



Bringing Energy
Together

Consultation Response | Capacity Market Rules

5 May 2017

Summary

The Association for Decentralised Energy (ADE) welcomes the opportunity to respond to the Ofgem consultation on further amendments to the Capacity Market Rules published on 23 March 2017.

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

Consultation Questions

CQ1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones?

The ADE has no comment.

CQ2: Should the SO be required to update the information included in a CMN and, if so, what should such updates include? Please clarify why participants need this information in a CMN and cannot readily access it elsewhere. (CP216)

Yes, the SO should be required to update the information included in a CMN.

Precision in the arrangements for CMNs is imperative for participants. Ambiguity is a much greater risk for participants and for delivery certainty than is over-complication. We would argue that more specific notifications will make CM delivery simpler and clearer.

Greater precision would ensure that participants are more likely to be available when they are needed, and would reduce the possibility of participants delivering energy at a time when the system does not require it. The latter risk possibility would entail increased Balancing Mechanism costs for requiring participants to turn off generation and turn up demand, increasing costs for consumers. Imprecision around stress events increases the chances of resources with limited delivery times, such as battery storage, picking the wrong times, and hence not helping to keep the lights on.

Rule 8.4.6(a)(ii) [or 11.3.5(b)(ii)] requires the System Operator to issue a notice if an Inadequate System Margin "is anticipated to occur in a Settlement Period falling at least 4 hours after the expiry of the current Settlement Period". Rule 8.4.6(c)(iii) requires the warning to contain particular information "for the Settlement Period(s) for which the warning is applicable".

It is reasonable to infer from this that the Capacity Market Warning should apply to one or more specified Settlement Periods during which Inadequate System Margin is expected. However, the System Operator does not appear to be interpreting the rules that way. Instead, they are interpreting the Capacity Market Warning as applying to the first Settlement Period for which they expect Inadequate System Margin and to all future Settlement Periods until notice is rescinded.

There are no other places for Capacity Market participants to access information on which Settlement Period an Inadequate System Margin is related to. Some larger and more expert market participants may be able to make educated estimates based on market activity, but this creates unfair information asymmetry between different market participants. In addition, the market data that participants could potentially use, such as de-rated margin and LoLP, on BM Reports, is not updated frequently; new values are published at midday for a forecast, and eight, four, two and one hours ahead of time.

Instead, it should be the case that when notices for Inadequate System Margin are issued:

1. The System Operator publishes the results of its System Margin calculations under Rule 8.4.7 each time they are updated.
2. The System Operator specifically states what settlement period(s) a Notice of Inadequate System Margin relates to.
3. The System Operator provides an update to market participants as and when that assessment has changed, but no more than once every 30 minutes.

CQ3: Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules? (Of14)

Please see our response to Question 5.

CQ5: Do you agree that this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime? (Of14)

The ADE welcomes Ofgem's decision to allow DSR providers of frequency response to participate effectively in the Capacity Market.

We agree with the introduction of a cap on the volume of capacity set at the value of the positive low frequency element of the component's declared availability.

However, given the important and highly complex nature of the topic, we are concerned that drafting to date has been insufficient for industry comment and review. We would therefore recommend that this reform not be implemented until specific drafting can be consulted on with industry, even if that means delaying implementation until 2018.

Issues which have raised concerns with our members include:

Interlinking FFR and CM contracts

We are very concerned about issues arising from the interlinking between FFR contracts and Capacity Market contracts. We believe that this linkage represents a serious barrier to DSR participation.

A CMU's FFR capability does not necessarily define its CM capability. A site may have equipment which can respond in the rapid timescales required for FFR, but which does not constitute the totality of the load on site. This is, in fact, the norm. CM Notifications have four-hour notice periods. A site with a mixture of FFR-capable load and ordinary load would therefore manually shut down the ordinary load within the four-hour timescale and leave the FFR-capable load delivering FFR service. If, at the time, the FFR-capable load was not contracted for FFR, the site operator or the aggregator would shut down both the ordinary load and the FFR-capable load manually or electronically.

