



Department  
of Energy &  
Climate Change

# Electricity Market Reform

## CfD for Private Network Generators

Government response to issues raised by stakeholders

August 2014

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URN 14D/288

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# Executive summary

The Government is committed to supporting a wide range of low-carbon electricity generation through the Contracts for Difference (CfD) regime. Delivering on this commitment, on 16 June the Government published a Policy Overview document, setting out how eligible generators operating on a Private Network are able to participate in the CfD regime.

As a result of their licence status, Private Network Generators (PNGs) do not provide metered data volumes to the BSC Company. As such, the generic CfD contractual arrangements, drawing on BSC functionality, would not work for PNGs. To address this issue, and deliver on the Government's commitment, appropriate arrangements have been developed to ensure eligible PNGs can participate in the CfD regime and provide metered data of an accuracy suitable for difference payments under the CfD.

Alongside the Policy Overview, on 16 June the Government published drafts of the: CfD for Private Network Agreement; Private Network Metering Operational Framework; and Private Network Technical System Requirements. This suite of documents set out the proposed contractual and operational requirements for PNGs, on which the Government invited comments from stakeholders.

A key theme emerging from the comments received was that the Government should seek to ensure that PNGs who have been awarded a Private Network CfD (PN CfD) are treated as similarly as possible to equivalent generic CfD generators trading on the Total Public System, such as Embedded Generators.

This document summarises the key issues raised by stakeholders in their responses to the aforementioned publications of 16 June and sets out any related changes in policy.

# Introduction

## Background

1. The Government is committed to supporting a wide range of low-carbon electricity generation through the Contracts for Difference (CfD) regime. However, as a result of their licence status, Private Network Generators (PNGs) do not provide metered data volumes to the BSC Company. As such, the existing contractual arrangements within the generic CfD, specifically related to metering and settlement, do not work for PNGs.
2. To address this issue and deliver on the Government's commitment, appropriate arrangements have been developed to ensure eligible PNGs can participate in the CfD regime.
3. On 16 June, the Government published a Policy Overview document<sup>1</sup>. The Policy Overview set out how eligible<sup>2</sup> generators operating on a Private Network are able to participate in the CfD regime.
4. Alongside the Policy Overview, the Government published drafts<sup>3</sup> of:
  - The CfD for Private Networks Agreement (PN CfD);
  - Private Network Metering Operational Framework (MOF); and,
  - Private Network Technical System Requirements (TSR).
5. Together, the PN CfD, MOF and TSR work with the standard CfD Terms and Conditions in providing the contractual and operational framework for those Private Network Generators (PNGs)<sup>4</sup> awarded a CfD.
6. To support the policy development process, DECC established a CfD for Private Network Generators Working Group. DECC also procured the services of an independent adviser to assess the PN CfD, MOF and TSR and considered their advice in determining the final policy. Government invited comments from stakeholders on the suite of documents published on 16 June.
7. In total nine responses were received from a range of stakeholders, including Trade Associations, generators, suppliers and project developers. A full list of respondents is included in the Annex to this document. We would like to thank all those respondents,

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<sup>1</sup> <https://www.gov.uk/government/publications/electricity-market-reform-contracts-for-difference>

<sup>2</sup> The Contracts for Difference (Definition of Eligible Generator) Regulations 2014 define the term "eligible generator" for the purposes of Chapter 2 of Part 2 of the Energy Act 2013 (c. 32).

<sup>3</sup> The drafts are available at the website address in footnote 1.

<sup>4</sup> The terms "PNG" and "Private Network Generator" are used interchangeably throughout this document.

those stakeholders who participated in our 1 July workshop, and the members of the Working Group who have contributed towards the development of this work.

## Purpose

8. This document summarises the key issues raised by stakeholders in their responses to the aforementioned publications of 16 June and sets out any related changes in policy.
9. Please note that this document is not a guide to the final versions of the PN CfD, MOF or TSR, all of which are available on the DECC website<sup>5</sup>.

