

Demand Side Unit Licence Grant Decision Paper

21 May 2015



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland’s electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

The Utility Regulator (UR) consulted on the approach to licensing Demand Side Units (DSU) in August 2014 and subsequently published a decision paper in January 2015. Following this the UR launched the application process for the licences in February 2015. Since then a number of applications have been received and the proposed grant of 2 separate DSU Operator licences has been consulted on. This decision paper outlines the UR's response to representations received.

Audience

Electricity Industry, Business Community, Statutory Bodies

Consumer impact

As the importance of these activities and the volumes of electricity from these sources increase, the Utility Regulator can obtain all relevant information necessary to promote security of supply and protect consumers.

Contents

1. Introduction.....	2
2. Consultation response.....	3
2.1 NIE response.....	3
2.2 UR response.....	4
3. UR Decision	7

1. Introduction

- 1.1. Aggregated Generator Units (AGUs) and Demand Side Units (DSUs) require regulatory approval to operate in the Single Electricity Market (SEM).
- 1.2. In August 2014 UR consulted on the proposed licensing regime to provide the required approval. As a result of this a decision paper outlining the licensing regime was issued in January 2015.
- 1.3. Paragraph 5.22 of the decision paper¹ stated that an applicant wishing to operate as a DSU Operator would be required to submit an application for both a generation and a modified supply licence.
- 1.4. The requirement for a supply licence is proposed as an interim solution which is consistent with market rules.
- 1.5. The modified supply licence which accompanied the publication of the decision paper has many of the standard conditions removed. As a result of the removed conditions the DSU Operator will be able to register in the SEM, however this is purely for the purposes of DSU operation and it will not allow the DSU operator to supply a consumer.
- 1.6. Following this a number of applications for the new DSU licences were accepted by UR. On 9 April UR issued 2 further consultations specifically on the grant of DSU licences for Energy Trading Ireland Limited and Powerhouse Generation Limited.
- 1.7. One representation was received in response to these consultations. This decision paper outlines the UR's response to issues raised in that submission.

¹ http://www.uregni.gov.uk/uploads/publications/DSU_AGU_Licence_Decision_Paper.pdf

2. Consultation response

2.1 NIE response

1.1.1 One response to the licence consultation was received from NIE and is published alongside this document.

1.1.2 NIE raised 3 broad concerns in its response:

1. Lack of consultation in relation to the content of the supply licence
2. Failure of licences to reflect proposed market arrangements
3. Failure of supply licence to identify DSU operation

2.2 UR response

1.2.1 Lack of consultation in relation to the content of the supply licence

- 1.2.1.1 UR consulted on the AGU and DSU licensing regime in August 2014. One of the responses to this consultation highlighted the requirement to possess a supply licence to facilitate DSU operation in the SEM.
- 1.2.1.2 Following a robust review including consideration of SEM documentation relating to Trading and Settlement Code Modifications on the topic² UR considers that issuing a supply licence is the most appropriate interim solution to facilitate DSU operation within the SEM ensuring DSU Operators are treated in a non-discriminatory and transparent basis.
- 1.2.1.3 The version of the supply licence UR proposes to issue to a DSU Operator does not give permission for the DSU Operator to supply consumers. It is a mechanism to allow the DSU Operators to successfully register in the SEM, at least until such time as it is no longer necessary for them to hold a supply licence for that purpose. Further detail in relation to this is set out in paragraphs 5.20 to 5.23 of the Aggregated Generator Units (AGU) & Demand Side Units (DSU) Licensing Arrangements Decision Paper³

1.2.2 Failure of licences to reflect proposed market arrangements

- 1.2.2.1 In relation to the 'failure to reflect proposed market arrangements' NIE reference a joint letter of 12 March 15 which is also published alongside this decision paper. This letter was received following the publication of the consultation to grant licences to Energy Trading Ireland Limited and Powerhouse Generation Limited and therefore could not be considered prior to issuing the licence consultation documents.
- 1.2.2.2 Having now considered the contents of the letter, UR believes that the proposed solutions outlined in relation to a Distribution System Operator are better dealt with through other mechanisms.

