



Bringing Energy
Together

Capacity Market Rule Changes Consultation - ADE Response | 3 May 2018

Context

The Association for Decentralised Energy (ADE) welcomes the opportunity to respond to the **statutory consultation on amendments to the Capacity Market Rules 2014**.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, efficient and user-orientated energy system. The ADE has over 120 members active across a range of technologies, and they include both the providers and the users of energy. Our members have particular expertise in combined heat and power, district heating networks and demand side energy services, including demand response and storage.

This consultation response focuses on the proposals of most significance to the ADE's members.

CP242 - *This proposal seeks to facilitate the participation of small CHP generators by establishing an alternative to the standard DSR baseline.*

Ofgem proposed decision: Reject

The ADE is disappointed with this minded-to decision. We will raise the requirement for changes to the Capacity Market Regulations in order to implement this change through the 5-year Capacity Market review this year.

CP243 - This proposal would amend Rule 3.6 to allow high load factor on-site Generating Units to qualify as Generating CMUs.

Ofgem proposed decision: Reject

The ADE is disappointed with this minded-to decision. We will raise the broader question of access for behind-the-meter capacity and the requirement for changes to the Capacity Market Regulations to facilitate this in the 5-year Capacity Market review this year.

CP244 - This proposal seeks to amend the requirement for New (Joint) DSR Tests to avoid unnecessary tests of components unaffected by metering changes

Ofgem proposed decision: Partially Taken Forward

The ADE strongly welcomes Ofgem's decision to implement this proposal in circumstances where metering configurations have changed. We understand why Ofgem may be cautious about extending the proposal to other circumstances, but would welcome further clarity on the risks that Ofgem foresee, along with an analysis of whether these risks are outweighed by the benefits of potentially increased participation and reduced costs to capacity providers. There are a range of circumstances where a capacity provider could unintentionally submit incorrect information or fail to notify the Settlement Body.. It seems unreasonable and wasteful that, in these kinds of circumstances, all the provider's customers would be forced to undergo a New DSR Test.

CP245 - *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*

Ofgem proposed decision: Reject

We are disappointed that this proposal has been rejected on the basis of unspecified significant costs resulting from system changes. As Ofgem recognise in their response, reducing the Secondary Trading threshold would provide benefits by enabling small CMUs to trade parts of their agreements, improving market liquidity and system stability. If the proposal is to be rejected we would like to see an analysis of the cost of the system changes entailed. It is crucial for transparency that costs and benefits be properly quantified and that the analysis be made available to market participants.

CP246 - *This proposal seeks to amend Schedule 4 so that it does not impede the flexibility relating to STOR afforded to Capacity Providers under Rule 8.5.2(b).*

Ofgem proposed decision: Reject

The ADE is disappointed that Ofgem have rejected this proposal on the basis that the change would have large system impacts and be dependent on data flows resulting from the P354 and C16 ABSVD modification processes. The principal issue concerns National Grid's record of members of STOR groups (i.e. STOR sub-sites within STOR sites); National Grid is aware of the deficiencies in its internal systems for tracking the allocation of STOR Sub-Sites to STOR Sites. National Grid therefore has a clear requirement to upgrade these systems, which is quite separate from any obligations under the Capacity Market. We would argue that this requirement has existed for several years and do not believe that National Grid's delay in addressing it is a reason to prevent the policy intent of the Capacity Market – a level playing field, with contracted balancing services being a recognised means of delivery CM obligations for all participants – from being fully realised.

CP253 - *This proposal seeks amendments to Rule 3.6.1 on previous Settlement Period performance for Existing Generating CMUs.*

Ofgem proposed decision: Partially Take Forward

We believe that Ofgem should reconsider their decision to reject this proposal. Situations exist where an aggregated Generating CMU's capacity may be understated through no fault of their own, as described in the original rule change proposal. Allowing applicants to use different settlement periods for each Generating Unit to evidence highest generated net output, while requiring the entire portfolio to demonstrate its overall output through Satisfactory Performance Days would resolve the issue and demonstrate reliability of capacity.

CP254 - *This proposal seeks to allow incremental capacity from sites with T4 Capacity Agreements to bid into T-1 Auctions for the same delivery year.*

Ofgem proposed decision: Reject

The ADE is disappointed that Ofgem are minded to reject this proposal.