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<sup>5</sup> See <https://www.gov.uk/government/publications/electricity-market-reform-contracts-for-difference>

# Government response

## Background

10. The Government invited comments from stakeholders on the suite of Private Network documents published on 16 June. The following sections summarise those responses.

## Overview

11. Respondents were of the general view that the Government has developed suitable and robust metering arrangements for PNGs based on the essential elements of the BSC.
12. A key theme emerging, however, from stakeholders' comments was that the Government should seek to ensure that generators who are either seeking or have been allocated a CfD for Private Network Generation (PN CfD), should be treated consistently with similar generic CfD generators, such as Embedded Generators.
13. Respondents argued that without such "consistency of treatment", PNGs might be at a disadvantage in securing a CfD, the potential consequences of which might be to erode the benefits of Private Network Generation, possibly undermining the case for decentralised generation.
14. We have considered the issues raised by respondents and have sought to address stakeholders' request for "consistency of treatment".
15. One example where we have done so is in relation to the application of line loss adjustment, where the Government has decided that both distribution Line Loss Factors (LLF) and the transmission loss multiplier (TLM) should apply to all Metered Volumes, including export to onsite customers.

## Eligibility

### Definition and Eligibility

16. Some respondents raised the issue of the definition of Private Network Generation, as defined in the Policy Overview document, i.e. "A licence-exempt generating station whose electricity generation is not exclusively produced for and conveyed on a licensed distribution network or the licensed transmission system".

17. Respondents pointed out that the requirement to be licence-exempt would exclude licensed generators, operating on a Private Network from being allocated a PN CfD.
18. This would mean licensed generators would only be able to seek a generic CfD, and would be settled on their loss adjusted metered volumes exported to the system. Their concern was that restricting licensed generators to the generic contract would negate the embedded benefits of localised generation and supply, and disadvantage customers on private networks.
19. In addition, licensed generators operating on Private Networks and with support under a generic CfD would, in accordance with June's Policy Overview document, only receive loss adjustments for metered volumes exported to the Total System. This might compel Generators to utilise sub-optimal routes to market in order to receive loss adjustment for metered volumes supplied onsite (i.e. by exporting to the Total System and re-importing some of the metered volumes back to supply localised demand).
20. The Government welcomes the opportunity to respond to this issue. The metering and settlement arrangements for licensed generators allocated a generic CfD, apply existing arrangements as set out in the Balancing and Settlement Code (BSC). Licence-exempt generators trading indirectly on the total system are not generally, however, party to the BSC.
21. Licensed generators must, as a general condition of their licence, participate in BSC settlement. As such, their metering system is required to be registered in either the Central Volume Allocation system (if transmission-connected) or the Supplier Volume Allocation (if distribution-connected). All sources of metered volumes under the BSC system are allocated a BM Unit, and these BM Units are aggregated for BSC Settlement purposes. The generic CfD contract draws on this BSC functionality, including the loss-adjusted metered volumes for BSC Settlement, and is therefore suitable for licensed generators on Private Networks.
22. Licence-exempt generators are not directly party to the BSC and therefore not bound to BSC. To ensure that licence-exempt generators trading on Private Networks are able to participate in the CfD regime, the PN CfD applies alternative, robust metering and settlement arrangements. This ensures that all eligible generators – licensed and licence-exempt are provided with the opportunity to access a CfD.
23. Licensed generators operating on a Private Network are therefore not disadvantaged by the eligibility conditions applied through the PN CfD. As such, the Government has not removed the "licence-exempt" requirement from the definition of a Private Network Generator.
24. On a separate issue, some respondents commented that the eligibility requirement to have a grid connection agreement signed by both the generator and the relevant licensed network operator may not work in all instances. For example, in the instance where the generator does not own the Private Network, the grid connection agreement would be between the Distribution Network Operator (DNO) and the Private Network owner, not the DNO and the generator. In this instance, the generator would access the Private Network via a Private Network Use Agreement between the PNG and the Private Network owner.
25. The Government has therefore amended the PN CfD Agreement and CfD Allocation Framework to accommodate the situation identified above.