² <http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Demand%20Side%20Units%20in%20the%20SEM%20V2.0.pdf>

³ http://www.uregni.gov.uk/uploads/publications/DSU_AGU_Licence_Decision_Paper.pdf

- 1.2.2.3 Condition 4 of the Demand Side Unit Generation licence requires compliance with Grid Code and where applicable the Distribution Code. Further to this Individual Demand Sites (IDS) will be required to adhere to their Connection Agreement⁴ with NIE and follow any instruction in relation to load changes.⁵
- 1.2.2.4 If the requirement proposed by NIE is desirable, UR considers that it should be introduced via one or more of these documents, a modification of which can be proposed for that purpose if necessary. The modification of these documents is outside the scope of this consultation process.

1.2.3 Failure of supply licence to identify DSU operation

- 1.2.3.1 For clarification, the supply licence proposed by the UR is solely for the purposes of facilitating the DSU Operator to register in the SEM and *not* to allow the DSU operator to supply a consumer with electricity.
- 1.2.3.2 Condition 45A of the supply licence precludes the licensee from supply of electricity in a similar way to which Condition 18 of the DSU generation licence precludes the licensee from actually generating electricity.
- 1.2.3.3 A query was raised in relation to schedule 1 which states the licensee has a right to supply all premises; this is a standard approach when granting supply licences in Northern Ireland, and there is no need to change it given that condition 45A precludes supply to any premises.
- 1.2.3.4 NIE presented some concerns in relation to the conditions included in the DSU Operator Licence specifically suggesting a multi site licence; however this was consulted on in August 2014. Neither NIE nor any other respondent to that process highlighted concerns in relation to this at that time and UR considers that there is no reason to view such concerns as are expressed now as fundamental so as to require any change at this late stage to the proposed approach.

⁴ <http://www.nie.co.uk/documents/Market-services/LV-connection-agreement.aspx>
<http://www.nie.co.uk/documents/Market-services/HV-connection-agreement.aspx>

⁵ <http://www.nie.co.uk/Connections/business/load-change>

- 1.2.3.5 NIE stated that the supply licence should include Demand Side Operation within its name. UR believes any potential confusion should be alleviated by the fact that the DSU supply licence will not be issued in isolation. The application and consultation process for a DSU Operator licence provides that the prospective licensee applies for both the DSU generation licence and the DSU supply licence in parallel. However in the interest of transparency UR will include reference to DSU within the supply licence name.
- 1.2.3.6 NIE query if the licence holder would be a user of the Distribution System. The Individual Demand Sites (IDS) will be connected to the Distribution System and subject to the governance arrangements set out within their supply agreement. The Supplier registered to the IDS will hold a full supply licence and have completed the Market Registration Process with NIE including becoming party to the Market Registration Framework Agreement and the PSO Agreement.
- 1.2.3.7 NIE have requested that UR carries out a legal review/impact assessment on all Market Documentation. UR confirms that a legal review has been completed on the licence documents. Any work in relation to a review of existing market documentation should be carried in accordance with Condition 29 of NIE Distribution and where changes are considered appropriate; these should be submitted to UR together with NIE's report following the review, in line with that condition.

3. UR Decision

- 1.2.3.8 We have considered the concerns raised by NIE in response to the consultation to grant DSU licences to Powerhouse Generation Limited and Energy Trading Ireland Limited. To promote the requirements of the Energy Efficiency Directive, that is to encourage and facilitate the deployment of demand side units to the benefit of consumers; UR believe the most appropriate approach is to issue the licences without further delay.
- 1.2.3.9 Recognising the concerns in relation to the identification of DSU supply licences UR propose to include the term 'Demand Side Unit' within the name of the Supply licence to alleviate any confusion which may arise.
- 1.2.3.10 UR will continue to work with NIE, SONI and DSU Operators to progress any outstanding issues.