



Changes to the Capacity Market Rules: Consultation Response

Summary

The Electricity Storage Network (ESN), as the UK industry group dedicated to electricity storage, welcomes Ofgem's consultation on Statutory Changes to the Capacity Market Rules.

- **Of13: We recognise some value in regularly charging up before a potential stress event, but would like to see a more comprehensive rationale for the proposed change to the calculation.**
- **We agree with the rejection of proposals for de-rating, notably on the basis of duration, until analysis shows stress event needs.**
- **Of14: We support the inclusion of Enhanced Frequency Response, and indeed, any similar services to the SO, as a Relevant Balancing Service.**
- **P190: We disagree with the proposal to exclude facilities without planning permission from pre-qualification, at least until we have seen convincing evidence to the contrary.**

Our comments are made in the context of ensuring that electricity storage facilities support security of supply under the Capacity Market where it is in the consumer interest for them to do so.

Introduction

The ESN was established in 2008 as the UK industry group dedicated to electricity storage. It represents a broad range of members including electricity storage manufacturers and suppliers, developers of projects, users, electricity network operators, consultants, academic institutions, and research organisations. We strongly support UK companies to deliver solutions for the GB and SEM electricity systems and beyond.

The ESN works on behalf of its members to respond to and address issues affecting the development and utilisation of electricity storage within the GB and SEM electricity systems. We have sat on the Smart Grids Forum and Workstream 6, working to identify the opportunities and barriers to the wider deployment of storage as a tool in a flexible energy system; we have responded extensively to the Call for Evidence on "A Smart, Flexible Energy System;" and we continue to promote active discussion and problem-solving of current and upcoming issues for the sector.

This response represents the views of the ESN as informed by our members and by our mission to promote the wider cause of electricity storage. It should not be taken as representing the specific views of individual member organisations or of new players in the storage market representing individual projects.

We focus on the proposals with applicability to electricity storage facilities. Our aim is to ensure that these are eligible to support security of supply under the Capacity Market where it is in the consumer interest for them to do so.

Of13: Over-Delivery Calculation

The calculation A+B-C offers a reward for a storage facility that charges up in advance of a stress event being called. The proposal is to change the calculation apparently to reward facilities that regularly (over a six-week average) charge up before a potential stress event, even if such an event has not been called. The full rationale does not seem to have been set out in the consultation.

We can see value in facilities regularly beginning to charge well in advance of a potential stress event. This might be managed for example if a stress event is considered most likely to coincide with a peak demand period. And we can see how facilities such as pumped hydro, with a relatively fixed regime, might benefit from rewarding regular behaviour, if this is the intention of the proposal.

However, the calculation as it originally stands seems to reward facilities that accurately predict and prepare for a potential stress event at the time, whereas the proposed change seems to reward facilities that are in general “ready” but may not be so on the day when actually needed.

We also question the six-week average charge-up, which seems somewhat arbitrary. One can indeed envisage a situation of a warm month where there was no rationale to charge up for capacity provision, followed by a sudden cold spell when there was.

➔ **We recognise the potential value of regular charging up, but we would like to see a more comprehensive rationale for the proposed change to the A+B-C calculation.**

If there is no definitive rationale for a six-week timescale, but recognising the need for some default settings, we would at least ask for the opportunity for providers to offer an alternative methodology where they believe their charging behaviour still serves the interests of system security.

➔ **Providers could usefully be allowed to offer an alternative methodology where they believe their charging behaviour still serves the interests of system security.**

De-rating Proposals

We support Ofgem’s rejection of the variety of de-rating proposals, notably on the basis of duration. While it is tempting to suggest that “the longer the better,” there is currently no authoritative evidence to suggest that a stress event would last longer than one settlement period, and there is therefore the danger of investing in redundant facilities at the consumer’s expense.

➔ **We support Ofgem’s rejection of the variety of de-rating proposals.**

We agree with the need to look at an analysis of stress event likelihood and duration before any further consideration of de-rating. This analysis needs to be based on stochastic modelling, for example: how likely is a 15-minute stress event compared with a 4-hour stress event? It is not the case that one 4-hour duration stress event should be cause to exclude all shorter-duration providers from the CM.

We agree with the rationale for incentivising the correct duration of future storage to meet capacity requirements through de-rating factors. However, the structure should be based on an objective analysis of system needs.¹ Until such time as this analysis has been conducted, it is not possible to provide concrete comments on de-rating proposals.

➔ **Only through robust stochastic modelling of system needs can an informed decision be made on de-rating.**

In the event of any justifiable de-rating changes in future, these should not be retrospectively applied, i.e: should not apply to existing CM contract holders. They may of course apply to the same facilities bidding for future CM contracts.

ESN would be grateful to see the full analysis once available. We would also be grateful to have the opportunity to participate in a fuller discussion on the implications, and how best to accommodate both short and long-duration stress event needs within the CM.

➔ **ESN would be grateful for the opportunity to review and discuss the analysis once available.**

Of14: Relevant Balancing Services

We welcome the inclusion of Enhanced Frequency Response as a “Relevant Balancing Service,” such that EFR providers are not penalised if they do not deliver full capacity during a stress event. We believe the category should be widened to “all frequency response type services to the SO,” not just the specific EFR contract. This is because the EFR contract may well not be run again with the same specification and with the same name.

➔ **All frequency response type services to the SO should be included as a “Relevant Balancing Service.”**

We do not see the need to flag participation in frequency response contracts as part of the pre-qualification process, nor the need to declare the capacity of frequency response offered. This is because commercial providers of frequency response will be freeing up capacity from other, mandatory response providers, so they do not correspond with an implicit de-rating of registered capacity.

¹ See for example [“Unlocking The Hidden \(Capacity\) Value of Energy Storage,”](#) ICF, 2016

- ➔ **There seems to be no justification for declaring participation in frequency response contracts as part of the pre-qualification process, and the requirement should be removed.**

CP190: Plant without Planning Permission

The proposal to disallow pre-qualification of plant without planning permission seems unduly conservative. We disagree with this proposal in the absence of sight of the full evidence. We would ask to see Ofgem's evidence on the cost of uncertainty of plant progressing to auction, compared with the benefits of additional players.

- ➔ **We disagree with the proposal to exclude plant without planning permission from pre-qualification at least until we have seen convincing evidence to the contrary.**

The proposal seems unnecessarily to restrict plant from participating in the CM auction six months in advance. A lot can happen over six months at a time of a fast-moving policy and regulatory agenda, and it is unlikely to be in the consumer interest to exclude potentially economic plant so early in the process.

Of particular concern is the application of these proposals to this year. We are told by our members that there are a number of specific sites already under development with the intention of bidding into the auction. Under the current proposals, it seems these would at short notice be disqualified from offering capacity under this year's CM.

- ➔ **Plant for this year's CM should not at such short notice be excluded from pre-qualification, even if in future years this becomes a rule.**

ENDS

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