

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP240

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

Date Submitted:
14 February 2017

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:

Proposal summary (short summary, suitable for published description on our website)

This proposal would seek to allow Unproven DSR CMUs only where none of the DSR Capacity will be achieved by using a Generating Unit (extending the approach taken for the Second Transitional Capacity Auction).

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

This proposal relates to amending the Rules of Chapter 3:Prequalification Information such that an application cannot be made for any Unproven DSR CMU that provides DSR Capacity by using a Generating Unit.

In addition, Rule 8.3.3A relating to the notification of DSR Components would also need to prohibit Unproven DSR Components achieved by using a Generating Unit.

This change would apply to all auctions taking place after 1 September 2017.

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

The current Rule allows Generating Units to be located behind the meter and thereby participate as Unproven DSR CMUs. However, such generators entering as Unproven DSR are subject to less onerous qualification conditions than a Generating CMU, including: (1) not having to identify where the CMU will be located (2) not having to provide evidence of planning permission or provide metering details (3) no obligation to indicate the Primary Fuel Type and (4) a more generous timeframe for demonstrating that it can operate.

Having less onerous qualification conditions for what are in fact well established technologies represents poor value for consumers as it creates unjustifiable security of supply risks and an unwarranted competitive advantage relative to generation participating as Generation CMUs. Accordingly, we believe that the Unproven DSR category should be restricted to true turn-down technologies only.

Generating Units would still be able to participate on a level playing field as Proven DSR or as Generating CMUs, subject to them satisfying the eligibility criteria, so this capacity would not necessarily be lost. At sites where onsite generation and true turn-down are both participating in the mechanism, appropriate metering and settlement arrangements would be required to ensure that there was no double-counting and

that an appropriate baseline for the turn-down technology was being used.

This proposal will also ensure that multiple parties are not speculating over the same behind the meter generating unit for the same delivery year.

If a declaration that there is no generation is found to be false and deliberately misleading then the procedure for automatic termination (6.10.2) would apply.

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

The change would be the insertion of similar wording used for the Second Transitional Capacity Auction:

3.3.3 An Application may not be made for a CMU for a Capacity Auction if:

...

(g) the Unproven DSR CMU that provides DSR Capacity does so by using a Generating Unit;

3.10 Additional Information for an Unproven DSR CMU

...

3.10.1 Business Plan

...

(b)(iv) together with a declaration that none of the DSR Capacity is achieved by using a Generating Unit;

8.3.3A Notifying DSR Components

...

(a)(iii) and that none of the DSR Capacity is achieved by using a Generating Unit.

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:

When developing the Capacity Market it was recognised that Demand Side Response (DSR), as a broadly defined sector, was relatively small and immature. The Government acknowledged that DSR was in need of further support in order to compete effectively in the Capacity Market, and ultimately realise its potential as part of a flexible and secure system; this is why the Transitional Arrangements (TAs) were introduced.

There is now convincing evidence from the first transitional and three T-4 auctions that small generators are in fact well established and mature compared to load-reduction DSR. For example, small stand-alone distribution network connected generation (non-CMRS) (<50MW), that would have been eligible for the TAs before recent rule changes, won capacity market agreements as New Build Generating capacity in the first three T-4 Capacity Market auction as follows: 2014 T-4 843MW; 2015 T-4 1,062MW & 2016 T-4 1,436MW.

Moreover, evidence from the 2016/17 Delivery Year demonstrates a high failure rate in the delivery of Unproven DSR. Of the 475MW procured in the first transitional auction, only 329MW (69%) was actually delivered, with 71MW being terminated and a further 75MW being lost as a result of DSR Test results being lower than the capacity procured. If a similar failure rate were to be repeated for 2020/21, this would equate to circa 420MW of failed delivery, which creates unjustifiable security of supply risks.

Less onerous qualification conditions (as is the case for a generator behind-the-meter entering as Unproven DSR) for what are in fact well established technologies represents poor value for consumers as it creates unjustifiable security of supply risks and an unwarranted competitive advantage relative to generation participating as Generation CMUs. Accordingly, we believe that the Unproven DSR category should be restricted to true turn-down technologies only, with behind-the-meter generation only allowed as Proven DSR or a Generation CMU.

In installations where both turndown DSR and generation are intended to be used, the generation can be separately metered and participate as a Generation CMU.

This proposal is therefore in accordance with Ofgem's principal objective to protect the interests of consumers, including in respect of security of supply. It is also aligned with the CM rule change objectives in facilitating efficient operation and administration of the Capacity Market and promoting security of supply.

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

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