CP259 - *This proposal seeks to allow an additional window for DSR Tests to be completed in the 30 working days after the Prequalification Results Day.*

Ofgem proposed decision: Reject

The ADE is disappointed that Ofgem are minded to reject this proposal. Allowing an additional window for DSR Tests to be completed is likely to result in more portfolios entering the Capacity Auction as Proven DSR, rather than Unproven DSR. This provides more certainty to the Delivery Body and improves system security, providing de-risking for both participants and the overall market. Unless it can be demonstrated that the costs of implementing this change outweigh these benefits, we recommend that Ofgem reconsider their minded-to decision.

CP261 - *This proposal would amend the requirements for generating units exporting electricity to an on-site customer so that they do not need to export onto the Distribution Network*

Ofgem proposed decision: Reject

The ADE is disappointed with this minded-to decision. We will raise the requirement for changes to the Capacity Market Regulations in order to implement this change through the 5-year Capacity Market review this year.

CP268 - *This proposal seeks to require the NGET to publish the specific applicable dates for key milestone reporting and independent technical expert progress reports.*

Ofgem proposed decision: Reject

We accept Ofgem's contention that Rules amendments are not required to implement this change. Information of the specific dates for key milestone reporting and progress reports is valuable to market participants, however, so we encourage Ofgem to engage closely with NGET and stakeholders to ensure that NGET's proposed IT solution delivers the intended benefits.

CP270 - *This proposal would require the Capacity Market Register to include information on the connection capacity, de-rated capacity and technology type for each component making up each generating CMU.*

Ofgem proposed decision: Consider Further

We believe that this proposal should only be implemented as part of Of12. As Ofgem acknowledge, it is likely to require significant system changes, so alignment of the two modifications would be sensible.

CP271 - *This proposal would require the Capacity Market Register to include information on the nature of the DSR provided, including a distinction between DSR capacity units that are and that are not supported by an onsite generating unit.*

Ofgem proposed decision: Consider Further

A DSR CMU contains a blend of components, which may each provide different types of DSR. Through this year's rule changes and in previous years, substantive changes towards a component-level approach have been delayed or not taken forward. We do not consider it a priority to introduce classification at component-level when such substantive changes that would significantly improve competition and remove barriers to entry are not. Publication of this data should therefore be implemented as part of the implementation of an overall component-level

approach. Clarity is also needed around the purpose of the data published and what data is most meaningful. The ADE therefore believes that, if taken forward, this proposal should only be implemented as part of a broader suite of component-level measures.

CP272/CP281/CP284/CP287/CP306/CP308/CP310/CP322/CP340 – *These proposals seek to change the way in which Capacity Providers can amend their CMUs once prequalified. CP272, CP281 and CP306 all propose to amend Rule 4.4.4, which prevents a change in configuration of Generating Units or DSR CMU components after prequalification.*

Ofgem proposed decision: Reject

We welcome Ofgem’s support for the concept of increasing flexibility for CMUs after prequalification and note that the volume of proposed Rule Changes in this area indicates its importance to market participants. In particular, we would emphasise that Rule 4.4.4 represents a significant barrier to changes to the configuration of components following Prequalification.

We understand Ofgem’s concerns about completely removing the rule and welcome their proposal to amend the Rule to allow changes to Primary Fuel Type or elements of the physical configuration of the site. There are, however, a number of other scenarios where a change to the configuration of components after prequalification would be beneficial, both from the point of view of the participant and of system security. It is important to note that there are provisions within the rules that explicitly allow many of these changes; the problem is that Rule 4.4.4 contradicts these rules. In order to remove this inconsistency without completely removing the rule, the ADE proposes that the drafting “Except as otherwise provided for in the Rules” is inserted at the beginning of Rule 4.4.4. This would resolve the contradictions currently present in the Rules and increase system security and flexibility, while also meeting Ofgem’s concerns about completely removing the Rule.

The ADE would also like to emphasise the need for progress in this area. We are concerned that Ofgem do not plan to make the necessary changes to the Rule this year. Delays to this change and to Of12 risk delaying implementation of component reallocation for an unreasonable length of time.

CP276 - *This proposal seeks to clarify the process of providing DSR Alternative Delivery Period data to NGET for the purposes of demonstrating a DSR CMU’s capacity volume for prequalification as a Proven DSR CMU.*

Ofgem proposed decision: Take Forward

We welcome Ofgem’s minded-to decision to take forward this proposal.

CP280 - *This proposal seeks to clarify the requirement for additional Satisfactory Performance Days.*

Ofgem proposed decision: Take Forward

The ADE welcomes Ofgem’s minded-to decision to take this modification forward.

