

# Proposal for a Capacity Market Rule Change



Making a positive difference  
for energy consumers

Reference number:

**Title:**  
Splitting CMUs

**Name of organisation(s)/individual(s):**  
Waters Wye Associates

**Contact e-mail address:**  
lisa@waterswye.co.uk

**Contact Telephone Number:**  
020 8239 9917

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**Proposal abstract:**  
Proposal to allow CMUs to be split post the award of CM Agreements.

**Description of the issue that the change proposal seeks to address:**  
The CM Rules prohibit a change in CMU configuration after prequalification. This prevents Agreement holders from changing CMUs to reflect changes in project development and/or commercial structures. This unnecessarily limits the commercial flexibility of Agreement holders, increasing the risk of project non-delivery, preventing more efficient commercial structures, and ultimately increasing capacity market costs.

We do not believe the DB can cope with changes between pre-qual and the auction, so the splitting of CMUs would only be after a CM agreement is awarded. However, if they think they can then ideally this rule change would allow a change in configuration prior to the auction, but it would not allow a change to the volume of total capacity as pre-qualified.

WWA note that the DB sees agreements as becoming “effective” once the DY is starts. However, parties see agreements as “effective” from the auction, as they are now on the hook for termination fees.

**Proposed solution to the issue:**  
Amend the CM Rules to allow CMUs to be split post CM agreements being awarded subject to the total connection capacity and technology class (and therefore derated obligation) being unchanged.

Any Agreements awarded to the CMU would also be split pro-rata to the split of total connection capacity between the new CMUs. WWA is aware that Elexon has some concerns about the impact on Regulation 30, but we do not believe the intent of the drafting was to stop the CM being implemented in the most efficient manner. As I can trade away half of my obligation, why could I not trade the asset and the obligation together?

Doing so would provide greater flexibility to Agreement holders while maintaining all CM obligations entered into. For example, if a developer is struggling to finance a whole project, they can sell half and both be delivered, rather than not delivering anything.

If you know the specific change to the Capacity Market (CM) Rules you wish to make, please select the type of change below and propose specific revised text, indicating the provision number from the CM Rules and highlighting the change (if left blank, the Capacity Market Advisory Group (CMAG)/Ofgem may suggest revised text to achieve the proposed solution above):

Amendment                       Addition                       Revocation                       Substitution

- Amendment to Rule 4.4.4 to allow CMU configuration to be changed post prequalification.
- New Rule setting out the process for splitting a CMU post auction, the following is our initial view on how this could most simply be done:
  - A ‘Cloning’ of the initial CMU to allow the creation of multiple instances of the CMU;
  - A process to allow for a change in the connection capacity methodology to the appropriate ‘pro rata’ methodology, or slitting of capacity rights;
  - Prequalification if it is a new party taking over part of a CMU (directors certificates, etc.); and
  - A process for each CMU connection capacity to be modified (subject to the constraint that the total connection capacity is equal to the initial CMU capacity).
- All milestones/CM requirements that had been met as a single CMU would be unchanged. (Planning/Connection/FCM). The CMU would still have planning, it is a commercial issue to share capacity rights (but that would need demonstrating) and for FCM the Directors are swearing what they say to PQ as an acceptable transferee is correct.
- Metering arrangements would be updated if required. e.g. if metering assessment has been completed, new metering assessments/tests would be required for each CMU, new aggregations rules or even new meters may be needed.
- Any future milestones (SCM, MCM, etc.) and ongoing obligations would be met on a ‘new’ CMU’ basis.

Analysis and evidence for the impact of the proposed change on industry and/or consumers, highlighting how the proposal meets the Ofgem/Capacity Market objectives set out in Regulation 78 of The Electricity Capacity Regulations 2014, any risks to consider and any implications for industry codes:

The proposed change allows greater flexibility for capacity agreement holders to deliver their capacity obligations. In doing so, it increases the likelihood of capacity agreement delivery and by providing a further risk, mitigation tool for capacity providers reduces the risk of entering into a CM agreement (i.e. if they have planning for a 100MW plant they can go into the auction knowing that they could potentially sell some capacity to another party). Also the ability in say a financial crisis to sell part of a project is likely to make it easier to deliver on all agreements. In the longer term, these factors can be expected to reduce the cost of capacity agreements.

We see no obvious negative impact of the proposed change. As the overall aggregate capacity obligation will be unchanged, there is no reduction in security of supply provided by the capacity provider.

Below we have provided two examples of where and how this flexibility could benefit capacity providers in delivering their obligations. In both cases we assume a project developer has been awarded an agreement for a single CMU battery site with a connection capacity of 100MW.

- Scenario 1 - Due to financing issues, it wishes to sell half of the project to a third party. The current rules would not allow this to happen. Under the proposal, 2 CMUs of 50MW could be created and one could be transferred to the third party. Overall, total capacity obligation would be unchanged and the likelihood of project delivery would increase.
- Scenario 2 – Development has been delayed by a late running connection and will occur on a staged basis with 40MW available in line with 1<sup>st</sup> DY, 30MW by the Long Stop Date and 30MW at a later date.

Under the proposal, the developer could create three CMUs:

- 40MW CMU could be operational from the 1<sup>st</sup> DY;
- 30MW CMU could be operational from the Long Stop Date; and

- **30MW CMU could be location changed to an alternate site.**

**In this case, the proposal would allow the operational batteries to actively participate in the CM from the earliest possible date, as they are developed. Given the state of the connections queue this may become increasingly necessary to consider.**

### Urgency

Select this box if you would like this proposal to be treated as “urgent” (see 1.14 of “The Change Process for the Capacity Market Rules – Guidance” (2022) for details on the requirements of an urgent proposal)?

If selected, please include a justification, including any dates by which the CM Rule Change needs to be made and the consequences of not acting in time (Note that urgent proposals may be deprioritised or rejected if the Rule Change suggested cannot be implemented before the date(/s) set out in this section)

### Confidentiality

We want to promote transparency in the Capacity Market Rule Change process. Submitting proposals directly to the Capacity Market Advisory Group (CMAG) supports transparency whilst ensuring that proposals benefit from the input of a panel of impartial capacity market experts whose role it is to support the development, scrutiny, and prioritisation of proposals to improve CM Rules.

Proposals submitted directly to Ofgem may be shared with CMAG or published on our website as part of a public consultation before any rule change is enacted, provided the information shared has not been marked as confidential.

To submit your proposal directly to CMAG, e-mail this document to [cmag@elexon.co.uk](mailto:cmag@elexon.co.uk)

If you wish to submit confidential information to Ofgem as part of your proposal, there are two routes to do this:

1. Submit this document directly to CMAG ([cmag@elexon.co.uk](mailto:cmag@elexon.co.uk)) excluding the confidential information, then submit a copy of this document plus an additional file containing the confidential information (marked as confidential) to [emr\\_cmrules@ofgem.gov.uk](mailto:emr_cmrules@ofgem.gov.uk)
2. Submit this document plus an additional separate file containing the confidential information (marked as confidential) directly to Ofgem at [emr\\_cmrules@ofgem.gov.uk](mailto:emr_cmrules@ofgem.gov.uk)

Nothing marked confidential will be shared outside of Ofgem without the express permission of the proposer.