the Application is made;

The result is that the CHPQA Calendar Year covered by the Qualifying CHPQA certificate would be January-December in the year prior to the relevant prequalification year. This creates a particular problem for those submitting a FFED with their application during prequalification. Schedule 8 in the Rules requires data relating to Emissions Years to be included in some calculations, therefore requiring emissions data from within the same calendar year as the one in which the Prequalification Window occurs by virtue of how the rules define an Emissions Year. This cannot be provided by the Qualifying CHPQA certificate as defined above.

Figure 1 - Applicant using a CHPQA certificate with an application submitted at the start of August during prequalification



Applicants submitting a FFED other than with an application

Applicants who defer the provision of a FFED during prequalification have the following definition of an 'Emissions Year' applied to them:

- a continuous period of 12 months starting no earlier than the date which is 14 months before the date on which the Fossil Fuel Emissions Declaration is provided to the Delivery Body, and ending no later than the date on which the Fossil Fuel Emissions Declaration is provided to the Delivery Body.

The definition of a Qualifying CHPQA certificate for such Applicants is:

- a CHPQA Certificate which has an issue date which is no earlier than 1 January in the calendar year during which the Fossil Fuel Emissions Declaration is provided to the Delivery Body

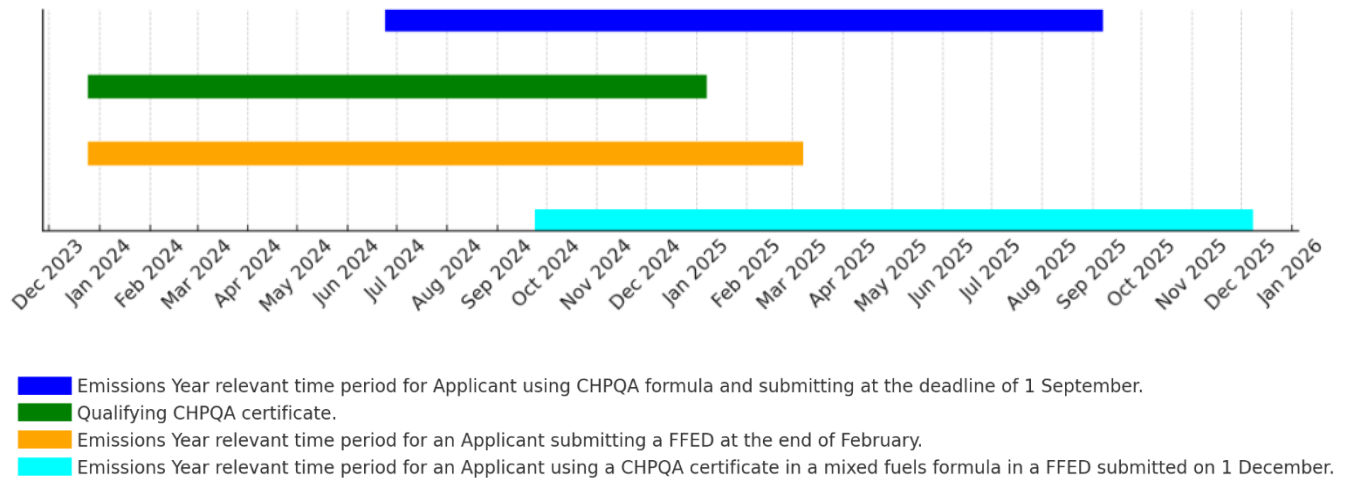
For Applicants using the Design Efficiency CHPQA formula who have deferred the provision of their FFED, their deadline for submitting a FFED is 1 September in the calendar year immediately following the relevant CHPQA calendar year. For Applicants who have deferred provision of their FFED and are using data from a CHPQA certificate as part of the mixed fuels or CCUS formula, their deadline will be no later than 14 months from the start of their delivery year, which would usually result in a deadline of 1 December.

The current formulation of the Rules would therefore mean that any Applicant using these formulae would in practice have a brief period between 1 January and 28 February to submit a verified FFED to ensure they met both the definition of an 'Emissions Year' and 'Qualifying CHPQA Certificate'.

