

EMR session

De-rating DSR capacity before the auctions

Pre-qualification

17th September 2013

Attendees (as per sign-in sheet)

Lesley Potts (Chair) – PwC
Belinda Littleton – PwC
Mark Crowley – PwC

Mark Symes- Green Frog Power
Mo Rezvani- SSE
Deirdre Powers- SSE
Herb Healy- EnerNoc
Lisa Waters- Water Wye
Joe Warren- Open Energi
Paul Jones- E.ON
Arthur Probert – Energy Services Partnership Limited
Lawrence Jones- Elexon
Marina Hod- KiWi Power
Stuart Noble- Scottish Power
Grazina Macdonald- Scottish Power
Sara Bell- UK Demand Response Association
Jeremy Taylor- Green Frog Power
Alastair Martin- Flexitricity

Mark Jones- Green Frog Power Ltd.
Dan Jerwood- GDF Suez
Karen Anderson- EDF Energy
Justine Brown- EDF Energy
Robert Owens- SmartestEnergy Limited
Graeme Dawson- RWE Supply and Trading
Jane Ellaway- DECC
Roisin Quinn- National Grid
Ian Nicholas- National Grid
Eleanor Brogden – National Grid
Dale Sharpe - DECC
F Gordon- DEA
Elaine O'Connell - DECC
Fergal McNamara – DECC

Tuesday 17th September	
9 am	Room available Tea and coffee
10.00 – 10:30	Introductions 1. Policy Update
10.30 – 12.30	2. De-rating DSR capacity before the auctions
12.30 – 13.30	Lunch
13.30 – 16:30	3a. Pre-qualification 3b. Bid bonds

1. Policy discussion

Status of policy discussion

- Fergal set out the plan for stakeholder engagement over the coming months. He particularly mentioned the consultation to be published in the week commencing Oct 7 2013. This will be a policy document asking questions of industry for input. At present, the CM chapter will contain around 100 pages and 20-30 questions. He expects that Q1 2014 will be spent settling any outstanding issues with a view to enacting the secondary legislation mid 2014.
- The CM rule book with the code and Capacity Agreements will be shared as part of the consultation. The consultation pack will also include an Impact Assessment. DECC are also working on state aid clearance. Finally, the last pieces of stakeholder engagement are the collaborative development sessions, expected to continue until the end of the year.

Policy discussion from Fergal

Relating to the slides Fergal set out the following key points:

- Process architecture diagram
 - o There have been some policy changes that accommodate the role of DSR
 - o Handle a bid bond, handle a pre-qualification are two parts DSR touches the most
- Transition arrangements
 - o Anything that applies to capacity market is applicable to DSR
 - o Purpose of pre-qualification is to assure all capacity market is of same quality
 - o DSR transition- original intention was to have visible glide path to encourage investment and to be sure we could get a DSR resource that was capable of competing in market
 - o 2 stage transition process; stage 1- looking to use resources that previously haven't been used- have asked National grid to specifically dispatch. The second stage overlaps mainstream, and is due to be delivered in 2018/2019 and 2019/20
- Temporary guaranteed T-1 quota
 - o This was introduced in response to a number of concerns; e.g. macro-economic uncertainty
 - o In order to help alleviate these concerns, a quota was introduced for T-1 of 2GW, with an indicative hold back of 50%.
- Transition arrangements and demand side balancing
 - o Start DSR transition auction in 2015 (previously 2014)
 - o Purpose is to start gentle ramp into general capacity market
 - o Industry participants queried whether the two processes were actually mutually exclusive
- EDR resource
 - o Made a decision to include EDR into capacity market
 - o Secured funding to allow a pilot to be run on EDR
- DSR specifics
 - o How do you measure baseline- settled on X and Y method
 - o De-rating would be done in same fashion as generation, with issues such as transition taken into account
 - o Settlement and metering arrangements- metering not available at granular level for Elexon. Elexon have come up with 4 methods of getting past this; will be discussed at tomorrow's session

Timeline of transition arrangements and auctions

- Industry participants questioned why transition arrangements have been delayed to 2015?
- Industry participants also raised questions about the timeframe for bringing DSR in line, and the ability of DSR to participate in the enduring arrangements
 - o There was a concern that DSRs will not be allowed participate in first auction; this is essentially putting DSRs at a disadvantage, and would bias the market in favour of traditional supply
 - o DECC stated that DSRs are allowed to participate in T-4, and can take an obligation to deliver in 2018

