



DSR transitional arrangements



DSR in the Capacity Market – Stage 1

Stage 1: Preparatory auctions

Stage 1 aims:

- Start to build more liquid DSR market
- Build DSR's experience and capability operating in a Capacity Market without excessive costs
- Provide information about how an expanded DSR industry operates in GB, particularly in the Capacity Market.

NB: In Stage 1 generation are not receiving any capacity payments

NOTE:

Policy positions are indicative, other than where confirmed in December publication
All dates assume running a primary auction in 2014 for delivery in 2018/19



DSR in the Capacity Market – Stage 1

Stage 1: Preparatory auctions

Key features could include:

- From **2014-2016***, 3 year-ahead auctions limited to DSR (2014 auction for 2015 delivery; 2015 auction for 2016 delivery; etc)
- Amount of capacity to be contracted and a demand curve set out in advance
- Time banded products (i.e. not 24/7 delivery) and a load following obligation available, with the proportion of capacity weighted towards the load following obligation over time. Suggested time bands:
 - 9am-6pm weekdays all year
 - 9am-11am winter weekdays
 - 3pm-7pm winter weekdays
- Penalty regime capped at 1x annual payment to limit DSR's risk, Z factored added to VOLL-CO
- Capacity baselined using 'X of Y' methodology (e.g. consumption average from 5 days in last 20), similar to US approach
- System Operator actively dispatches DSR, rather than DSR self-dispatching

2017-2018: Review of stage 1 to understand whether and how DSR has grown and how it is operating in the preparatory auctions

NOTE:

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All dates assume running a primary auction in 2014 for delivery in 2018/19



DSR in the Capacity Market – Stage 2

Stage 2: Transitional arrangements in the Capacity Market

Stage 2 aims:

- Continue to expand the DSR industry
- Build DSR's experience and capability operating in the Capacity Market, alongside generation, managing the load following obligation
- Provide further information about how an expanded DSR industry operates in GB, particularly in the Capacity Market.

Stage 2 begins at the first year ahead auction for the main Capacity Market and could run for a number of years. DSR would now take on the load following obligation and some of the other features of the enduring scheme.

The features of Stage 2 would be informed by the results of the Stage 1 review.

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All dates assume running a primary auction in 2014 for delivery in 2018/19



DSR in the Capacity Market – Stage 2

Stage 2: Transitional arrangements in the Capacity Market

Key features that make DSR participation easier could include for example:

- Penalty regime – cap at 1x annual capacity payment for example if the enduring penalty regime carries higher risk.
- Reserving capacity in the year ahead auction specifically for DSR
- Limit of 4 hours on DSR's obligations during a scarcity event

2017-2020: Review of stage 2 to understand whether and how DSR has grown , how it is operating in the enduring scheme under concessionary arrangements and what DSR's arrangements should be in the enduring scheme from 2020.

NOTE:

Policy positions are indicative, other than where confirmed in December publication

All dates assume running a primary auction in 2014 for delivery in 2018/19



DSR in the Capacity Market – Stage 3

Stage 3: Enduring DSR arrangements

Stage 3 aims:

- Move DSR in the Capacity Market under the enduring arrangements.
- If this is not possible, establish DSR's separate arrangements to make sure it can contribute and ensure the best value for consumers.

NOTE:

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All dates assume running a primary auction in 2014 for delivery in 2018/19



DSR in the Capacity Market – Stage 3

Stage 3: Enduring DSR arrangements

Stage 3 moves DSR into the enduring terms in the Capacity Market. Ideally, these would be the same terms as other capacity providers so that DSR has the same opportunities. However, We will retain the flexibility to create separate arrangement if needed.

If there were separate arrangements, DSR providers would still be able to participate in the main scheme on the same terms as other providers if they chose to.

NOTE:

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All dates assume running a primary auction in 2014 for delivery in 2018/19