## Loss of customer and Route to Market

26. For the purposes of the PN CfD, an “Islanded Generator” means a Private Network Generator which has a Market Supply Agreement with an onsite customer, but which does not have access to a Grid Connection. In the event that an Islanded Generator loses its onsite customer it also loses its route to market. Loss of an Islanded Generator’s route to market is therefore a key risk to the Generator.
27. The Government recognised this risk and proposed, in its Policy Overview, that in the event of the loss of an Islanded Generator’s onsite customer following the contract Start Date<sup>6</sup>, the Generator will be given 12 months from the date of the loss of the onsite customer to find another onsite customer or seek a grid connection. Where neither of these routes to market was obtained, the PN CfD could be terminated at the LCCC’s discretion.
28. Respondents welcomed this flexibility but commented that 12 months was an inadequate period of time for an Islanded generator to replace its lost onsite customer or execute a grid connection offer. After further consultation with industry and our Independent Advisers, the Government has decided to extend this grace period from 12 to 18 months.
29. An Islanded Generator therefore has an additional six months to secure a route to market. This route to market may take the form of a replacement onsite customer, an executed grid connection offer, or both. If the Islanded Generator has not secured a route to market after the lapse of this 18 month grace period, the LCCC may at its discretion terminate the generator’s PN CfD.
30. Additionally, some respondents commented that Islanded Generators should be able to seek a grid connection at any point throughout the duration of a PNG’s CfD contract and not only in the event where the PNG loses its onsite customer, post the contract Start Date. Respondents cited a number of reasons why more flexibility was necessary, e.g. a PNG’s onsite customer may reduce its demand significantly during the duration of the CfD, as technologies become more efficient.
31. While the Government is sympathetic to this concern, the position on grid connection (as described in paragraph 30) has not been revised.
32. The eligibility criteria for the CfD regime (including on grid connection) perform a critical function in ensuring only credible projects secure CfDs. The Government considers that increasing the flexibility of the grid connection criterion, specifically for Islanded Generators, would undermine the credibility of the CfD allocation process if it allowed projects without a grid connection at CfD application to subsequently seek and secure a grid connection post CfD allocation. This would put at a disadvantage those generators who have secured a grid connection ahead of the allocation process, some of whom might not secure a CfD.

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<sup>6</sup> Start Date refers to the date at which payments under the contract commence and all contract obligations are in force.

# Metering

## Overview

33. The Government's objective in developing separate metering arrangements is to enable eligible PNGs to participate in the CfD regime and provide metered volumes of an accuracy suitable for the payment of difference payments under the CfD. Respondents were of the general view that the Government had developed suitable and robust metering arrangements for PNGs based on the essential elements of the BSC.
34. However, in response to stakeholder concerns about the need to provide consistency of treatment between Private Network Generators and Generic CfD Generators, the Government has made adjustments to the metering provisions for PNGs. These adjustments are set out below alongside responses to specific points made by respondents.

## Frequency and form of metering

35. The Government originally proposed that PNGs should have the option of submitting metered volumes (to the LCCC) on either a daily or weekly basis. Following a review of the generic and PN CfD contracts, the Government has removed the optionality of weekly settlement, to ensure consistency of treatment and simplify Settlement under the CfD regime. As a result, PNGs will be required to provide metered volumes for CfD settlement on a daily basis. Metered volumes must be submitted in one of the forms set by the LCCC, as set out in the MOF.