Viability of DSBR

- Industry participants queried the overall viability of DSBR- there was a worry that it will fail
 - o DECC responded that the DSBR process is separate from transition arrangements – the

decisions are slightly disconnected in terms of timing of implementation

- Industry participants stated that they would like some clarity of the interaction between DSBR and transitional arrangements. There is concern that 2GW is being left to T-1, and therefore that big generators won't likely appear in T-1. If this is the case, there is a considerable level of risk associated with this
 - o DECC does not expect the process to be ring-fenced. It does not expect the process to be the only new participants in T-1
 - o DECC believe that transitional arrangements would not be sufficient to deal with mid-decade problems, which is why DSBR has come forward, as well as sister generation services
- There was overall concern from industry participants that while the transitional arrangements have the intent of creating an appropriate and enduring DSR market, there are questions about the number of early opportunities the policy framework allows for participants to participate in the CM. Additionally, the level of capacity set aside for DSR is of concern to participants. DECC queried what level of capacity was appropriate to set aside for DSR in T-1 compared to capacity procured in T-4.

Interaction between DSR and DSBR

- Industry concern that the balancing service and DSR may compete. Industry participants commented at present many systems operate on an overlapping basis, and the market finds the appropriate price for each service.
 - o DSBR price is set by programme- industry participants see that as major problem
 - o DECC have looked to reduce barriers to entry, although they acknowledged that this could reduce quality
- Industry further raised concerns that DSR has not been introduced elsewhere in the world with an equivalent level of risk as is the case in the UK.

Participation of DSR in enduring auctions

- Industry participants questioned where it is possible for DSR to participate in enduring auction (T-4) and transitional arrangements?
 - o DECC stated that the purpose of DSR is to allow smaller generators to participate in enduring regime; potential participants will therefore be able to take part in 2015 enduring auctions and 2015 transitional arrangements, with the underlying assumption that you will be able to meet the obligations of both
 - Transitional arrangements are a finite pot- trying to find ways of limiting down, finding the DSR we want- allows smaller players to grow and develop
 - There is no obligation to put a resource in both T-1 and T-4 auctions

Flexibility of process

- Industry participants considered that greater flexibility will be beneficial to the auctions
 - o DECC responded that it was a binary decision for participants to bid in either T-4 auction or T-1. More certainty for both types of participants if the Transitional Arrangement funding is available. If you are participating in the 2014 auction, DECC assumes that the DSR is sufficiently sophisticated that it would not need TA payments.
 - Industry raised the concern that this would not be appropriate as the 2 year payments would allow them to grow during this time.

2. De-rating DSR capacity before the auctions- led by Jane at DECC

High level summary

- The conversation touched on a number of areas:
 - o That de-rating will be based on the nameplate de-rating.
 - o For generation, the band will be from the average central historic figure and two standard deviations below this average figure.
 - o 2MW maximum for individual components of an aggregated CMU
 - o DSR may need more than a single de-rating methodology depending on DSR type
 - o Appropriate data sources for comparison against other DSR rollouts globally

Nameplate definition

- Industry participants asked whether there is a there a definition for nameplate?
 - o For generation, the definition was still under discussion
 - For DSR the process is more complicated, and will require further consideration
 - o It was considered that defining nameplate capacity could be taken forward by DECC or a particular technical expert group

Central and lower rating bands

- DECC stated that the central band would be set at a particular number (85% was cited). The range would then be bounded at the top by this figure, and at the bottom, a figure two standard deviations below.
 - o This central number is calculated based on historic performance (the performance of DSR potential participants and their peers)
 - o Bigger DSRs will have their own nameplates
- Industry participants queried whether they could go for a number higher than central band
 - o DECC's response to this was no; this was broadly a policy based decision to avoid gaming
 - o National Grid sought feedback from industry as to whether their de-rating figure should be based on availability or performance.
 - The issue for individual parties is that they need their individual processes to be accounted for in the obligation requirements, rather than taking an average or portfolio approach.

