

# Proposal for a Capacity Market Rules Change



Making a positive difference  
for energy consumers

Reference number (to be completed by  
Ofgem): CP245

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

Date Submitted:  
16/10/2017

**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)

This proposal seeks to facilitate Secondary Trading by removing the requirement that a Capacity Obligation transferred is at least equal to the Minimum Capacity Threshold (Rule 9.2.4 (a) (ii)). The Minimum Capacity Threshold is currently defined in Regulation 15 (4) of The Electricity Capacity Regulations 2014 as “the connection capacity of the CMU is equal to or greater than 2MW”.

It seeks to replace this with a Rule requiring that a Capacity Obligation transferred is at least equal to a minimum trading threshold of 500kW.

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

Facilitating Secondary Trading by removing requirement that Capacity Obligation transferred is at least equal to the Minimum Capacity Threshold (Rule 9.2.4 (a) (ii)). Replacing this with a requirement that “the Capacity Obligation transferred is at least equal to the Minimum Trading Threshold of 500kW”.

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

The Minimum Capacity Threshold is currently defined in Regulation 15 (4) of The Electricity Capacity Regulations 2014 as “the connection capacity of the CMU is equal to or greater than 2MW”. Secondary trading of sub-2MW Capacity Obligations is therefore precluded. This stipulation imposes an artificial limit on Secondary Trading, with a consequent impact on market liquidity and efficiency, for no clear benefit to security of supply.

The risk of sub-2MW CMUs participating in a capacity auction is addressed by Rule 9.2.4 (a) (iii), which states that “following the transfer, the aggregate Capacity Obligation of each of the CMU Transferor and the CMU Transferee is at least equal to the Minimum Capacity Threshold unless the CMU Transferor has transferred all of its Capacity Obligation.”

Rule 9.2.4 (a) (ii) appears to be aimed at preventing trading extremely small volumes of capacity obligations, which could make market oversight more difficult. Recognising that Capacity Market units of 500kW are common, however, we propose that a minimum trading threshold of 500 kW be established. This would address Ofgem’s concern about trading of small volumes, while improving market liquidity and

efficiency, with a consequent benefit to security of supply and energy prices for consumers.

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

A Capacity Provider may transfer a Capacity Agreement by:

- (a) transferring all or part of its Capacity Obligation in respect of a Capacity Committed CMU (the “CMU Transferor”) for all or a specified number of calendar days in a Delivery Year to an Acceptable Transferee in respect of another CMU (the “CMU Transferee”) provided that:
  - i) the Acceptable Transferee nominates a CMU Transferee to perform the Capacity Obligation;
  - ~~ii) the Capacity Obligation transferred is at least equal to the Minimum Capacity Threshold; and~~
  - ii) the Capacity Obligation transferred is at least equal to a minimum trading threshold of 500kW; and
  - iii) following the transfer, the aggregate Capacity Obligation of each of the CMU Transferor and the CMU Transferee is at least equal to the 140 Minimum Capacity Threshold unless the CMU Transferor has transferred all of its Capacity Obligation

**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:**

We expect no negative impact to industry participants and no implications for industry codes.

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

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