This is problematic as the CHPQA certificate is not guaranteed to be provided in time due to CHPQA Administrator timelines. This is because following a CHPQA calendar year the energy data needs to be gathered and submitted to the CHPQA Administrator who in turn validates the data and issues the certificate. This process can take several months.

The result is that the Applicant is faced with the challenge of having their data collected, validated and the FFED then verified by an IEV in a space of two months, despite the CM deadlines technically giving them eight to ten months.

Figure 2 - Applicants using CHPQA certificate with FFEDs submitted other than with an application during prequalification



Proposal

We propose to make an amendment to the definitions in the CM Rules to include a new definition for ‘Emissions Year’ in the CM for Applicants utilising a CHPQA certificate, whereby the definition of the Emissions Year is linked to the definition of the time period covered by what is defined in the Rules as the Qualifying CHPQA certificate.

Impact

This measure would mean that for an Applicant utilising a CHPQA certificate as part of an Emissions Declaration submitted at prequalification, the definition of an Emissions Year would align with the definition of a Qualifying CHPQA certificate. This avoids there being a deviation between the time period defined under an ‘emissions year’ and the time period covered by the Qualifying CHPQA certificate.

If an Applicant deferred the provision of a FFED with their application, the definition of an Emissions Year would also align with the relevant definition of a Qualifying CHPQA certificate, which would be:

- a CHPQA Certificate which has an issue date which is no earlier than 1 January in the calendar year during which the Fossil Fuel Emissions Declaration is provided to the Delivery Body.

This definition would equate to a CHPQA certificate which covers the same time period as the relevant definition of the CHPQA calendar year.

3. Do you agree with the proposed amendment to the definition of an Emissions Year in the CM rules?

4. Do you foresee any unintended consequences as a result of the proposed amendment to the definition of an Emissions Year in the CM rules?

2.3 Amendment to require applicants to re-submit previously verified FFEDs

Context

From the 2025 auction's prequalification, all CMU Applicants relying on previously submitted verified FFEDs would not be required to re-submit copies of those FFEDs with their application.

This can cause problems for the Delivery Body, as CMU identifiers can change and there would also be the challenge of identifying in which year the most recent verified FFED was submitted. This would not only impose an administrative burden on the Delivery Body but could also heighten the risk of the Delivery Body being unable to locate the relevant verified FFED, causing the Applicant to fail to prequalify.

Proposal

We propose to require Applicants relying on a previously submitted verified FFED to resubmit the relevant verified FFED with their applications. This would ensure that the correct documents are linked to the correct Applicant. We note that this could cause issues if a new version of a FFED form in Exhibit ZA to the CM Rules has been introduced since the previously submitted verified FFED was submitted, and are therefore proposing an additional amendment in section 2.5 of this consultation to avoid this.

Impact

This measure would place a negligible administrative requirement on Applicants, while avoiding a significant burden on the Delivery Body and reduce the risk of a failure to prequalify.

- 5. Do you agree with the requirement for Applicants to resubmit previously verified FFEDs with their application?**
- 6. Do you foresee any other impacts as a result of the proposal to require Applicants to resubmit previously verified FFEDs, besides those identified?**

2.4 Amendments to the Fossil Fuel Emissions Declaration (Exhibit ZA) to remove outdated elements and improve functionality

Context

The FFED, known as Exhibit ZA in the Rules, has a number of elements which are outdated, or which are currently formulated in a way which do not provide optimal utility for the purposes the document is intended to serve. This can increase the number of Applicants making mistakes in their application and failing to prequalify. In particular the following issues have been identified:

- Part 5: Several options were relevant to previous years but are no longer required and are therefore confusing to Applicants.
- Part 6: This covers a declaration that Applicants will attach the data used for their calculations to the FFED. Given that from the start of the 2024 prequalification all Applicants will be required to have their FFEDs verified by IEVs, this declaration is no longer necessary.
- Part 9: Section 1 of Part 9 gives the option of two paragraphs for the IEV to retain upon completion of a verification. Currently the open-ended phrasing of paragraph (b) can be confusing for both Applicants and IEVs. It provides the option of listing what isn't 'true and correct' and offers an alternative to an assertion via paragraph (a) that the verified information was 'true and correct in all material aspects'. The only element of a FFED which the Rules allow for being outside the bounds of what may be considered 'materially' correct is the use of technical documents or outdated performance tests, as opposed to recent performance tests, to source values for design efficiency formulae. The current format of part b may suggest that other divergences from what would be considered 'true and correct in all material aspects', would also be acceptable.