The new Annex of Rules has changed the definition of Proven DSR to potentially link DSR capacity to an FFR contract. The definition states:

“the capacity (in MW) of a DSR CMU as evidenced by the DSR Test Certificate issued for that DSR CMU, which, when evidenced at the component level, for any DSR Component subject to a Relevant Balancing Service Contract for frequency response cannot exceed the ‘declared availability’ for low-frequency response as stated in the relevant Contract.”

This definition pins DSR capacity at component to having a relevant contract. It is therefore unclear what would happen in a situation where an FFR unit had failed to secure an FFR contract. This definition would prevent T-4 participation, as FFR and STOR contracts are not awarded so far in advance. It may also prevent T-1 participation, as National Grid is under no obligation to accept any FFR capacity at one-year-ahead timescales. It also fails to recognise that a component may be able to deliver more load by manual shutdown. For these reasons, we strongly urge Ofgem to reverse this change.

The text appears to state that Capacity Providers must declare their FFR contract before entering the CM. Given that the CM operates to a four-year timescale and FFR contracts can be let on monthly timescales (with a potential future change to weekly timescales), this is often impossible. Ofgem therefore needs to provide more clarity about how they will consider FFR contracts if they are coming on or off during the duration of the CM contract.

The interlinking between FFR and CM contracts also risks unnecessarily restricting competition in a manner that the current rules do not. Of14 would appear to prevent a customer from working with one aggregator for frequency response from a facility while using a different aggregator for the CM.

- New rule 3.4.10 requires the Applicant (i.e. the CM aggregator) to provide a copy of the relevant balancing service contract at Prequalification time, for any component that is under any contractual obligation to provide a relevant balancing service at the time.
- New rule 14.5.9 assumes that it’ll be the Capacity Provider (i.e. the CM aggregator) who contracts to provide any balancing service.
- New rule 14.5.10 requires the Capacity Provider to provide copies of a new or revised balancing service contract.

This restriction is problematic because the aggregator is unlikely to be able to obtain a copy of the confidential FCDM or FFR contract between another aggregator and National Grid, and it would be harmful to competition to require them to do so.

In addition, the proposal to ban components that provide dynamic FFR from being included in a CMU that undergoes a Joint DSR Test would also hinder competition. This would mean that an aggregator that has several large CMUs that they deal with in aggregate would have no practicable way of adding a relatively small dynamic frequency response load to their portfolio. This restriction seems to be motivated by the complexity of the proposed baselining methodology for dynamic FFR, which we address below.

Baselining methodology

The new baseline methodology proposed for dynamic FFR appears to be complex, as it requires measuring the baseline at times when frequency is in the dead band and for one-second intervals. Given the complexity of this methodology, a worked example would be valuable.

Ofgem has also proposed new ongoing reporting requirements for frequency response providers, but has not specified what these would be. We would recommend Ofgem provide more details for consultation prior to implementation. In particular, we would welcome clarification about what data will be appropriate for satisfying the test: would data from historic FFR responses suffice?

We are unconvinced that a new baselining methodology for dynamic FFR is necessary. Ofgem has decided that for static FFR or FCDM, ability to deliver will be based on actual dispatch. If participants have already proven to National Grid's satisfaction that they are able to deliver a dynamic FFR service, we are unsure why there is a need for a further complex, expensive baselining methodology.

Other issues

It appears that the proposal to introduce a cap on volume of capacity by FR providers set at the value of the positive element (low frequency) has not been added in Appendix 4 under the Declared Availability for FFR dynamic and non-dynamic.

Ofgem should also be aware that National Grid is expected to consider reforms to balancing services over the coming years. As the Rules will need to be adapted in the future to reflect these reforms, it is advisable to make them as adaptable and flexible as possible at this stage.

There also appears to be an error in the drafting which would prevent participants from calculating the Proven DSR Capacity for any Unproven DSR CMU. To address this error, we would propose:

- In 13.2.9(iii), subclause (aa) should refer to 13.2.6(a) or 13.2.6(b).
- In 13.2A.6(c)(i), they should refer to 13.2.6(b), rather than 13.2.6(a). This seems to be a cut-and-paste error.

CQ6: Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4? (Of14)

Please see response to Question 5.

