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## Response to Capacity Market Rules consultation 5 May 2015

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### Summary

The Association for Decentralised Energy welcomes the opportunity to respond to Ofgem's Statutory consultation on changes to the Capacity Market Rules pursuant to Regulation 79 of the Capacity Market Regulations 2014.

The Association for Decentralised Energy (ADE) is the leading advocate of an integrated approach to delivering energy locally through combined heat and power (CHP), district heating and cooling, and demand side energy services. Our members include CHP operators, demand side response providers, as well as energy service and technology suppliers.

Overall, we are concerned that a number of proposed rule changes that were rejected would have helped simplify the application process, facilitated the participation of smaller or non-traditional participants, or provided more transparency to all market participants.

The design of the Capacity Market's existing regulatory framework has made the mechanism challenging for non-traditional generators and DSR providers to participate. These generators and energy users are not obligated to participate in the mechanism, and opaque, costly, and administratively difficult processes discourage them from choosing to invest the time and resources.

We therefore recommend that Ofgem and DECC prioritise the simplification of existing Capacity Market requirements, and increase transparency for all participants. While we welcome the acceptance of some administrative simplification from CP47, CP62, CP66, CP67, CP79, CP83 and CP91, we are disappointed other proposals which would have achieved further simplification were rejected. For example:

- CP03 would have helped facilitate the participation of industrial sites through their energy service companies.
- CP20, CP22, CP23, CP35, and CP88 would have made efforts to simplify the existing application process, both reducing administrative costs for participants and helping to facilitate increased participation from non-traditional participants.
- CP5, CP10, CP15 and CP89 would have helped increase market efficiency and ensured that all participants had access to the same market information, no matter what size. Similarly, the acceptance of Proposal B reduces market efficiency and risks inefficient economic outcomes.

These decisions risk indicating that increased transparency and simplification are not currently a priority, and we would ask that these and more ambitious proposals are more positively considered in future revisions.

## Response to questions

**Q1. CP06, CP25, CP34, CP41 and CP50:** *Qualifying Capital Expenditure for New Build CMU: We invite stakeholders to provide us with information, and factors, backed up with evidence as far as possible, that we should take into account in considering: When should the Rules be amended to introduce the period for qualifying expenditure of 77 months prior to the start of the relevant delivery year?*

We support Ofgem's decision to move forward the qualifying date for capital expenditure in future auctions from 2015. We would recommend the 2015 auction move the date forward by a year for and each subsequent auction, so that the period of qualifying expenditure remains 77 months before the start of the relevant delivery year, in line with Ofgem's previous decision.

We do not support the proposal to delay enacting this change until the 2016 auction. If this change is not put into effect for the 2015 auction, Ofgem risks undermining the concept of the spending threshold.

We have some concerns with Ofgem's decision to leave the period of qualifying expenditure at 77 months, and think this could benefit from additional evidence gathering and review.

**Q2. CP01, CP07, CP25, CP34, CP41 and CP50:** *Qualifying Capital Expenditure for Refurbishing CMU: We invite stakeholders to provide us with information, and factors, backed up with evidence as far as possible, that we should take into account in considering: (i) Should the starting point for qualifying refurbishing expenditure be prequalification results day or auction results day? (ii) Should this new starting point apply from 2016?*

Qualifying expenditure should be measured from auction results day as this timeline most aligns with a refurbished CMU's investment decision. A decision to proceed with the refurbishment of a CMU would be dependent on receipt of a capacity contract. Therefore, the auction results day is the appropriate starting point. It is from the receipt of the results that a participant can proceed with the refurbishment.

We see no benefit from delaying the implementation of this change and it should be in place from the 2015 auction.

**Q3. CP69:** *Do you have any views on whether and how the Rules should be amended to prevent applicants being able to provide a calculation of connection capacity close to the value of entry capacity in the manner described in CP69?*

We see no evidence that changes are required to the current methodology. If the CMU can prove delivery of its de-rated capacity at three points during the previous two years, there is a very low likelihood of any risk to delivery.