Maximum size of individual components of an aggregated CMU

- Using 2MW as a maximum size for individual components of an aggregated CMU raised some concern for the small level of this, given the 2MW de minimis in generation. DECC responded with gaming issues, and NG asked the floor what level would be appropriate.
 - o Industry participants were concerned about the level of administration not only for themselves but for NG as well.
- Industry participants requested that DECC make the maximum the same as the licence limit.
 - o Industry participants were concerned about the 2MW limit and considered that the figure should be more in the line of 20/50/100MW; there was a suggestion that perhaps the limit should be same as licensing?
 - o DECC considered that there is a potential risk of gaming- a situation where there are 2/3/4 500MW generators, and they are the majority of the auction

Availability

- Participants reiterated the concern about the preferred measure of availability as there may be reasons why CMU's would want to make themselves unavailable. Concerns included:
 - o Availability set too low according to industry participants
 - o Risk may be a lot less if you are rated at a lower level than you think, but so is revenue
 - DECC responded that this is a better scenario than the reverse situation
 - DSR participants are competing with players who will be getting the same rating; and

<p>the participants will be setting the price</p> <ul style="list-style-type: none"> - Participants queried whether committed store is a better measure of availability? Should we be looking at DSR participation worldwide? Should we be basing these ratings on examples from other countries?
<p>DSR Testing</p> <ul style="list-style-type: none"> - Participants considered that DSR testing should be on the same basis as generation. Industry preferred it to be as per load following obligation

3. Handling a pre-qualification – led by Jane from DECC
<p>Payment of bid bond- general points</p> <ul style="list-style-type: none"> - DECC clarified that bid bond is to be paid before pre-qualification - Bid bond is expected to be around £4000/MW- this is based on a proxy on the amount of money a generator would have to set out if they were to pre-qualify - Industry participant queried why the bid bond was not based on a risk metric as opposed to the method chosen. <ul style="list-style-type: none"> o DECC believe that the requirements put on companies will lead them far enough down the line that they are likely to meet their obligations - DECC confirmed that the T-1 and the T-4 qualification processes are the same - Query was raised around paying bid bonds for new builds- DECC clarified that a new build does not need a bid bond
<p>Prequalification for embedded generators</p> <ul style="list-style-type: none"> - Industry participants asked what the prequalification circumstance for embedded generators that are connected at DNO level that would need a connection upgrade in order to participate in the market? What consideration is given for this as part of DSR in terms of offsets that are given to generators? <ul style="list-style-type: none"> o The response was that it should be comparable

3b. How to handle a bid bond
<p>Bid bond required for DSR</p> <ul style="list-style-type: none"> - The bid bond is paid and signed off once prequalification is complete as part of the last step prior to the auction - Pre-qualification determines amount you can bid into auction
<p>Capacity bidding following pre-qualification</p> <ul style="list-style-type: none"> - Industry participants queried whether you had to bid for the exact amount of capacity you pre-qualified for <ul style="list-style-type: none"> o DSR participants would potentially like to be able to bid lower than CMU requirement o Bid bond is individual to CMUs, similarly to a CA. o For an example where a DSR had a nameplate capacity of 100MW, and de-rated capacity is 80MW. Bid bond is based on 80MW. If I want to submit a lower bid bond and capacity, am I able? Generator participants had a concern regarding timing of this decision if it is allowed, as there is a significant impact on risks should this reduction occur sufficiently late (after the final demand curve) - DECC confirmed that if you are a DSR participant, and you don't show up to the auction, you get your bid bond back

- Query as to whether you get the same penalties as generators?
- DECC stated that they will take that point away and confirm with relevant colleagues
- Industry participants asked that consideration be given to the penalty regime for generators and equivalent rules should be in place for DSR - ie if a DSR prequalifies and opts in but does not bid at auction, are the penalties equivalent?
- Concern from generators that DSR is 'self-derating' after prequalification and after the Capacity Agreement has been signed based on a CMU with particular technical characteristics is not in keeping with the principles of the CM and balanced risks between generators and DSR. While the bid bond is an additional 'extra' to get additional certainty in delivery, and to not inflate what they are able to deliver.

Disparity between requirements of generators and DSRs

- A query was raised by industry participants as to why generators cannot go below their two standard deviations, but DSRs can?
 - DECC responded that there was a difference between the two situations; if you are an established plant, you can lower your connection agreement, cancel it, etc., whereas DSR's do not have this option

Pre-qualification process map

- IP raised concern that table on back of prequalification process map does not make it clear whether it is new or existing DSR

Repayment of bid bonds following partial delivery of obligations

- Clarity required on partial delivery - ie if DSR partially deliver, be partially funded, should the obligation also be scaled down, and the proportion of bid bond received should be set out. Generators note that to be equivalent to the bid bond side, equivalent thresholds should be encountered (if at least 80% created, gets 100% bid bond). The goal should be to avoid mismatches across participant types
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