## Estimated metered data

36. The Government's proposal regarding estimated metered data was that in the event that the PNG fails to provide metered volumes for CfD settlement, difference payments would be calculated using metered volumes submitted based on the estimations methodology applicable to baseload or intermittent technologies.
37. Some respondents suggested that PNGs should be allowed to submit what they consider to be the best quality data available, which might, for some generators, include the submission of SCADA<sup>7</sup> data. The rationale being that this data could be more accurate than the metered volumes calculated in accordance with the methodologies outlined in paragraph 36, above.
38. The Government has decided that, in the absence of the BSC system, CfD settlement quality data from an alternative source which is relevant to the Estimated Settlement Unit should be permitted, subject to LCCC discretion.
39. Sources of estimated metered volumes now include the following:
- the last reported output (i.e. the estimated methodologies applicable to baseload or intermittent technologies);
  - metered volumes taken from any meter readings obtained during the Metering Audit, if the Audit has been conducted since the last reported output period;

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<sup>7</sup> SCADA stands for Supervisory Control and Data Acquisition.

- metered volumes provided by the generator which it believes is more accurate than the last reported output.

## Audits

40. Some respondents commented on the Government's proposed audit regime for PNGs. Views were divided on the value of two separate audit rights, i.e. the routine and non-routine audits. One respondent noted that it was content with the proposed audit regime, while another commented that it was unreasonable to subject PNGs to both a routine and non-routine audit and that those PNGs should be subject to "random spot checks" only.
41. In accordance with the aim of seeking to provide a "level playing field" between PNGs and their licensed counterparts, while reflecting stakeholder views, the Government has removed the routine audit. Private Network Generators will therefore not be subject to a three-yearly audit for which they would have borne all reasonable costs. However, the non-routine audit right has been retained and renamed the Metering Access Right. With respect to costs, PNGs will be subject to a similar audit requirement as their licensed counterparts, where reasonable costs are shared between the PNG and the LCCC if non-compliance is not identified, but must cover all out-of-pocket costs properly incurred by the LCCC where a compliance breach has been uncovered or notified by the Generator.
42. A common issue raised was that access to the site might prove problematic if the LCCC chose to exercise its audit right outside of normal business hours. The Government has decided therefore that the Metering Access Right shall only be exercised on Business Days during Working Hours.

## Line losses and onsite customer metering

43. The Government's position on the application of line loss factors, as set out in June's Policy Overview document, was that loss adjustment (both distribution (LLF) and transmission (TLM) losses) should only apply to output recorded at the generation site (i.e. at "station gate") and exported to the Total Public System.
44. Respondents were in general agreement that PNGs should be treated in a manner similar to that of generic CfD-holding generators, particularly licence-exempt embedded generators, where full loss adjustment is applied to all output and not just to output exported to the Total Public System. The argument for this was driven by the effect on the Total Public System, whereby the effect of a PNG would be indistinguishable from that of a licence-exempt embedded generator.
45. Respondents commented that one outcome of any inconsistent treatment might be a distortion of the CfD allocation process. They considered that PNGs would be placed at a disadvantage compared with their licence-exempt embedded generator counterparts, resulting in PNGs having to place a higher auction bid (to compensate for lower line loss adjustments and ultimately revenue under the CfD), increasing the likelihood of PNGs not being awarded a CfD.
46. The Government recognises this and has decided to apply line loss factors (both LLF and TLM) to all output generated by a PNG (i.e. "hybrid" and "islanded"), including any electricity supplied to an onsite customer.

## Third Party Access

47. One respondent commented that the definition of Private Network Generation does not take account of Third Party Access obligations.<sup>8</sup>
48. The Government has amended the definition of Private Network Generation (within the PN CfD agreement) accordingly.

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<sup>8</sup> The Electricity and Gas (Internal Markets) Regulations 2011 introduce obligations on licence exempt distribution and supply undertakings (irrespective of size) including a duty to facilitate third party access to their electricity and gas networks. For further information see: <https://www.gov.uk/government/publications/provision-of-third-party-access-to-licence-exempt-electricity-and-gas-networks-revised-version>

# Annex

## List of respondents

AMEC

Carbon Capture and Storage Association

Combined Heat and Power Association

Ecotricity

EDF Energy

Ennoviga Solar Ltd

New Earth Advanced Thermal

Renewable Energy Association

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