CQ7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services? (Of14)

Yes.

CQ8: Do you agree with our conclusions with regard to our preferred testing format? (Of15)

The ADE agrees that the current options for calculating connection capacity are too restrictive, particularly for Transmission Connected CHP CMUs.

However any Rule Change needs to clearly define the interaction between the CMU's bidding capacity, the de-rating factor, and the subsequent capacity obligation. At present this is not clearly defined in the proposal.

With regards to the proposed test format, it could place an obligation on a CMU to generate without any underlying financial reward. For example, if a CMU did not hold Capacity Market Agreements for the times of the testing it would be obligated to run despite the possibility that it may have been taken out service for extended outage.

Therefore we propose that a CMU could either use its Historical Metered Output to define a connection capacity at prequalification, which would not have to be reconfirmed, or have the option of declaring a connection capacity that it would demonstrate during the proposed new one-year testing period.

CQ9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity? (Of15)

Yes.

Response to 'minded to accept' proposals

The ADE welcomes Ofgem's 'minded to accept' stance on the following proposal:

CP215 – Aggregation of Prospective CMUs with one or more Units and legal owners to apply through a Dispatch Controller

The ADE welcomes Ofgem's 'minded to accept' stance. This will remove a barrier which has made Prequalification for certain distribution-connected CHPs difficult or impossible.

CP233 – Auxiliary Load

We welcome Ofgem's minded to accept decision on this change proposal, though we note a problem in drafting which requires attention.

We particularly welcome Ofgem's decision to ensure information flows between the Delivery Body and ESC. Under the current Rules, we are aware of one large site where the auxiliary load methodology was accepted at pre-qualification but was determined by the ESC to be insufficient to pass a metering test. Therefore any change should ensure that the auxiliary load methodology will be valid for providing the required information for settlement, including to issue a Metering Test Certificate. Ofgem should ensure this change applies to all existing generation CMUs, including those which prequalified in previous auction years.

However a drafting issue occurs in the proposed Rule 3.6.1(d)(ii) which refers to a Half Hourly Metering System. The definition for this is drawn from the Balancing and Settlement Code, which explicitly defines that term to be the settlement meter for the site. This effectively forces all sites with auxiliary load to use the Supplier Settlement Metering Configuration. Many sites with auxiliary load will be district heating CHP plant with private wire load, for which the Bespoke or Balancing Services Metering Configuration Solutions must be used. This problem is repeated in 3.6.4(d)(ii) and in 6.7.2(d)(ii), where it is clear that the intention was not to force the Supplier Settlement solution on sites.

Instead, we recommend that in Rules 3.6.1(d)(ii), 3.6.4(d)(ii) and in 6.7.2(d)(ii), the term "Half Hourly Metering System" is replaced by "the relevant Metering Configuration Solution".

CP235 – Provision of Boundary Point MPANS and/or MSIDs to the Delivery Body during prequalification in order for line loss factors to be applied to metered volumes

If Ofgem implements this change, it should be aware of two issues which may need further consideration:

- We are unsure how new build will be able to provide boundary point MPENs and MSIDs to the Delivery Body during Prequalification.
- Caution is needed to ensure the settlement body does not double-count Line Loss Factor for DSR CMUs. These are often already included in supplier letters to DSR providers, and a clear methodology is needed to ensure the ESC is not required to take account of both loss amounts, rather than taking only one of the figures.

Of12 – DSR component alteration

The ADE welcomes Ofgem's proposal to amend the Rule to allow DSR CMU components to be altered during a delivery year.

While we welcome this change and believe it will provide material benefits to security of supply, value for consumers, and DSR providers, we think there would be additional benefit from a different approach.

The requirement for DSR tests for the entire CMU, following removal or addition of components, is likely to be more onerous on certain providers, dependent on the relative size of the components in their CMU.

For large components in a CMU, the testing requirement will be less onerous.

To make changes to small components in a CMU, however, this change is unlikely to be useful or used, as participants will not be willing to take on the cost of re-testing the entire CMU to make a relatively small component change. In these latter cases, our members state that this mechanism will only be used as a last resort, limiting the aim of allowing DSR aggregators to deliver a more reliable service.