CP282/CP311 - *This proposal would extend protections for network outages and constraints from transmission-connected generators to distribution-connected generators*

Ofgem proposed decision: Reject

We are disappointed that Ofgem have rejected this proposal, which would have helped to level

the playing field between transmission and distribution-connected generators. Transmission-connected generators receive financial compensation when they are subject to a network outage or constraint, which already places them at an advantage over distribution-connected generation. Further entrenching this advantage by restricting protections for network outages and constraints to transmission-connected generation risks undermining the technological neutrality of the Capacity Market.

There seems to be an implication that distribution-connected generation has a free choice on whether to have firm access rights with higher connection costs or non-firm access rights with lower connection costs. If this were to be the case, Ofgem's contention that distribution CMUs subject to a relevant interruption by the DNO should not have their Capacity Obligation removed would be reasonable. In many locations, however, distribution-connected generators have no choice in the matter; non-firm connections are the only form of connection available. It would be entirely appropriate, therefore, for generators who are constrained for no fault of their own to have their Capacity Obligation removed and be exempt from CM penalties for the relevant period.

CP288, CP307, CP319 – *This proposal seeks to clarify the requirement to provide a VAT number at prequalification*

Ofgem proposed decision: Take Forward

We welcome Ofgem's decision to take forward this proposal. This represents an extremely encouraging development in the approach to policy clarification, where submissions which seek to clarify issues that are unclear and potentially misleading (but have not yet been proven to cause widespread problems) in the Rules are accepted.

CP293 - *This proposal would remove the exclusion that prevents Existing CMUs which opted out of the T-4 Auction for a delivery year on the basis that they would be closed down by the start of the delivery year from participating in the T-1 Auction*

Ofgem proposed decision: Take Forward

We recommend that Ofgem reconsider its minded-to decision to take this modification proposal forward.

In the **Capacity Market Impact Assessment** and **Gaming and Consistency Assessment** from 2013, the risk of gaming through withholding capacity was identified as a key risk. The assessments concluded that one of the most important ways of mitigating this risk was to bar plant that has opted out of an auction due to a high possibility that it will have retired from participating in subsequent auctions (e.g. see p.38 of the Capacity Market Impact Assessment). Removing this exclusion creates significant incentives for existing capacity providers to withhold some of their capacity in the T-4 auction in order to drive the price up, which was recognised as one of the principal risks to the functioning of the Capacity Market.

The proposed change creates the risk of withholding in the T-4 Auction through false retirement statements (a gaming risk specifically recognised on p.24 of the Gaming and Consistency Assessment). While Ofgem argue that "the Rules and Regulations contain specific provisions to mitigate against the risk of market manipulation", market manipulation is not easy to prove and it is unclear which specific provisions would mitigate this extremely significant risk. Strategic bidding behaviour is likely to have a negative impact upon market efficiency, therefore driving prices up for consumers. The proposal should therefore be rejected.

CP296 - *This proposal would obligate Capacity Providers using Balancing Services and bespoke metering configurations to submit distribution boundary point Meter Point Administration Numbers (MPANs) or Metering System Identifiers (MSIDs) during prequalification. ESC argues that this is necessary to allow them to apply line loss adjustment to metered volumes. An exception would be for Unproven DSR and New Build CMUs who would supply the data as part of their DSR or Metering Tests as applicable.*

Ofgem proposed decision: Reject

We welcome Ofgem's minded-to decision to reject this proposal. As Ofgem states in their response, incorporating the requirement to submit distribution boundary point MPANs or MSIDs into the prequalification process would increase the burden on applicants and NGET with little justification.

CP300 - *This proposal seeks to amend the timescales to implement the metering test rectification plan to account for more complex issues.*

Ofgem proposed decision: Partially Take Forward

We welcome Ofgem's decision to eliminate the current 40 day working deadline limit on rectification plans; this will allow more time to implement complex changes to a site's Metering Arrangements when necessary.

CP305 - *This proposal would oblige Capacity Providers to permit ESC to visit generator offices and sites and oblige Capacity Providers to assist ESC with its queries. It would also shorten the notice ESC is required to give to conduct site visits for metering purposes.*

Ofgem proposed decision: Partially Take Forward

We welcome Ofgem's minded-to decision on this proposal, which would facilitate ESC's access to sites by reducing the window for accessing metering equipment to one month. This time period will help to prevent and mitigate metering fraud while providing a reasonable amount of notice for participants compared to the original proposal of 24 hours. We agree that the Rules are not the appropriate place to make major changes to the roles and responsibilities assigned to ESC.