Proposal

We propose to make the following changes to the exhibit ZA:

- Part 5: Remove option (a) and (b) in the current version of the exhibit as they refer to past delivery years.
- Part 6: Remove this part in its entirety.
- Part 9: Update paragraph (b) to specify within that paragraph a particular exception; that being the use of technical documents or older performance tests to source values for the calculations.

Impact

We expect these changes to decrease the number of applicants failing to prequalify due to mistakes in the completion of their FFEDs. This would reduce the number of applicants having to rely on the appeals process and decrease the burden on both ESO and Ofgem, as well as the IEVs.

- 7. Do you agree with proposed changes to the Exhibit ZA?**
- 8. Do you foresee any other impacts as a result of the proposed changes to the Exhibit ZA, besides those identified?**

2.5 Amendment to enable the acceptance of older versions of the Exhibit ZA which have been verified

Context

For the 2024 prequalification, Rule 3.15.2A specifically ensures that any FFED verified for the 2023 prequalification would be treated as valid for the 2024 prequalification. In future years, however, considering the above proposal to require Applicants to resubmit previously verified FFEDs, the current formulation of the Rules would not accept the provision of outdated FFEDs if a new version of Exhibit ZA had since been introduced. This would then require a new version of a FFED to be submitted, which would in turn require re-verification.

Furthermore, this issue could also affect Applicants which completed verifications early (e.g. ahead of the Prequalification Window) in any given year, due to the risk of a new form of FFED being introduced and consequently invalidating the previous document. This could result in Applicants deliberately delaying verifications until the prequalification period commenced to ensure they used an up-to-date FFED, thereby potentially straining verifier capacity over a short period of time.

Proposal

We propose to make amendments to the Rules to specify that an outdated FFED, which has been verified no later than 4 weeks after CM Rules requiring the use of a newer version of a FFED come into force, will remain valid for the purposes of Rule 3.6.5 and 3.9.5. This would mean an Applicant which verified in any given year would still be able to rely on their version of the FFED, provided it had been verified no later than 4 weeks after the next iteration of the Exhibit was implemented via Rule change. The outdated FFED the Applicant is relying on would need to have been the latest version at the time it was verified, or if verified during the 4-week transition period after the next FFED iteration is introduced, the latest version prior to this iteration.

The amendment will specify a cut-off point 4 weeks after the implementation of a new FFED to accommodate for a previously booked verification during which a new FFED might be introduced. This is intended to avoid disruption in the verification process by ensuring the FFED being verified is not immediately invalidated, forcing a delay in the verification.

Any future change to the Exhibit ZA template may require bridging documentation to be provided to enable prior ZA templates to sufficiently address the matters laid out in newer templates, however these would not need to be signed by an IEV and would not be required for the 2024 Prequalification.

Impact

This measure would enable Applicants to rely on a previously verified FFED, even if the version of Exhibit ZA used to create it was outdated, thereby avoiding unnecessary re-verifications and decreasing the admin burden on both Applicants, verifiers and the delivery body.

This would result in greater IEV capacity and enable a smoother operation of the CM application process. It would also allow for amendments to the FFED to be made without the automatic obligation on previously verified Applicants to re-verify.

- 9. Do you agree with the proposal to accept older versions of the FFED provided they were verified no later than four weeks after the introduction of a newer version?**
- 10. Do you foresee any other impacts as a result of the proposal to accept older versions of the FFED provided, besides those identified?**

3. Next steps

This consultation will run for four weeks until 5 May 2024. We will then consider responses and subsequently publish our Government Response setting out our final determinations.

This consultation is available from: www.gov.uk/government/consultations/capacity-market-rule-amendments-to-support-auction-liquidity

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.