



17 July 2017

To whom it may concern,

### **Capacity Market: proposals to improve the framework**

We are writing to you as you may be interested in issues we are considering around Capacity Market (“CM”) auctions. If you would like to know more please see below for a short summary of the proposals and how to respond. This letter is also published on our website, where you can find [more detail of the proposals](#).

#### *Background*

In the light of previous auctions and stakeholder engagements, we are proposing a number of essentially technical changes to the CM Rules to improve the functioning of certain areas and better align segments of the Rules with the original policy intent.

#### *The Government’s proposals*

One important proposal involves **amending the de-rating methodology related to storage Capacity Market Units (CMUs)**. It is important that the CM framework is updated where necessary to reflect the emergence of new and innovative technologies – facilitating their participation, and doing so on a fair and equal basis with other resources. Some stakeholders have raised concerns that the emergence and growth of battery storage in the CM has the potential to pose a risk to security of supply if those batteries are unable to generate for the full duration of probable stress events. The proposed change would ensure that storage capacity is rewarded appropriately for its contribution to security of supply and avoid the risk of insufficient capacity being secured to meet our reliability standard.

We are also seeking views on a number of other potential changes, as follows:

- **Options for improving delivery assurance for unproven Demand Side Response (DSR)** awarded agreements in the four-year-ahead (T-4) auctions, for example bringing forward the metering and testing deadlines to provide the Government with the ability to replace any failing capacity through the one-year-ahead (T-1) auctions;
- Allowing Capacity Providers to **re-take a metering assessment** if necessary;
- **Shifting the planning consent deadline to January** to avoid the Christmas period;
- **Strengthening the arrangements relating to Satisfactory Performance Days** to improve confidence that Capacity Providers are physically capable of delivering as per their capacity obligations; and

- **Disaggregating some of the generating technology classes** to improve transparency, support analysis and allow the potential for more specific application of de-rating factors in future.

*Further detail*

The annex to this letter sets out the areas for consultation in a little more detail, and the [full detail can be found on our website](#) as well as information on how to respond by the deadline of **8 September 2017**.

Yours faithfully,

Energy Security Team  
BEIS

## **Annex – summary of proposals**

### **1A. Amending the de-rating methodology for short duration storage**

It is important that the framework remains fair and appropriate in its treatment of all technologies, including newer and more innovative ones which may not have had a significant presence when the CM was initially designed. Battery storage is an important example. Whilst the Government supports the development of such storage, there is a risk that short duration batteries, that may not be able to generate for the full duration of probable stress events, could displace more enduring capacity and so undermine security of supply. The Government therefore proposes to de-rate storage according to the duration it can generate at its full connection capacity before recharging. The storage technology class would be split into different categories according to duration. Capacity Providers would be able to self-select, at pre-qualification, the duration category and associated de-rating factor that should apply to them, although there would be transitional provisions for the upcoming round of auctions. The Government is considering options for verifying the duration of storage CMUs including provision of manufacturer guarantees and amendments to Satisfactory Performance Days.

### **1B. Delivery assurance for Unproven DSR**

Unproven DSR is recognised as facing different challenges to other forms of “new” capacity, and is therefore subject to separate and in some respects lighter-touch requirements. For example, metering and testing deadlines for Unproven DSR awarded agreements in T-4 auctions currently take place only just before the start of the Delivery Year, allowing the maximum possible amount of time for DSR aggregators to reach firm agreements with customers. This can mean, however, that where a DSR project fails, this is not known until very late in the day. The Government has no wish to cut across the commercial development of this important resource, but at the same time would like to see clearer, earlier evidence of the delivery progress of this capacity, so that it can make a robust assessment in time to replace any lost capacity at the point of the T-1 auctions. To this end, we would welcome views on how this assurance could be provided in a timely way, for example whether we should bring forward metering and testing deadlines so that if an Unproven DSR CMU secured through a T-4 auction fails, there would still be sufficient time to adjust capacity targeted in the T-1 auction.

## **2. Strengthening Satisfactory Performance Days**

Currently, each CMU must complete three SPDs during winter of relevant delivery year and failure to do so results in suspension of capacity payments until three further SPDs are completed either in the same delivery year or in a subsequent delivery year. A CMU can therefore retain a capacity agreement indefinitely despite failing to demonstrate its capacity to fulfil its obligations. Moreover, the current requirements are not structured to ensure that that performance remains satisfactory across the entire winter period. The Government therefore proposes to strengthen these arrangements and oblige the SPDs to be completed within the same delivery year, with at least one taking place between January-April, and introduce a termination event which would be triggered in the event of the failure of all six SPDs.

### 3. Metering re-assessment

The Government proposes amending the CM Rules to make clear that Capacity Providers can re-take the metering assessment, which is in line with the original policy intent as clarified within published FAQ on this matter: <https://www.gov.uk/government/publications/capacity-market-rules>

### 4. Planning consent deadline

The planning consents deadline for T-4 auctions typically falls between Christmas and New Year's Eve. The Government intends to shift this deadline by a few days to avoid this time of year.

### 5. Technology class

The Government proposes disaggregating some of the defined technology classes set out in Schedule 3 of the Capacity Market Rules to improve transparency, support analysis and allow for more specific application of de-rating factors in future.