We think that this problem can be addressed easily to ensure that this change will provide full flexibility for DSR CMUs to address component failures, with resulting improved value for consumers, without creating any increased risk.

We would agree with the consultation document's position that "The testing regime should ensure that components can be coordinated to deliver in accordance with the relevant Capacity Agreement."

Ofgem also states in its consultation response that the purpose of the proposed amendment is to "maintain reliability and meet obligations, but at the same time mitigates against the risk of unreliable capacity being introduced."

We agree that it is right for Ofgem to be interested in mitigating the risk of unreliable capacity being introduced when components are both added and removed, as a provider could theoretically allow a provider to replace a reliable component with a less reliable component, while continuing to claim they can continue to deliver on their capacity requirements.

However, it is important to explicitly note that no gaming risks exist when a DSR CMU only adds a new component to a CMU. The reason is that the addition of components only strengthens the ability of a CMU to deliver, but provides no additional value to the CMU holder in terms of CM payments.

In fact, contrary to Ofgem's intent, the proposed approach risks leaving components in "an unreliable state for an extended period during the delivery year." Without simple, low-cost methods to allow an aggregator to address specific components, aggregators will not be able to address problems if they arise, as generators currently do.

By not requiring a re-test of the full CMU when components are only added, Ofgem will also be able to deliver portfolio changes in much shorter timescales, increasing reliability when components fail. The proposed Rule 8.3.4(f) requires 21 working days to make component changes, in order to give time for a DSR Test and a potential retry. However, by taking our proposed approach, DSR CMUs will be able to fix component reliability issues within 5 working days by removing the testing requirement.

There would be no value to the aggregator in adding an unreliable component, and any unreliability would be to the detriment of the obligation holder and would not create any additional harm for the system.

Based on these reasons, the DSR sector would prefer Ofgem provide an increased level of flexibility to aggregators, removing both any gaming risk and unnecessarily arduous CMU re-testing provision.

This can be achieved by:

- a) Requiring a re-test of the entire CMU only if a component is being removed.
- b) If components are being added, and none are being removed, require a re-test of the entire CMU only before the next delivery year.

Option (b) does not recommend testing the new components, because there is no gaming risk from an aggregator adding new components to a CMU. A test of just the component would provide no value to the system, since the aggregator would see no value in adding a component that was unable to deliver in tests and stress events. As well, Ofgem has not yet provided a process for undertaking a metering assessment or metering test at the component level as these are currently at the CMU level.

However, option (b) recognises that DSR Test results are able to be carried forward from year to year. It would be reasonable to prevent the DSR Test certificate being carried forward between Delivery Years, so that the delivery body can ensure at least once each year that all the components can be appropriately orchestrated.

We would also challenge Ofgem's proposal that any full CMU re-test would require "evidences a DSR Volume equal to or greater than the relevant DSR CMU's obligation. Where this has not been achieved we propose it is appropriate that the DSR CMU's obligation be terminated."

Under this requirement, if a DSR CMU is unable to hit 100% performance in the DSR Test within 20 working days, the entire agreement will be terminated, and may require the obligation holder to pay back all of the capacity payments they have received from the start of the Delivery Year. This performance requirement therefore increases risk to aggregators and will discourage them from using component reallocation to manage reliability risks.

It should be noted that 20 working days isn't enough time to reliably complete a DSR Test. Allowing for notice periods, the time the Settlement Body takes to deliver meter data, and the time the Settlement Body is allowed to carry out each of its steps, a DSR Test takes approximately 17 working days if a re-test is not required, and about 27 working days if it is, plus additional time to allow for the Settlement Body or System Operator cancelling planned tests.

Over the longer-term, there may be further changes which could be made to improve portfolio flexibility. To achieve this outcome, it will be necessary for the Delivery Body to improve its ability to track individual components within CMUs and their contribution to proven capacity. This would allow them to subtract this contribution when a component is removed, thereby avoiding the need for a wasteful retest of the whole CMU. The Delivery Body already collects this information, but states it cannot manage changes. We are unsure why this is case and we would welcome further work in this area.

