

17 June 2021

Sembcorp Response to Ofgem Statutory Consultation on Capacity Market Rules change proposals

Introduction

Sembcorp Energy UK (SEUK), a wholly-owned subsidiary of Sembcorp Industries, is a leading provider of sustainable solutions supporting the UK's transition to Net Zero. With a 968MW portfolio of energy generation and battery storage in operation, our expertise helps major energy users and suppliers improve their efficiency, profitability, and sustainability, while supporting the growth of renewables and strengthening the UK's electricity system. At Wilton International in Teesside, we supply private wire electricity, world-scale utilities, and specialist services to energy-intensive industrial businesses on the site, providing energy resilience, security, and cost advantages. These services are complemented by our fleet of fast-acting, decentralised power stations and battery storage sites situated throughout England and Wales. Monitored and controlled from our central operations facility in Solihull, these flexible assets deliver electricity to the national grid, helping to balance the UK energy system and ensure reliable power for homes and businesses.

Sembcorp welcomes the opportunity to comment on the proposed changes in this consultation. This response document is not confidential.

General Comments

Sembcorp is mostly supportive of the rule changes advanced in this consultation. However, it is also disappointed that certain changes, in particular Evergreen prequalification has been delayed, despite the fact that it would significantly reduce risks in the Prequalification process, and does not understand why this could not be prioritised to be implemented in the 2021/22 Capacity Market prequalification round.

Sembcorp also notes that, in future consultation rounds, it would be advantageous to have sight of proposed changes significantly in advance of the Capacity Auction dates being announced - this is particularly important where rule changes will have a direct impact on decisions taken in prequalification (such as setting the maximum obligation periods). As such Sembcorp encourages Ofgem to review whether the rule change process can be held earlier in the calendar year.

Question 1: Do you have any comments on the proposed revised governance framework and change process for the Relevant Balancing Services?

Sembcorp fully agrees with the proposed changes to the governance framework and change process for Relevant Balancing Services. Removing them from the rules allows for the greater flexibility needed to ensure the new balancing services, including those mentioned within National Grid's consultation can be brought into the RBS list rapidly, and avoids any risk that Capacity Providers could be unnecessarily penalised in a stress event.

However important that, particularly when it comes to the Relevant Balancing Services adjustment in the ALFCO formula, feedback is sought from industry in order to ensure it remains fully reflective of the



value provided by Capacity Providers, particularly those operating in Frequency Response services for part of a stress event.

Question 2: Do you have any comments on the specific Rule amendments proposed in Annex A?

Sembcorp does not have any comments on the specific Rule amendments proposed.

Question 3: Do you have any comments on the definitions of “Declared Availability” and “Contracted Output” outlined in Table 4?

Sembcorp agrees that the proposed drafting in Table 4 meets the objective of the rule change. However, Sembcorp encourages Ofgem to be aware that Balancing services are transitioning to be procured in EFA blocks from summer 2021 onwards. As such, that this may affect the ability for storage units to provide their full ALFCO in stress events that may straddle two or more EFA blocks. This is a situation likely to become more pronounced as balancing services move towards being procured per-settlement period.

Although this is not something expected to be dealt with in the scope of this consultation, it is important that going into the 10-year review, work is done to understand and capture the full value of Response Services in particular.

Question 4: We believe the process for an Applicant to declare that RPC has been obtained is no different to the existing process where the declaration is made within the Portal via a checkbox. Do stakeholders foresee any further changes required to be made to the existing declaration process to facilitate our proposal?

Sembcorp does not believe any further checks are necessary - the declaration provided is a legally binding one and therefore participants should be aware of the sanctions in place for providing a false declaration. Given this precedent already exists with regard to the legal right to use the land of a CMU, it can be quite easily transposed across to planning requirements.

Question 5: In scenarios where capacity is required to be redistributed among components, specifically where RPC has been deferred, do stakeholders believe that deadlines should be prescribed to ensure these changes are enacted before confirmation of entry to the relevant Auction?

Sembcorp agrees that these changes should be enacted before confirmation of entry. A degree of flexibility is required for new build projects in order to ensure all relevant consents are held; postponing this requirement until after confirmation of entry has taken place places participants in legally difficult positions where they are effectively taking units into auction they cannot build. As such, requiring that Capacity redistribution takes place before the confirmation deadlines is necessary in order to reduce the risk that Capacity Providers may inadvertently take unviable units into the auction.

Question 6: Do you have any comments on the Rule drafting provided in Annex A?

Sembcorp does not have any further comments on the rule drafting.

Question 7: Do you agree with our suggestion to amend the definition of Maximum Obligation Period to allow greater flexibility for Prospective Generating CMUs in selecting a Capacity Agreement length?

Sembcorp agrees with this proposal. There should be full flexibility for Capacity Providers to select any obligation period below their Qualifying Capex threshold- although 15 years remains the standard payback term needed to finance the majority of new Capacity, under the current Capacity Obligations, there may be certain new and emergent technologies for which it is impractical to secure a long-term obligation. As such, new build CMUs should be offered full flexibility to select its own specific obligation period provided they meet the relevant Qualifying Capex thresholds.



Question 8: Do you foresee any unintended consequences as a result of implementing this proposal?

Sembcorp does not foresee any unintended consequences from this rule change: Ultimately the length of agreement should remain variable within the relevant £/kW thresholds. However, Ofgem should provide further clarity on how this rule change will affect the ability for CMUs to gain multiple short-term multi-year Capacity Agreements - it is theoretically possible for the same new build CMU to obtain a two-year Capacity Agreement followed by a 3 year agreement by apportioning CAPEX in a certain way. As such, Ofgem should clarify whether this falls within the intent of this rule change.

Should you wish to discuss this response in more detail, please contact Edmund Frondigoun (Edmund.frondigoun@sembcorp.com).