

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by Ofgem):
CP129

Name of Organisation(s) / individual(s):

EnerNOC

Date Submitted:

15 January 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:

CP46 in the 2014/15 round of rule change proposals had similar aims, and was held for further consideration by Ofgem. We are aware that the Association for Decentralised Energy is submitting a rule change proposal that allows a wider range of portfolio management actions. We prefer that approach, but are submitting this proposal in case that one is not accepted.

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

Allowing DSR aggregators to maintain the portfolio of sites in a DSR CMU by adding DSR CMU components as necessary to maintain reliable performance.

This requires amendments to Rule 8.3.4.

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

Customers provide demand-side response (DSR) by reducing or altering the timing of their electricity consumption in response to dispatch instructions.

The amount of DSR that a customer can provide depends on their consumption patterns. If a customer permanently reduces their consumption — e.g. by installing more efficient plant — then the amount of DSR they can provide will fall. In extremis, if a customer stops consuming electricity at a site — e.g. due to shutting down or moving a site, or going out of business — then they will no longer be able to provide any DSR from that site at all.

The job of a demand-side response (DSR) aggregator is to assemble and maintain a portfolio of customers that in aggregate can reliably provide sufficient DSR to meet a capacity obligation.

There is a fundamental difference between DSR and generation: DSR is making secondary use of customers' assets, whereas generation usually involves dedicated assets.

When a generator has a capacity market obligation, that obligation is sufficient reason to keep the generator in operation. In contrast, the fact that a DSR Capacity Market Unit (CMU) has a capacity market obligation does not mean that all of the customers within that CMU will stay in business or refrain from changing their processes.

There is nothing that an aggregator can do to prevent these things. Instead, the aggregator maintains its portfolio to ensure that the portfolio as a whole can still meet its obligations. If an aggregator realises that a customer is going out of business, is likely to reduce their consumption permanently, or for some reason seems likely to become unreliable, they will seek out one or more new customer sites to add to the portfolio to maintain its capability, either to supplement or to replace the customer whose circumstances are changing.

This portfolio maintenance is an essential part of the core business of an aggregator, and is necessary to maintain reliability. Almost every capacity market we are aware of that has annual obligations allows aggregators to maintain their portfolio in this way during the delivery year.

The UK is an exception, where the current drafting of the rules does not allow for this kind of maintenance. This ban on portfolio maintenance means that, if a customer in a DSR CMU becomes unable to participate, the DSR aggregator is not allowed to repair the CMU by adding a replacement customer site.

To put this in generation terms, it is like having a rule that states that if a power station owner realises that part of their plant is likely to break down, they are not allowed to replace or repair it. Rather, they just have to let it break and accept that the power station will not be able to generate at full capacity for the rest of the delivery year. They can use secondary trading to try to limit their losses, but they're not allowed do anything to restore their plant to its original capacity.

Clearly, this would be a nonsensical restriction on generators: it would be bad for the generator, as they would face greatly increased risks, and bad for customers, both because the capacity market has to provide sufficient return to cover participants' risks, and because such unrepaired failures would leave the system with less capacity than had been determined to be necessary at the time of the auction.

It is just as nonsensical to apply such a restriction to DSR CMUs.

The purpose of this proposed rule change is to remove this restriction, by allowing new DSR CMU Components to be added to a DSR CMU as necessary, including during the Delivery Year. It should not be administratively burdensome, introduces no gaming risk, and can only improve reliability.

DSR Tests are not affected, as rule 13.2.12 already makes it clear that "the addition of new DSR CMU Components" does not affect the validity of an existing DSR Test Certificate. This makes sense, as adding components cannot cause any lessening in the capability of the CMU.

What is missing from the rules is a mechanism to add new DSR CMU Components — specifically, for the Capacity Provider to notify the relevant bodies of the details of the new DSR CMU Components, and for checks to ensure that the new DSR CMU Components are eligible to participate and have appropriate metering.

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

Change Rule 8.3.4(a) to read:

8.3.4(a) Subject to Rules 8.3.4(b) **and 8.3.4(e)** ...

Add the following rules after Rule 8.3.4(d):

8.3.4(e) A Capacity Provider may notify the Delivery Body and the CM Settlement Body that it wishes to add one or more prospective new DSR CMU Components to a DSR CMU that is a Capacity Committed CMU by providing the information specified in Rules 8.3.3A(a) and 13.3.2(b) in respect of the prospective new DSR CMU Components.

- 8.3.4(f) On receipt of a notice pursuant to Rule 8.3.4(e), the CM Settlement Body must remove from the list of prospective new DSR CMU Components any that are part of a CMU that currently has a Capacity Agreement for the same Delivery Year as the DSR CMU to which it is proposed that they be added.
- 8.3.4(g) Rules 13.3.3, 13.3.4, and 13.3.5 apply with respect to a Metering Test on the remaining prospective new DSR Components.
- 8.3.4(h) If the metering arrangements for any of the prospective new DSR CMU Components constitute an Approved Metering Solution, the CM Settlement Body must issue a new Metering Test Certificate in accordance with Rule 13.3.6(a) for the DSR CMU, including those new DSR CMU Components, and notify the Delivery Body in accordance with rule 13.3.10.
- 8.3.4(i) With effect from the date falling five Working Days after the issue of a new Metering Test Certificate pursuant to rule 8.3.4(h), any determination of the DSR Volume of the DSR CMU must include all DSR CMU Components listed on the Metering Test Certificate.

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:

Just as a ban on generator maintenance would:

- a) Reduce the reliability and/or quantity of capacity provided through the capacity market, as generators failed during the delivery year, and so reduce security of supply, and
- b) Increase risks for capacity providers, and hence increase costs borne by consumers

... so the same applies to the current ban on aggregators adding DSR CMU Components to DSR CMUs.

This rule change would remove this ban. This change is consistent with Ofgem's principal objective and the capacity market objectives, as it protects the interests of current and future consumers of electricity by:

- a) Improving security of supply, and
- b) Reducing costs in future capacity auctions by reducing unnecessary risks borne by capacity providers, allowing them to offer capacity at a lower price.

There should not be any need for changes to industry codes.

There will be some implementation costs — principally those associated with administering the receipt and processing of notices and the performance of incremental metering tests. However, these seem unlikely to be material.

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

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