We have provided some proposed new drafting below for how these aims could be achieved. Our proposed wording for 8.3.2A(b) is copied verbatim from the sanction that applies in other circumstances where a new DSR Test is required and does not manage to prove the entire capacity obligation (Rules 13A.2.10, 13A.3.10, 13A.4.11, 13A.5.10). This is more beneficial for reliability than terminating the CMU under such circumstances.

8.3.2A DSR Tests during a Delivery Year

Where a Capacity Provider has requested to ~~add and/or~~ remove components from a DSR CMU pursuant to Rule 8.3.4:

(a) the Capacity Provider must provide a DSR Test Certificate ~~evidencing a Proven DSR Capacity equal to or greater than the Capacity Obligation~~ for the relevant, newly configured DSR CMU within one month of notification under Rule 8.3.4(b) ~~or 8.3.4(e)~~ (taking the date of the first notification where multiple notifications may have been made with regard to the same CMU,);

(b) ~~if the Capacity Provider does not comply with Rule 8.3.2A(a), then Rule 6.10.1(i) applies. If the new DSR Test demonstrates a lower output than the Capacity Provider's Capacity Obligation, the Capacity Provider must have its Capacity Obligation reduced to its new Proven DSR Capacity the new Proven DSR Capacity is less than 2MW Rule 6.10.1(d) applies.~~

...

(f) With effect from the date falling **five Working Days** after receipt by the CM Settlement Body of a notice pursuant to Rule 8.3.4(e), ~~and only where the conditions of Rules 8.3.4(g) having~~ been met:

(i) the Baseline Demand; and

(ii) the Metered Volume in MWh to three decimal places.

of the DSR CMU Component(s) referred to, must be included in any determination of the DSR Volume of the DSR CMU in which the DSR CMU Component(s) was comprised.

(g) Where Rules 8.3.4(b) or 8.3.4(e) apply, within twenty Working Days of notification to the Settlement Body:

(i) **where rule 8.3.4(e) applies**, a Metering Assessment must be completed for each DSR CMU Component being added to the relevant DSR CMU, and where required a Metering Test; and

(ii) **where rule 8.3.4(b) applies**, a new DSR Test or new Joint DSR Test must be completed for the relevant DSR CMU(s) pursuant to Rule 13.2. during which period the relevant DSR CMU will remain a Proven DSR CMU.

Rule 13.2.12 should state:

A DSR Test Certificate issued pursuant to this Rule 13.2 will only be valid for the DSR CMU for so long as the details relating to the configuration of such DSR CMU as detailed pursuant to Rule 13.2.5 remain valid- **(provided that the addition of new DSR CMU Components will not be deemed to change such configuration)**. In the event that the DSR CMU configuration changes, such DSR CMU will be deemed to be an Unproven DSR CMU, subject to Rule 8.3.4(g), until such time as a new DSR Test Certificate has been issued.

13.2.12A

Subject to Rule 13.2.12 and 13.2.14, a DSR Test Certificate issued pursuant to this Rule 13.2 will remain valid if the Applicant in respect of a DSR CMU submits an Application for the same resource in a subsequent Capacity Auction and provides confirmation in accordance with Rule 3.10.3, **unless components of the DSR CMU have been added and/or removed pursuant to Rule 8.3.4 since the last DSR Test on that CMU.**

13.2B.18A

Subject to Rule 13.2B.12 and 13.2B.15, a DSR Test Certificate issued pursuant to this Rule 13.2B will remain valid if the Applicant in respect of a DSR CMU submits an Application for the same

*DSR CMU Components in a subsequent Capacity Auction and provides confirmation in accordance with Rule 3.10.3 for each of the DSR CMUs that were nominated for this Joint DSR Test, **unless components of any of those DSR CMUs have been added and/or removed pursuant to Rule 8.3.4 since the last DSR Test on those CMUs.***

Rule 13.2.14 should also state:

*A DSR Test Certificate will be invalidated if the Metering Test Certificate for a DSR CMU specifies a different metering configuration for any DSR CMU Component comprised in the DSR CMU than that specified in the DSR Test Certificate **(provided that the addition of new DSR CMU Components will not be deemed to change such configuration).***

The addition of “**(provided that the addition of new DSR CMU Components will not be deemed to change such configuration)**” suggested for 13.2.12 and 13.2.14 is not new; it reinstates what existed beforehand in the former and fixes an inconsistency in the latter.

