Response to consultation on the Capacity Market supplementary design
5 March 2015

The Association for Decentralised Energy welcomes the opportunity to respond to DECC’s consultation on the Capacity Market supplementary design proposals and changes to the Rules.

The Association for Decentralised Energy 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 both the users of CHP and demand side response, and the energy service and technology providers.

The Association is responding to Chapters 3, 4, 5, and 6.

Responses to Consultation Questions

Question D1. Do you think the current monitoring regime for new and refurbishing generating units, and associated milestone tests, are adequate? If you feel they should be strengthened, what should the key elements to focus on be?

Yes, we believe the current monitoring regime for new and refurbishing plant is adequate. However, we believe that the Financial Commitment Milestone could be strengthened by reducing it from 18 months to 12 months.

This reduction would more accurately reflect other areas of Government policy, such as the Contracts for Difference Scheme, which require a substantial financial commitment within 12 months of receiving a contract. A 12-month period is a reasonable time period for an existing project to finalise financing and reach financial close.

In addition, by reducing the Financial Commitment Milestone to 12 months, it will better ensure that both the market, the Government and the TSO are prepared to take necessary actions to respond to any capacity shortages as a result of Prospective CMUs not passing the Financial Commitment Milestone. If a large gas CCGT new build plant does not make the financial commitment required under the Financial Commitment Milestone at 18 months, the market will only have 3.5 years to secure and build replacement capacity in time for delivery, risking being unavailable in time.

We therefore recommend the Financial Commitment Milestone is reduced from 18 months to 12 months.

Question D2. Do you consider the current levels of both termination fees for new generating units to be sufficient to incentivise timely delivery without presenting barriers to entry?

The ADE has no comment.
Question D3. Do you consider the current arrangements for terminating generating units which mothball or decommission are sufficiently wide ranging and the termination fees of a level to disincentivise speculative applications into the auction?

The ADE has no comment.

Question A1. Do you agree with the proposal to establish a similar mechanism to Rule 3.2 and Exhibit D to enable the aggregation of generating units with multiple legal owners to comprise an Existing Generator CMU?

Yes, we strongly support this proposal. Currently there are significant amounts of smaller scale generation assets which, due to policy and regulatory barriers, are not able to participate in the Capacity Market directly. Aggregators perform an integral market role by helping these generators overcome these barriers.

A change in Rule 3.2 to enable the aggregation of generating units with multiple legal owners to comprise an Existing Generator CMU will further facilitate this market, allowing a wider participation in the Capacity Market and helping to drive costs lower.

To further support measures which help small generators overcome these regulatory barriers, we would encourage a change of rules to allow parties to be agents for more than one Generating CMU company in the Capacity Market application process.

Question A2. Do you agree with the proposal to allow individual generating units within an aggregated CMU to transferred, sold, or disposed of, whilst maintaining that no capacity is lost from an agreement and the dispatch control remains with the CMU?

Yes, strongly agree. It is integral that an aggregator is able to transfer, sell or dispose of existing individual generating units within an aggregated CMU. With a number of different assets with different legal owners, there are a number of real-world situations which could arise which would result in the need to remove individual generating units from the aggregated CMUs.

The responsibility should rest with the aggregator to ensure this ‘missing’ generation is replaced within the aggregated CMU.

Question A3. Do you have a view as to how aggregated Prospective CMUs with multiple legal owners could participate in the Capacity Market?

Firstly, we fully support the proposal that aggregated Prospective CMUS with multiple legal owners can participate in the Capacity Market. It will further facilitate new build CMUs in the Capacity Market, reducing the overall cost of new generation for consumers.

Secondly, we recommend the aggregator be responsible for the obligations and liabilities associated with a Prospective Generating CMU. As with the obligations and liabilities for existing generating CMUs, the aggregator can share risk for these liabilities and obligations with the legal owner of the CMU through commercial arrangements between aggregator and the generator.
Question C1. Do you have any comments on the proposal to extend the deadline for posting credit cover from 5 working days to 15 working days?

We support this proposal, which provides a more reasonable timescale for credit cover to be provided.

Question C2. Can you see any unintended consequences of extending this deadline?

No.

Question C3. Do you have any comments on the proposal to amend the Rules to require applicants of Unproven DSR CMUs to inform the Delivery Body if no credit cover is required as the DSR components of their CMU are the same as in a previous auction and the proposal to amend the Rules to reflect that applicants are not required to provide credit cover for these CMUs?

We support the proposal to amend the Rules to specify that where an applicant for an Unproven DSR CMU has provided credit cover for a capacity auction, it is not required to lodge credit cover for any subsequent capacity auction if it intends to consist of the same components.

However, we would further recommend that no credit cover should be required for a CMU if any portion of that CMU’s capacity consists of components were previously allocated to a Proven DSR CMU.

The application of credit cover requirements to DSR CMUs serves as a significant financial barrier to the participation of these services in the Capacity Market, and treats these participants unfairly in comparison to Prospective Generating CMUs, which do not have to provide such credit cover.

Amendment to Rules: Definition of CHP

We support this definition and the amendment to put this definition in the Capacity Market Rules.

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