

# Proposal for a Capacity Market Rules Change



Making a positive difference  
for energy consumers

Reference number (to be completed by  
Ofgem): CP243

Name of Organisation(s) / individual(s):  
The Association for Decentralised Energy

Date Submitted:  
17th October 2017

**Type of Change:**

- Amendment
- Addition
- Revoke
- Substitution

If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:

[Click here to enter text.](#)

**Proposal summary** (short summary, suitable for published description on our website)

The proposal facilitates participation in the Capacity Market by high load factor non-exporting Generating Units located on customer sites. The proposal amends Rule 3.6 to allow Generating Units to qualify as Generating CMUs, removing barriers to market entry for a large number of potential participants.

**What the proposal relates to and if applicable, what current provision of Rules the proposal relates to** (please state provision number):

The proposal relates to participation of high load factor Generating Units located on customer sites in the Capacity Market. A number of CMUs have not entered Prequalification in recent years because National Grid guidance states that, under Regulation 4, non-CMRS, distribution connected generators must be both connected to and export onto the public system to be eligible for participating in the Capacity Market. As many small CHPs deliver all of their electricity to site load and do not export, the guidance alongside the Regulation eliminates them from the Capacity Market. This proposal will enable these non-exporting generators to enter the Capacity Market. It proposes a solution that enables these units to qualify as Generating CMUs, removing barriers to entry and rectifying issues around non-exporting distribution-connected generators being excluded from the market.

**Description of the issue that the change proposal seeks to address:**

The proposal seeks to address the issue that non-exporting, distribution-connected generators have been barred from participating in the Capacity Market due to National Grid's decision to change their interpretation of Part 1, Regulation 4 (8) of the Electricity Capacity Regulations 2014. The section of the Regulations defines small generators as "a distribution unit which exports electricity to a distribution network, which is not a CMRS distribution unit." This was previously interpreted as meaning that a generator was required to be connected to the distribution network to prequalify for the Capacity Market, with the connection being enough to evidence that the generator's supply reduces wider network demand. Recently, however, National Grid has provided guidance that participants must, in addition to being connected to the Distribution network, possess an export agreement in order to prequalify. This has caused several potential capacity providers to decide against entering the prequalification process.

For avoidance of doubt, a non-exporting generator on a customer's site meeting 1 MW of demand which is connected to the distribution network has the exact same impact on the electricity system as a generator

which exports 1 MW onto the distribution network. In both cases, if the generator stops generating, there will be a 1 MW impact on system margin – either through increased demand, in the case of the on-site generator, or through decreased supply, in the case of the exporting generator.

A significant number of CHP installations fall below the 2MW threshold and are therefore unlikely to export power, or have an export agreement to export power. ADE survey data shows there is more than 400 MW in new sub-2MW CHP schemes installed since 2009 alone. There is clear evidence that the lack of route to market participation for these schemes has prevented them from entering prequalification for the Capacity Market.

In addition to the restriction for non-exporting generators in the regulations, the Capacity Market Rules do not currently provide a clear route to market for Generating Units on customer sites. As these Units do not currently have a viable route to market as DSR Components, the most effective solution is to ensure that Rule 3.6 allows these Units to prequalify as Generating CMUs.

Rule 3.6 currently applies to Generating CMUs that export to Private Networks or Distribution Networks, but Generating CMUs that export directly to the customer and do not have an export agreement with the network are not considered. By amending Rule 3.6 in the following way, it can provide a solution to the issue outlined above by providing a means for high-load factor Generating Units on customer sites to prequalify as Generating CMUs.

**If applicable, please state the proposed revised drafting (please highlight the change):**

- Clarifications to Rule 3.6.1 that the previous settlement period performance rules also apply to Generating Units forming part of a Generating CMU.
- New Rules 3.6.1 (d) and (e) that provide an alternative to the supplier or former supplier letter required under Rule 3.6.1 (b) or (c), but only in circumstances where:
  - the Average Highest Output of the Generating CMU (or Generating Units comprising the CMU) has been evidenced under Rule 3.5.3; and
  - The Applicant has confirmed the Meter Point Administration Number(s) and full postal address(es) of the Customer site(s) that the Existing Generating CMU or Generating Units are located within.
- New Rules 3.6.3 (e) and (f) providing that submission of a Distribution Connection Agreement is not required for a Generating CMU on a Customer Site that has met the requirements of New Rules 3.6.1 (d) and (e).