CP234 ESC to allow BSC metering

The ADE welcomes Ofgem’s ‘minded to accept’ decision for this proposal as it will remove the need for redundant metering.

CP239 & CP240

The ADE welcomes Ofgem’s ‘minded to accept’ decision for this proposal

CP231 – DSR Capacity testing alteration

The ADE welcomes Ofgem’s ‘minded to accept’ decision for this proposal

Response to ‘minded to reject’ proposals

CP173 – Requirement for Supplier letters for Bespoke Metering sites

Ofgem’s stated reason for rejection is that it believes an alternative way exists for Non-CMRS CMUs to verify output. This alternative requires that the site participate in balancing services. Many sites, including heat-led CHP units, do not participate in balancing services and therefore cannot use this alternative.

The ADE’s proposal CP219 deals with this issue in a more detailed way, including providing alternative drafting. We urge Ofgem to reconsider CP219 on the grounds that the problems addressed by both CP173 and CP291 are real and are not adequately dealt with by the balancing services option.

CP190 – Proposal to remove the option for Applicants to defer the provision of Relevant Planning Consents until after Prequalification

We welcome Ofgem’s minded to reject position on this proposal, as it is likely to lead to less New Build participation in the Capacity Market. The existing process allows much longer for planning consents to be achieved, which seems sensible given that the timing is largely out of the control of the Applicant.

CP191 Use of historic output to inform de-rating factors for distributed generators

We support Ofgem’s rejection of this proposal, as it would be likely to lead to de-rating factors for distributed generators being artificially suppressed. Historical output is a poor guide to historical availability; a generator may have been available but choosing not to generate.

Please note as well that this risk is appearing in Ofgem's minded-to position for Of15, where the minded-to position is to require a generator to prove previous output. Such an approach would be inappropriate, for example if a unit was taking out of the Capacity Market to undertake an overhaul.

CP219 – Prequalification for CMUs connected with private networks

The ADE believes that allowing on-site generating CMUs to submit a letter from a Private Network owner or customer, in addition to from a supplier, would have removed ambiguity surrounding how on-site generation can participate in the Capacity Market.

Market participants have indicated that they find this rule unclear as it is counter-intuitive to consider a private wire network owner as a 'supplier'. While a number of on-site supply sites are participating in the auction under this Rule, the ADE is aware of at least 100 MW of supply that was not bid in due to uncertainty about this Rule, and this is likely only a small proportion of participants who have chosen not to include capacity in the auction due to this rule's ambiguity.

These potential participants have reached this conclusion by tracing the defined terms explicitly. The lack of evidence of the problem, cited by Ofgem, is itself a result of the problem: potential participants who read the Rules and legitimately conclude that they cannot participate will not submit prequalification applications.

We therefore request explicit clarification from Ofgem as to how Rules 3.6.1 and 3.7.1 allow generators to include on-site capacity and supply in the Capacity Market, so that all participants can make equal use of this. We would also recommend Ofgem direct the Delivery Body to provide clarity through its guidance to participants.

While clarification and guidance are useful, we nevertheless urge Ofgem to reconsider this proposal, on the grounds that it addresses a real problem also noted under CP173 and makes the route to prequalification explicit. In addition to representing a barrier to entry, the route of having the private network owner write the supplier letter relies on an interpretation that is undocumented, and hence vulnerable to being interpreted differently by Delivery Body staff in future years.

CP225 – Higher load factor Generation Units on Customer sites

The ADE disagrees with Ofgem's minded to reject position.

This change would have addressed a challenge in the Regulations, whereby aggregated generating CMUs below 2 MW are not able to participate in the Capacity Market. This is due to the definition of the term "export" in the Regulations, which requires Generating Units to export electricity from the site, something which smaller generating units are unlikely to do.

