

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number(to be completed by Ofgem):
Click here to enter text.

Name of Organisation(s) / individual(s): Renewable Energy Systems group	Date Submitted: 18 August 2016
Type of Change: <input type="checkbox"/> Amendment <input checked="" type="checkbox"/> Addition <input type="checkbox"/> Revoke <input type="checkbox"/> Substitution	If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to: Firm Frequency Response (FFR) is already listed in Relevant Balancing Services. Since this modification a new Balancing Service called Enhanced Frequency Response (EFR) has been developed by National Grid. This is effectively an ‘enhanced’ version of the FFR service and EFR should therefore be included under the same principles as FFR.
What the proposal relates to and if applicable, what current provision of Rules the proposal relates to (please state provision number): Including Enhanced Frequency Response (EFR) capacity in the list of ‘Relevant Balancing Services’ (contained in ‘Schedule 4: RELEVANT BALANCING SERVICES’). This would allow Capacity Market capacity also holding contracts under the EFR mechanism to have that capacity included as a ‘Relevant Balancing Service’ as listed in Schedule 4, Part 1, (ii). Such capacity is eligible for a β adjustment, whereby $\beta = 1$ in any Settlement Period where any of the defined services are being provided by a CMU. Ideally, this clarification of the rules is needed before the next Capacity Market Auction takes place.	
Description of the issue that the change proposal seeks to address: EFR is essentially a faster responding dynamic FFR service. However because it is a brand new balancing service, the EFR service is not yet listed as a ‘Balancing Service’ therefore any EFR project would be subject to penalties if the required capacity is not delivered through the Capacity Market due to its EFR obligations. Therefore the proposed change would allow EFR providers to be treated in the same way as providers of FFR and other balancing services.	
If applicable, please state the proposed revised drafting (please highlight the change): Schedule 4: Relevant Balancing Services, p197, would be amended as follows (additions as highlighted): Part 1: Relevant Balancing Services (i) A balancing service entered into by National Grid pursuant to the licence condition C16 of its transmission licence must be classified as a “Relevant Balancing Service” for the purposes of the Rules if and only if it is included in paragraph (ii) below. (ii) Relevant Balancing Services are: “Short Term Operating Reserve” “Fast Reserve” “Firm Frequency Response”	

“Constraint Management Service”
“Frequency Control by Demand Management”
“Enhanced Frequency Response”

Additionally there will need to be definitions provided for Enhanced Frequency Response “Declared_Availability_{ij}” and “Contracted_Output_{ij}”. Whilst the exact terms used will not necessarily be identical we propose that the same principles are applied as “Firm Frequency Response (Dynamic Providers).”

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:

National Grid have previously stated that they are of a view that EFR service should qualify for the Capacity Market payments on the same basis as other balancing services. Thus it is our understanding that the majority of EFR bids, currently under review, will include Capacity Market revenue. Without an urgent amendment to the CM rules, we could witness a very high rate of ‘winners curse’ in the delivery of EFR services in light of ambiguity over the inclusion of EFR under Schedule 4.

By maximising the ability to stack revenues for the provision of multiple services the competitiveness of the projects increases (reflected through EFR bids) and cost efficiency of the system is improved.

This would result in a positive impact for consumers as numerous reports illustrate that storage capacity and greater system flexibility will save consumers considerable amounts over ‘business as usual’¹.

No impact on existing industry codes is foreseen at this stage.

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¹ National Infrastructure Commission, ‘Smart Power’ report, 2016,
<https://www.gov.uk/government/publications/smart-power-a-national-infrastructure-commission-report>

¹ Strbac et al, 2012, ‘Imperial College/Carbon Trust: Strategic Assessment of the Role and Value of Energy Storage Systems in the UK Low Carbon Energy Future’,
<https://www.carbontrust.com/media/129310/energy-storage-systems-role-value-strategic-assessment.pdf>