Proposed revised drafting:

### **3.6 Additional Information for an Existing Generating CMU**

#### 3.6.1 Previous Settlement Period performance

(a) Each Applicant for an Existing Generating CMU must identify in the Application the three Settlement Periods on separate days in:

(i) the 24 months prior to the date one month before the start of the Prequalification Window; or

(ii) if the CMU (or a Generating Unit forming part of the CMU) has not been operational in the 24 months prior to the date one month before the start of the Prequalification Window:

(aa) the most recent 24 months of operation; or

(bb) if the CMU (or a Generating Unit forming part of the CMU) has previously been operational for less than 24 months, the most recent period of operation; or,

(iii) if the CMU (or a Generating Unit forming part of the CMU) has been subject to a continuous Transmission Restriction for the whole of the 24 months prior to the date one month before the start of the

Prequalification Window, the most recent 24 months in which the CMU (or a Generating Unit forming part of the CMU) was not subject to a Transmission Restriction,

in which such Existing Generating CMU (or each Generating Unit comprising the Existing Generating CMU) delivered its highest physically generated net outputs, or Metered Volume where applicable, and specify such physically generated net outputs or Metered Volume in MWh to three decimal places.

(aa) Each Applicant for an Existing Generating CMU must also identify in the Application the 24 month period (or periods, to the extent they differ for individual Generating Units comprising the Existing Generating CMU) which contains the three Settlement Periods referred to in Rule 3.6.1(a).

[After Rule 3.6.1 (c), insert:]

(d) Rule 3.6.1 (e) applies only in respect of an Existing Generating CMU that has determined its Connection Capacity in accordance with Rule 3.5.3

(e) Subject to Rule 3.6.1 (d) an Applicant for an Existing Generating CMU that is located within a Customer site or comprised wholly of Generating Units located within one or more Customer sites, who is unable to meet the requirements of 3.6.1(b) or 3.6.1(c) must:

(i) Confirm the Meter Point Administration Number(s) of the Customer site(s) that the Existing Generating CMU or each Generating Unit comprising the Existing Generating CMU is located within.

(ii) Confirm the full postal address(es) with postcode of the Customer site(s) that the Existing Generating CMU or each Generating Unit comprising the Existing Generating CMU is located within.

[After Rule 3.6.3 (d), insert:]

(e) Rule 3.6.3 (f) applies only in respect of an Existing Generating CMU that has determined its Connection Capacity in accordance with Rule 3.5.3.

(f) Subject to Rule 3.6.3 (e), an Existing Generating CMU that has met the requirements of 3.6.1(e) is not required to submit further information pursuant to Rule 3.6.3.

**Analysis and evidence on the impact on industry and/or consumers including any risks to note when making the revision - including, any potential implications for industry codes:**

According to DUKES, there are 1,862 CHP schemes which are below 2 MW, and therefore at risk of having no export. These schemes make up 541 MW, with about half that capacity between 1 and 2 MW in size. This is likely a significant underrepresentation of this sector. This is because many smaller CHP customers tend to see little value in registering their CHP plant. Using surveys, the ADE has tracked more than 400 MW in new sub-2 MW CHP installations since 2009. Importantly, many of these small schemes are owned and/or operated by ESCos (Energy Supply Companies), which means that in addition to aggregators, there are opportunities for the ESCos to step in (and they will know where all these sites are, have existing commercial arrangements with customers, etc) and provide ‘virtual power plant’ services. Such organisations would be in a position to aggregate their own portfolios without third-party help, though they could choose to use a third party if they wished.

**Details of Proposer** (please include name, telephone number, email and organisation):

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