CP327 - *This proposal would require NGET to publish the information calculated by the GB System Operator in determining whether to publish a Capacity Market Notice (CMN).*

Ofgem proposed decision: Reject

We are disappointed that Ofgem are minded-to reject this proposal. Clarity regarding the information that the SO uses to calculate whether a Capacity Market Notice be issued would be valuable for market participants, particularly smaller players, and increase transparency. Market participants' repeated requests for clarity on these issues indicate that change is required. We welcome Ofgem's acknowledgement that "there is still improvement to be made by the SO in terms of how they direct participants to relevant margin information and alerts", but would welcome concrete proposals on how they will ensure that this improvement occurs.

CP328 - *This proposal aims to change the prequalification process to allow applicants to correct errors. Specifically it suggests that NGET, where it believes that capacity would be eligible but for an error or omission in the application form, it could conditionally prequalify a CMU pending the applicant remedying its error or omission.*

Ofgem proposed decision: Reject

While we accept Ofgem's view that CP328 may not be the most suitable approach to addressing the issue of error correction in the prequalification process, it is essential that the issue be rectified. The prohibition on new information or evidence in Regulation 69(5) has significantly increased the complexity of the prequalification and reconsideration process to no clear system benefit. Not allowing new information to be submitted makes the cost of the application process expensive relative to the auction price, which disproportionately affects smaller participants. We would recommend that Ofgem work with industry and NGET to develop an appropriate solution to this issue.

CP334 - *This proposal would allow New Build CMUS to use a letter from a Private Network owner to Prequalify for a T-1 Auction.*

Ofgem proposed decision: Take Forward

We welcome Ofgem's minded-to decision to take forward this proposal.

CP338 - *This proposal would allow Capacity Providers of Distribution connected CMUs to aggregate CMRS CMUs as part of a CMU Portfolio for the purposes of Satisfactory Performance Days.*

Ofgem proposed decision: Take Forward

We welcome Ofgem's minded-to decision to take forward this proposal.

CP344/CP277 - *This proposal would permit the proving of Satisfactory Performance Days from data gathered by Balancing Services Metering*

Ofgem proposed decision: Take Forward

We welcome Ofgem's minded-to decision to take forward these proposals.

CP347/CP348 - *This proposal would allow an applicant to nominate a Connection Capacity equal to or less than the Average Highest Output of the Existing Generating CMU / This proposal would add an additional methodology to determine the Connection capacity of a CMU*

Ofgem proposed decision: Partially Take Forward

We welcome Ofgem's minded-to decision to partially take forward these proposals. Allowing a freer choice of periods for evidencing historical output will remove barriers to entry and increase competition. As Ofgem acknowledged, Rule 3.6.1 caused several prequalification disputes this year; changing this Rule should help to simplify prequalification.

CP349 - *This proposal would require a Distribution Connection Agreement for a New Build Generating CMU to be firm.*

Ofgem proposed decision: Consider Further

The proposal would likely result in large volumes of capacity being forced to exit the market, thus driving up prices and leading to consumer detriment. Non-firm connections represent the only

connection option available to distribution-connected participants in many areas of the country. Such participants will not, therefore, have the option of agreeing to a firm connection for a higher price, then re-entering the Capacity Market. Instead, large volumes of capacity would be excluded on a spurious basis, with associated negative impacts upon market efficiency.

It is unclear what risk the original proposal and Ofgem's minded-to alternative seek to address. A transmission-connected generator that operates in an area where curtailment of access is common is not excluded from participation or de-rated. Peterhead CCGT, for example, is located above the Cheviot line and regularly faces curtailed access. While most transmission-connected generators are on financially firm connections, many are not on physically firm ones. They are therefore subject to the same potential issues around generation during a Stress Event, but there is no proposal to exclude or de-rate them. Distribution-connected generation already faces a major market imbalance in that it is usually not compensated when constrained off. Exacerbating this imbalance by only applying de-rating for generators with interruptible contracts would risk creating a major market distortion.

In areas where non-firm connections to the distribution network dominate, the constraints are usually driven by solar, which are extremely unlikely to coincide with a Capacity Market event. Solar power represents the opposite of peak, so is very unlikely to be constrained off in peak periods.

As discussed above, both proposals risk exacerbating a market imbalance between transmission-connected facilities and distribution-connected facilities. The original proposal to introduce an eligibility requirement based on firm access for distribution-connected generation without introducing one at the transmission level would create serious barriers to entry and have extremely detrimental effects upon competition. Lack of market mechanism for constraint at distribution is already unfair; proposing to remove large volumes of distribution-connected generation from the CM, rather than rectify the original problem seems extremely counterintuitive.