**Q4. CP74:** *Do you agree that duration bid amendments should only be allowed to reduce during the auction?*

No. As DECC are currently doing further work to look at price duration curves, it would be appropriate to wait before reaching a decision on this point. For example, providing participants with the ability to increase the length of their contract and reduce their price during an auction may be beneficial. Allowing a more efficient market to operate and drive down the auction price

would help lower costs to consumers. We have seen no evidence of harm in allowing duration bid amendments to both increase and decrease during an auction.

**Q5. CP46:** *Do you believe that DSR CMUs should be able to add, remove and reallocate CMUs? Please explain your answer. Do you think there are potential downside risks to this, as we describe above? If so, how would you suggest we mitigate these downside risks?*

We support this measure as a method of allowing DSR providers some flexibility in the provision of their required capacity through the addition, removal or reallocation of components. We believe that any risks can be mitigated through the rule's design and we would welcome opportunities to discuss in further detail.

**Q6. CP24:** *Do you have any reasons or evidence for why we should not also include OC.6.7 as a form of load reduction in the definition of Involuntary Load Reduction (in addition to our proposal to make the amendment suggested by CP24)?*

No.

**Q7. CP49:** *Do you have any evidence to show that CHP is failing to prequalify or that there would be benefits to allowing embedded generation to bid as a DSR component?*

The ADE would welcome an opportunity to discuss this question in further detail with the Ofgem Capacity Market team, including wider questions on how to support CHP participation in the Capacity Market.

## Other proposed rule changes

**CP03:** We are disappointed that Ofgem chose not to implement this proposed rule change, as the inability for an agent to represent more than one applicant CMU has had a tangible impact on the opportunity for industrial energy users from participating in the Capacity Market. For example, we are aware of an industrial site with a CHP who had an opportunity to participate, with their Energy Service Company acting as agent, but because that was disallowed, did not take their application forward. We are also aware of Energy Service Companies which could proactively attract potential participants, but were unable to do so out of concern they would be accused on breaching any customer confidentiality if those potential participants became actual participants.

The current restrictions therefore do not allow these companies to encourage potential participants that were either not fully aware of the Capacity Market, unable to understand the complexity, and could not prioritise the administrative costs above other business interests. For industrial energy users, these risks are very real. The implementation of this proposed rule change could help facilitate their market participation, increasing bidding capacity and reducing consumer costs.

**CP05, CP10, CP15:** We disagree with Ofgem's assessment on the benefits of market transparency. Openness and transparency in the market can ensure market players are able to most efficiently allocate resources, helping to achieve lower costs for consumers. Any potential

collusion could occur with or without this information being published, and the lack of transparency favours those participants who have inappropriately gained such information and therefore control market advantage.

**CP42:** While we recognise that this information is available to participants, we disagree that it is easily accessible and would therefore encourage Ofgem to reconsider and publish this information before each Bidding Round. If this information is not published in an easily accessible way ahead of each Bidding Round, the auction will favour larger participants with more resources who will be able to secure this information and use it to their advantage against smaller participants with fewer resources during the auction process.

**Proposal B:** We do not agree with Ofgem's proposal to cap the spare capacity at less than 2GW when it falls below that number. The capacity market should be a level playing field that is open and transparent to all participants. By reducing the information available to participants, it only reduces the market's efficiency, risking decisions that unnecessarily increase consumer costs. Strategic withholding concerns can be addressed through existing and alternative arrangements.

**CP20, CP22, CP23, CP35:** We recommend Ofgem reconsider its decision on these proposed Rule changes. Simplifying and streamlining the application process benefits all participants, especially smaller players with less administrative resources. Furthermore, by simplifying the application process, the Capacity Market can encourage increased participation in the auction, reducing costs for consumers. As Ofgem accepted proposed rule changes CP62 and CP67, which aim to achieve similar goals, we hope these decisions can be revisited. If the decision was taken based on a need to prioritise other changes in this Delivery Year, then they should be revisited for the 2016 Delivery Year.

**CP88:** We see clear benefits from an annual formal process to review the pre-qualification process and its requirements to ensure that the process is efficient and does not create unnecessary work for participants.

**CP89:** We recommend Ofgem reconsider the rejection of this proposal. The proposal would increase market transparency of successful participants, increase market efficiency, and help ensure that the public and participants can understand what is supported through the Capacity Market. Furthermore, such information would help facilitate secondary trading. Ofgem has offered no reason that the release of this information would cause any harm.

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