According to DUKES, 1,862 CHP schemes, totalling 541MW, are under 2MW in size. As these are all located at customer sites, a substantial proportion of these are at risk of failing to prequalify due to not exporting electricity from the site. We note that a CHP which exported 1kWh over its entire existence would be able to prequalify, as there is no stipulation of the amount or duration of export which must occur.

CP225 allows small CHPs to prequalify within the DSR category. We note that "permitted on-site generating units" can prequalify within DSR, and such non-exporting generators would fall into this category. Therefore, allowing on-site CHPs to prequalify as DSR is catered for in the Regulations. It is only the baseline methodology which prevents them from doing so, and this is entirely within the Rules. We therefore urge Ofgem to reconsider this proposal.

We note that implementing this change would address one of the impacts of the lack of clarity around the supplier letter, while also addressing the problem with current regulations for small, non-exporting generating units.

CP180 – Amend Rule 6.10.1 so Termination Event applies only to relevant component and associated capacity, not to the Capacity Agreement as a whole

The ADE disagrees with Ofgem's minded to reject position.

Components can fail for a range of reasons, many of which are not the fault of the aggregator. For example, an aggregator might have a 50 MW CMU, made up of 50 different components from 50 different customers. If one customer triggers a termination event, unbeknownst to the aggregator, the entire CMU will receive a termination event.

Ofgem argues that volume reallocation and obligation transfer helps CMUs avoid termination in certain circumstances, such as temporary outages. However, there are a number of administrative reasons that a component might result in the CMU receiving a termination event, many of them which might be entirely out of the control of the aggregator.

The result of this decision will be to encourage the development of smaller CMUs, increasing market inefficiency and discourage aggregators from building larger portfolios to improve ability to deliver their contracted capacity.

CP163, CP164, CP204, CP209, CP210, CP211 & CP212 – Extend testing regime for CMU delivery for more than 30 minutes

The ADE agrees with Ofgem's conclusion that it is not appropriate to address this issue through longer testing periods. We support Ofgem's proposal to look into de-rating methodology as an alternative way of addressing security of supply concerns.

Ofgem should examine the results of National Grid's proposed stress period forecast in order to determine how many times the different durations of a stress event will last. This should also take into account the changing UK generation stack over the next 5-10 years and how this will impact on the expected duration of System Stress Events over the timeframe. It would also be valuable for National Grid to publish their methodology for stress period forecasts, with an opportunity for industry comment.

The ADE recommends that testing regimes not be extended for DSR. DSR can deliver long delivery periods, but longer tests will result in significant cost increases to DSR providers and will therefore result in significantly reduced competitiveness for DSR resources. It is important to note that DSR providers are often not rewarded in energy markets for their delivery, unlike generators.

CP186 – Allowing DSR Tests during any prequalification assessment window

The ADE disagrees with Ofgem's minded to reject position. No evidence has been presented that this restriction saves the Delivery Body money, or that any potential savings would outweigh the costs to market participants. The restriction limits flexibility for DSR providers in an unpredictable way; in the future there could be two different prequalification assessment windows – one for the T-4 auction and another for the T-1 auction. While these windows have been simultaneous thus far, there is no guarantee of it. If they were separated, a large part of the year would be arbitrarily restricted.

Response to 'minded to reject and consider further' proposals

CP214 – Adjusting Demand Samples to reflect Triad Management actions as well as balancing services

The ADE welcomes Ofgem's interest in this proposal, and agrees that a concrete methodology is needed to account for Triad Management Actions on the DSR baseline. We will be working with industry to develop a proposed methodology for further consideration.

CP222 – Amend Schedule 4 of Rules so that the terms 'declared availability' and 'contracted output' account for differences in the configuration of sites participating in both STOR and CM, as well as providers of FCDM

The ADE welcomes Ofgem's decision to take forward the proposed drafting for the FCDM service.

