

Philippa Pickford
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Ofgem
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Submitted by email

15 January 2016

Dear Ms Pickford,

Response from EnerNOC to Ofgem's open letter on changes to the Capacity Market Rules

EnerNOC is grateful for the opportunity to respond to this consultation.

EnerNOC provides energy intelligence software and services to commercial and industrial energy users and to utilities. As well as helping users manage their energy usage and costs, we work with them to offer their demand-side flexibility into wholesale capacity, energy, and ancillary services markets and utility programmes. In the UK, we employ 26 people and have commitments to provide demand-side flexibility both to National Grid and in the capacity market.

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

We agree that simplification of the prequalification process and clarification of the Rules are important. However, we suggest that fixing shortcomings in the rules with respect to participation by DSR should also be a high priority.

Although these particular rules have not yet been tested in practice in the UK, it is obvious to those with experience of participation in other markets that there are problems with them.

These shortcomings are already causing damage, as it is clear to potential Capacity Providers that they will make participation by DSR CMUs unnecessarily difficult and expensive, and so this is limiting the volumes of DSR offered in auctions.

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 do not have any view on this issue.

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 do not have any view on this issue.

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?

We believe it is very important that Capacity Providers be allowed to manage their portfolios of DSR CMU Components. This is one of the key competencies of a DSR aggregator, and is essential if reliable performance is to be delivered.

Volume reallocation does not provide sufficient flexibility, as it does not apply to DSR Tests or Satisfactory Performance Days, and does not provide a means to add completely new customers.

Preventing DSR portfolio maintenance is as nonsensical as preventing generator maintenance.

The administrative costs of tracking DSR CMU membership and ensuring all resources are adequately tested are very unlikely to be material in comparison to the benefits from allowing DSR to be offered at lower cost and with higher reliability.

The mention of “costs of increased testing” does raise a concern, though. The amount of testing required is important for two reasons:

- (a) Customers providing DSR incur either direct or opportunity costs every time they are tested. The amount they are paid to be available has to be sufficient to cover these costs for all the tests and still make participation worthwhile. Hence, the more tests you require, the more expensive DSR becomes.
- (b) In addition to the purely economic reasons for participation, some customers are also partly motivated by a somewhat altruistic desire to help maintain a reliable power supply to the country when it is at risk. Such customers accept that they need to be tested to demonstrate that they can be relied upon. However, if they are repeatedly tested at times when the system clearly does not need their help, this tends to undermine their motivation.

The level of testing already required in the UK capacity market – a minimum of one DSR Test plus three Satisfactory Performance Days during the year – is already greater than in any other capacity market.

Ideally, we would improve the market – producing more efficient outcomes – by reducing the testing burden. However, if that is not currently a priority, we should

at least take care not to increase the burden still further by encumbering the portfolio management rules with an unnecessary amount of additional testing.

For example, there is no reason for the addition or removal of a DSR CMU Component to trigger any retesting of the remainder of the DSR CMU.

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?

Emergency Manual Disconnection is a form of involuntary load reduction that is generally related to system stress, so we can see the logic in this proposal.

However, it seems from the Grid Code that, as well as system-level stress events, Emergency Manual Disconnection could also be used to manage more localised transmission issues. It would not be appropriate to count such uses as System Stress Events, as a system-wide response by all Capacity Providers would be unlikely to be an efficient response to a local transmission issue.

If these two use cases can be separated, then the use of Emergency Manual Disconnection to address a system-level scarcity issue should be included in the relevant definitions in the Capacity Market Rules, and other uses should not. If they cannot be separated, then it will be necessary to analyse the relative frequencies of the two uses to determine whether such a change would mostly capture relevant system-level events or irrelevant localised ones.

Q6 Do you agree with the proposals in Annex 2?

Yes.

I would be happy to provide further detail on these comments, if that would be helpful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Paul Troughton', with a long horizontal flourish extending to the right.

Dr Paul Troughton
Senior Director of Regulatory Affairs