

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP215

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

Date Submitted:
11.11.2016

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

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

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

Enable the participation of aggregated prospective CMUs with one legal owner through a dispatch controller.

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

Rules 3.2.4 and 3.2.5 do not permit the aggregation of prospective CMUs with one legal owner.

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

Following the Capacity Market consultations in October 2014 and in February 2015, the Government amended Regulation 4(3) to disapply the provision that generating CMU in a CMU (under 50MW) must have the same legal owner. Rules were amended to implement aggregation of Existing Generating CMUs with different legal owners. In addition the Government also amended Rule 9.2.10 to allow an individual generating unit in a CMU to be transferred, sold or otherwise disposed, but only where Despatch Control for the CMU as a whole is unaffected and remains with the aggregator.

The aggregation of prospective generating CMUs enables sub-2MW units to enter the Capacity Market and improves the efficiency of market dispatch, leading to greater participation of small generators and non-traditional market players. However, the current Rules for Prospective Generating CMUs (Rule 3.2.6) only allows a Despatch Controller to be the applicant where there is more than one Generating Unit in the CMU and/or legal ownership of the Generating Unit(s) is / will be vested in more than one person. As such Rules 3.2.6 and 3.2.7 do not allow the participation of the following:

- new build CMU with only one component that goes through a dispatch controller
- new build CMU with multiple components but only one legal owner that go through a dispatch controller

The result is that new build capacity can only prequalify through an aggregator if more than one owner is involved. ADE market surveys have found up to 100 MW of sub-2 MW new build CHP is commissioned each year in the UK, but is currently unable to effectively participate in the Capacity Market auction. This is unfair market treatment for this type of participant as well as a lost opportunity to increase auction competitiveness.

However, an Existing Generating CMU would be subject to Rules 3.2.4 and 3.2.5 and therefore it is permitted for a Despatch Controller to be the applicant for an Existing Generating CMU that comprises either one or more than one Generating Unit (see rule 3.2.4(a)).

It is our understanding that the National Grid Capacity Market Guidance documentation does not explicitly state that a problem could arise from a dispatch controller making an application on behalf of a single owner with one or multiple assets or multiple owners:

“If the Applicant is the Dispatch Controller for a Generating CMU comprising one or more generating units, but each are under the same legal ownership, the Dispatch Controller must submit Exhibit D, an Applicant Declaration. The Applicant Declaration must be signed by two directors or officers of the legal owner and two directors or officers of the Dispatch Controller.”¹

Furthermore, the fact that new build can only prequalify through an aggregator if more than one owner is involved does not appear to treat Existing and New Build CMUs on equal terms as required under EU state aid rules, which stated that the Capacity Market cannot discriminate between potential participants except on an objective basis and in a proportionate way.

The current approach prevents a range of different project types from delivering their new build generation into the Capacity Market. For example, CHP suppliers can install a new CHP generator into a business, but will retain ownership of the generation unit through a separate group company and sell the energy service (heat and power) to the business. This type of arrangement is increasingly popular for businesses investing in CHP generation as it enables them to access the cost savings provided by the higher-efficiency CHP without needing to invest up front capital. These suppliers will build multiple new generation units each year and it is appropriate for them to be able to aggregate the new build generation across the different sites.

It is also common for site owners to seek aggregation services in deploying their sites into capacity and reserve markets, because the aggregator handles despatch during Capacity Market Notices, volume reallocation and interaction with balancing services, while the site owner concentrates on core business, such as operating a district heating network. Many will simply not participate in the CM if they have to take on the aggregator’s duties themselves, even where their units meet the threshold for direct participation.

To remedy this, we propose deleting "existing" from Rules 3.2.4 and 3.2.5.

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

Rule 3.2.4

Rule 3.2.5 applies where:

- (a) ~~an Existing~~ Generating CMU comprises a Generating Unit or a number of Generating Units;
- (b) all such Generating Units are within the legal ownership of the same person; and
- (c) the Despatch Controller with respect to each Generating Unit comprised in that Existing Generating CMU is a person other than the legal owner.

Rule 3.2.5

Where this Rule 3.2.5 applies, the Despatch Controller may be the Applicant with respect to ~~an Existing~~ Generating CMU provided that an Applicant Declaration is submitted with the relevant Application signed by:

- (a) two directors (or officers, in the case of a body other than a company) of the person having legal ownership of each Generating Unit comprised in that ~~Existing~~ Generating CMU; and
- (b) two directors (or officers, in the case of a body other than a company) of the Despatch Controller of each Generating Unit comprised in that ~~Existing~~ Generating CMU.

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:

Allowing the participation of aggregated prospective CMUs with one legal owner through a dispatch controller, will increase the participation of flexible capacity and improve competition, reducing the cost to consumers.

¹ [NGET Capacity Market Prequalification Guidance, August 2016](#)

Further, there appears a lack of rationale for having different rules for Existing and Prospective Generating CMUs in this area and such discriminatory treatment for different Capacity Market participants should be remedied as a matter of urgency.

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

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