The ADE is disappointed that a similar solution is unable to be implemented in STOR, apparently as a result of inadequate systems. National Grid possesses full information on the allocation of STOR Sub-Sites (equivalent to CMU Components) to STOR Sites (equivalent to CMUs). It receives this information through faxes and stores it, once approved, in spreadsheets. We believe that the existing spreadsheet-based system could be adapted to cater for the proposed change. We urge Ofgem to resolve this relatively trivial issue and to ask National Grid to provide specific evidence of why it cannot be addressed

We see a significant risk if Ofgem introduces rules relating to these changes without consulting with industry on the specific drafting. The ADE recommends that Ofgem do not implement these changes until industry has had the chance to review the drafting relating to the LFCO.

CP223 – Simplifying metering arrangements by reducing small generators and DSR participants' dependence on Suppliers and Meter Operator Agents

The ADE welcomes Ofgem's decision to amend the rules to include each Generating Unit, not each CMU component.

However, we are very disappointed that Ofgem sees no action which can be taken to improve information and data flows between suppliers and customers/aggregators. Poor information flows result in poor data delivery and make it more challenging for the Delivery Body and the Settlement Body to understand whether a successful delivery has occurred.

As the meter operator, data collector and data aggregator are employed by the Supplier, small generators and DSR participants are highly dependent upon the Supplier's goodwill to receive the necessary information. The fact that, to date, most Suppliers have complied with aggregators' requests is a matter of luck. Suppliers and aggregators will, in general, be competitors, and Ofgem should not place Suppliers in the position of controlling their competitors' market access. The purpose of introducing an Independent Metering Expert role is to create an independent route that prevents Supplier from exercising a *de facto* veto over their competitors' activities.

Aggregators' and DSR suppliers' dependence on a customer's electricity Supplier and Meter Operator Agents caused significant problems last year. Careful monitoring will be required to ensure that lessons learned from last year are implemented and whether further action is needed to address this issue.

We are exploring alternative approaches to address this problem, including whether participants will be able to resubmit data to EMRS, which would address situations where 'assumed' data is submitted to EMRS when no actual data is available.

Change in metering test deadline

As part of the Rule changes, Ofgem is implementing the changes announced in the Government's response to its consultation *Capacity Market: proposals to simplify and improve accessibility in future capacity auctions*.

The policy intent of that decision was that Unproven DSR CMUs should complete a Metering Assessment and if necessary *request* a Metering Test by 4 months before the start of the Delivery Year. This is evident from the p.10 of the 22 March 2017 Government Response document:

"... the Government ... believes that setting the metering test request deadline for Unproven DSR at 4 months prior to the delivery year is appropriate ..."

The proposed edit to rule 8.3.3(e)(i) is consistent with this intent. In conjunction with Rule 8.3.3(d), it says that a Capacity Provider for an Unproven DSR CMU that is subject to Metering Test must provide the Metering Test Certificate by no later than two weeks prior to the start of the Delivery Year.

The edit to rule 13.3.2(a) introduces the deadline for requesting the Metering Test: the new subclause (i) says that it is at four months prior to the start of the Delivery Year.

However, there appears to be an error in the new wording of Rule 3.10.2. Previously this Rule set a one month deadline for completing the DSR Test, the Metering Assessment, and the Metering Test. The proposed new version keeps the one month deadline for completing the DSR Test, and gives a four month deadline for completing the Metering Assessment and completing a Metering Test.

The error seems to have arisen because the word "complete" is in the preamble, and therefore is applied to all three items.

In order to deliver on the policy intent from the Government's consultation response, our recommended correction to 3.10.2 simply reuses wording from 13.3.2 as follows:

Each Applicant for an Unproven DSR CMU must confirm that it will, ~~complete~~ in relation to that CMU:

(a) no later than the date falling one month before the commencement of the Delivery Year to which the Capacity Auction relates, ~~complete~~ a DSR Test or Joint DSR Test; and

(b) prior to the date falling four months before the commencement of the Delivery Year to which the Capacity Auction relates:

(i) ~~complete~~ a Metering Assessment (including providing line diagrams as described in Rule 3.9.4(a)(i)); and

(ii) if required, ~~notify the CM Settlement Body that it requires a Metering Test to be carried out with respect to that CMU.~~

For further information please contact:

Rick Parfett
Policy Officer
The Association for Decentralised Energy
Tel: +44 (0) 20 3031 8740
rick.parfett@theade.co.uk
