



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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Dear Sir / Madam,

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the views of electricity and gas consumers in Great Britain. This document is entirely non-confidential, and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

We welcome this call for evidence on the Capacity Market ('CM') and note that one of the two key priority issues you are seeking to address is 'whether and how to enable participation by subsidy-free renewables in the CM.' While we think the natural focus of this consideration is likely to relate to large scale renewable generation projects, we wish to flag the need for it to also consider small scale and microgeneration that would historically have been rewarded through the Feed-in Tariff ('FIT').

As you will be aware, low carbon generation that is supported by either the Renewables Obligation ('RO'), Contracts for Difference (CfD) or FIT is ineligible to participate in the CM. This was to avoid double payment, because the capacity value of those assets was considered to be captured within the payments provided for under those schemes. Because support under those schemes was time-limited, DECC (as was) established an expectation that once a generator ceased being eligible they would be able to participate in the CM:

*'Capacity receiving support through either the Renewables Obligation (RO) or small-scale Feed in Tariffs (FIT) is not eligible to participate in the Capacity Market. Such capacity will be eligible to enter the Capacity Market once their RO or FIT support has expired provided they meet all other eligibility criteria (such as minimum size).'*¹

Separately, BEIS is consulting on closing the FIT to new installations with effect from 31 March 2019. In [our response](#), we signalled our support for the withdrawal of subsidies to mature technologies, but suggested the need for some transitional policy support to ensure that small scale generation still had a route to market while a commercial alternative to the FIT emerged. We suggested this could take the form of a subsidy-free

¹ Paragraph 339 of [Implementing Electricity Market Reform: finalised policy positions for the implementation of EMR](#). DECC, June 2014. Italics added for emphasis.

version of the FiT export tariff set at a discount to the wholesale electricity price.² This would provide a last resort market for electricity exported by small-scale low carbon generators after March 2019 and should serve to smooth the transition to market-based solutions, giving these more time to develop and allowing more of the enabling infrastructure to support those solutions (such as smart meters and half-hourly settlement) to be put in place.

While this could allow consumers to access the wholesale value of their power, it would not allow them to access the value of their capacity. It is commonly accepted that there is 'missing money' in the wholesale price that means it would not deliver security of supply in isolation - this was the justification for introducing the CM. Large scale generators can access this capacity value through the CM in addition to their wholesale market revenues - but there is currently no means for microgeneration to do so in a post-FIT world.

We recognise that there would be very considerable challenges with trying to integrate microgeneration into the CM regime. It would be wholly impractical for householders to bid in their capacity to the auction. The system of testing and assurance is designed for large-scale generators and would be entirely disproportionate for roof-top household systems. Yet the fact remains that while their individual output and capacity value may be tiny, the aggregate output and value of millions of systems may be significant. There is value there, and BEIS needs to find a way to unlock it.

We think that there needs to be a mechanism to reward this value, so that any market that emerges for small scale generation fairly passes through its value to consumers. Given the small contribution of individual installations, the burden of administering this mechanism will need to be proportionate and limited. So, for example, it may be appropriate to consider a flat capacity payment applied to all installations of a given type rather than calculating and applying individual capacity factors. In defining those classes of installation, it may be appropriate to distinguish between sites with storage and those that purely have microgeneration, to reflect their different flexibility capabilities. Suppliers should be able to access the value of that payment when they enter into an export agreement with the householder. Noting that individual sites may offer limited capacity, and the inclusion of deminimis size requirements within the existing CM scheme design, BEIS should consider whether there is a role for facilitating the bidding in of aggregated microgeneration capacity ('virtual CM units'). This could provide a means to commercialise the benefits of this capacity while remaining compatible with the original design intention that the CM would include minimum size requirements to leverage economies of scale.

² We are not alone in suggesting some form of backstop tariff linked to the market value of exported power may be appropriate. For example, see Pixie Energy's '[UnFIT for purpose](#)' working paper.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

A handwritten signature in black ink that reads "Rich Hall". The signature is written in a cursive, slightly slanted style.

Richard Hall
Chief Energy Economist

Cc BEIS Feed-in Tariffs team