If Ofgem propose to implement a proposal that removes competition from the market and risks further tilting the playing field, an extremely significant risk to security of supply must be demonstrated. At present, no convincing evidence of such a risk has been provided.

CP350 - *This proposal seeks to allow an Existing Generating transmission CMU to prequalify for the Capacity Market in circumstances where its TEC is zero and it is intending to generate and export to a Private Network*

Ofgem proposed decision: Consider Further

We are supportive of this change as it would allow the qualification of higher levels of genuine capacity, potentially benefiting market efficiency and the end consumer. We believe that Ofgem should consider this proposal in detail.

CP353 - *This proposal would create new Demand Side Response (DSR) Technology Classes with different minimum durations, and apply the extended performance testing to these newly created Technology Classes.*

Ofgem proposed decision: Consider Further

Under the heading of this rule change proposal, Ofgem state concerns about the duration limits of DSR, and comment that more thought is needed around how DSR CMUs incorporate limited

duration technologies into their portfolios and how to take account of limited duration assets.

Duration limits of DSR¹

Demand Side Response facilities do not have a duration limit; responding becomes more expensive as the length of an event increases, but no technical duration limit exists. The increasing expense of response over a longer duration means that forcing DSR to undergo lengthy tests would impact customer goodwill and, in extremis, the profitability of providing DSR. If Ofgem are concerned about non-delivery of DSR portfolios, the correct way to address it would be through alterations towards a harsher penalty regime

Incorporation of duration limited storage in DSR portfolios

It is unclear how the proposer intends CP353 to apply to a DSR portfolio that contains duration-limited storage. De-rating the entire portfolio would clearly be disproportionate response to a small section of it containing a duration-limited component. If a holistic, component-level approach to testing and registration were taken to DSR in the CM, this would create more scope to address concerns about duration-limited storage forming part of a portfolio in a nuanced and effective manner.

Full implementation of component-level testing and progressive registration of components would be a prerequisite, potentially allowing a market-driven approach to the issue, where an adapted PJM multi-product methodology could be employed. This would allow the setting of threshold levels of penetration for duration-limited storage on DSR sites. In the Capacity auction, if the threshold level were not reached, there would be no effect and the duration-limited products would receive the same clearing price as other capacity. If the threshold level were surpassed, prices for the different products would diverge, resulting in additional duration-limited capacity receiving a different clearing price. This approach would allow the auction to discover the lowest cost combination of resources without the need for determination of de-rating factors based on predicted levels of penetration and non-delivery, which would necessarily be based on untested assumptions.

De-rating an entire DSR portfolio on the basis that it contained a small amount of duration-limited storage, on the other hand, would make little sense, do nothing to increase security of supply and cause large volumes of DSR to exit the CM, leading to higher prices for the end consumer.

While the ADE supports consistent application of de-rating factors to batteries, whether in front of or behind the meter, no evidence has been provided of the problem that CP353 seeks to address. Even in theory, there is little risk of large volumes of batteries moving behind the meter in order to claim an unsuitably high de-rating factor. This is because the economic incentives for such a course of action are simply not there; a battery that would ordinarily be able to access a 15-year contract would, by going behind the meter and being considered DSR, only have access to a one-year contract. This means that such a decision would be economically irrational in the vast majority of circumstances.

In addition to a lack of theoretical risk of duration-limited batteries moving behind the meter, there have been very few examples of this happening in practice. One example exists of a battery in front of the meter being treated as DSR, but it makes little sense to implement a potentially far-reaching policy change to deal with one unrepresentative case.

¹ Note: This section reflects the ADE's previous submission to the "Improving the Framework" Consultation in 2017.

Of12 - DSR Component reallocation

We are disappointed that Ofgem do not intend to implement this modification in time for the 2018/19 delivery year. We would welcome detailed evidence of the system changes that the Delivery Partners need to implement, as well as a clear timetable for implementation of these changes. Without these, there is likely to be a significant risk of further delay to implementation of this modification.

The ADE suggests that, if the Delivery Partners cannot implement full system changes this year, a manual workaround be created while the full system is in place. This manual system exists within STOR so, while not an ideal solution in the long-term, it can help to deliver limited component reallocation in the short-term. In order for this solution to be manageable, we accept that the number of changes of component per CMU would have to be limited.

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