



Bringing Energy
Together

Consultation response | Ofgem Capacity Market Rules | 15 January 2016

Context

The Association for Decentralised Energy (ADE) welcomes the opportunity to respond to the Ofgem consultation on changes to the Capacity Market Rules.

The ADE is the UK's leading decentralised energy advocate, focused on creating a more cost effective, efficient and user-orientated energy system. Our members have particular expertise in combined heat and power, district heating networks and demand side energy services, including demand response. The ADE has more than 100 members active across a range of technologies, and they include both the providers and the users of energy.

The design of the Capacity Market's existing regulatory framework has made the mechanism challenging for non-traditional providers to participate. The low uptake of DSR and smaller or non-traditional participants in the 2014 auction, the 2015 T-4 and pre-qualification for TA auctions are direct result of the opaque, costly, and administratively difficult nature of the Capacity Market process, as well as a rules framework that treats some resources unfairly compared to others.

If the Capacity Market is to be successful in delivering lowest-cost capacity, while also bringing forward more efficient, higher quality resources, a fresh look at the design of the CM and the auction process is needed.

Separate to this response, the ADE has proposed a range of Rule changes that would facilitate participation of CHP, DSR and non-traditional generators, and provide lower costs and higher transparency for all market participants. These proposals cover pre-qualification simplification, Rule clarification and operational-based Rule changes. Each tries to deliver on three core principles of fairness, simplicity and transparency. We see these principles as the basis of a better, more cost-effective Capacity Market.

Consultation questions

Q1: Do you agree with our priorities? Are there other priorities which we should consider for this round of Rule changes?

The ADE agrees with the two priorities - simplifying the Capacity Market landscape will enable smaller and non-portfolio players to participate, increasing competition and reducing costs to consumers. Administrative costs will also decrease by reducing the need for appeals process.

However, simplification needs to be applied to more than just the pre-qualification process, but also to the wider operational period. Furthermore, there is a need for an additional, priority focussed on rule changes that ensure fair treatment for embedded generators and DSR providers, helping to drive increased economic efficiency and cost-effectiveness.

Q2: Do you think there are issues with the current methodology for calculating connection capacity, as described in Annex 1? Are there other issues we have not considered?

We are largely satisfied with the current approach to calculating transmission connection capacity.

The current options are the result of extensive discussion and analysis, and we have not seen evidence they are not fit for purpose. Without any clear need for change and as we are unaware of any industry concern being raised, we are unsure why such substantial change is necessary at this time. We would also note that under the current system, National Grid, as EMR Delivery Body, is able to recommend changes to the volume to procure to the Secretary of State following prequalification.

If Ofgem is interested in investigating potential changes, we see a need for additional analysis, including from National Grid, to quantify the potential issue trying to be solved. We would also note that many of the proposals this would require a change to the Regulations and may therefore be outside the remit of this consultation.

Q3: Do you believe that any of the options presented in Annex 1 would improve the calculation of connection capacity? Are there other options we have not considered?

We are largely satisfied with the current approach to calculating transmission connection capacity.

If the approach on connection capacity were to change, we would support an approach which left it to the CM participant to choose their own de-rated capacity, as they are best placed to understand their own plant operations and its ability to deliver. It is also important to consider how the connection capacity requirements impact on the CHP sector. A CHP CMU has a variable power output, depending on the heat load it is supplying. Defining the Connection Capacity within the definitions in Rule 3.5 is therefore not always possible. This requirement is discouraging industrial CHP from participating in the Capacity Market as many CHP sites supply industrial heat demand for an industrial process, and the cost of reducing heat supply during a stress event may be significant.

Of particular concern however, is Option E whereby NGET is allowed to choose the connection capacity. There would be significant conflicts of interest in such an approach, as National Grid would be able to determine the commercial parameters of commercial, competitive companies.

Q3a – Do you agree that the sum of unit CECs should always be used when apportioning TEC?

The ADE has no comment.

Q3b – Do you think that not being able to choose a lower connection capacity is a problem? What are your views on the options considered?

The ADE supports the ability to choose a lower connection capacity. We strongly recommend that Ofgem take forward Option I, which allows applicants to choose a lower connection capacity.

The flexibility to choose a lower connection capacity is particularly important for CHP participants. CHP CMUs have a variable power output depending on the heat load, and many CHP sites provide a heat demand to industrial process. Therefore the historical maximum may not reflect the cost impacts of delivery, and discourage potential capacity from participating. Providing greater

flexibility for participants would increase participation and competitiveness in the Capacity Market, driving down costs.

Q3c – Do you think there is an issue with taking the lowest figure in a connection agreement? Do you believe that a choice of figures should be allowed?

The ADE strongly supports Option J that would allow capacity providers to choose which figure in their connection agreement is most appropriate and disagrees that this would lead to unintended consequences in obligation trading.

Q4: Do you believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the costs of increased testing and prequalification? Does volume reallocation already provide sufficient flexibility for DSR CMUs?

The ADE believes that the benefits of increased reliability and flexibility through DSR CMU component reallocation significantly outweighs the potential costs of increased testing and prequalification.

Allowing DSR CMUs to add remove and reallocate components would align the provisions for CMU components DSR CMUs with those found in demand management balancing services like STOR and frequency control.

Simplifying testing and pre-qualification will further improve the business case of this important change. Like in other markets the contractual obligation to deliver and the penalties for under delivery should be the key guarantees instead of the administratively burdensome pre-qualification and tests.

Volume reallocation has no role in solving this problem. Volume reallocation can only be used if there is a stress event, to move delivered energy from one CMU to another. Therefore volume reallocation uses portfolio effects to avoid penalties. If there is no stress event, there is no volume to reallocate.

Q5: Do you agree that Emergency Manual Disconnection, as covered in section OC6.7 of the Grid Code, should be included in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction?

Yes.

Q6: Do you agree with the proposals in Annex 2?

Yes.

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