

# National Grid Ventures:

## Ofgem Statutory Consultation on Capacity Market Rules change proposals

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June 2021

### About National Grid Ventures

National Grid Ventures (NGV), part of National Grid plc, is a distinct commercial unit that owns and operates energy businesses in competitive markets in the UK and US. NGV's UK portfolio includes National Grid Interconnectors, Grain LNG, and National Grid Metering. NGV is also responsible for the 50% interest that National Grid has in our two joint venture interconnectors, BritNed and nemolink.

This response is on behalf of National Grid Ventures' interests in our interconnectors, Interconnexion France-Angleterre (IFA), IFA2, North Sea Link (NSL) and Viking Link, together with Nemolink and BritNed.

### Executive Summary

We welcome this Ofgem consultation on Capacity Market improvements and broadly support the proposals for change. They build on the parallel developments by BEIS and the ESO to improve the efficient and transparent administration of the CM by delivery partners. A level playing field is essential however, equivalent treatment should be ensured across all types of Capacity Providers with the compliance requirements of each reflected in their treatment.

We support the minded-to proposals from Ofgem for modifications ahead of 2021 Prequalification, but in this consultation response reiterate our concerns about the longer term proposals. This includes and we provide suggestions to further develop Ofgem's 2022 proposals for reporting requirements, the CM register, and evergreen prequalification.

We also support Ofgem's proposals for the governance framework and change process on Relevant Balancing Services (RBS), but caution that this does not address the problem with interconnector ALFCO we have identified previously. As such, in our response we also propose CM Rules changes to rectify the problems with defining and calculating interconnector ALFCO. We will urgently further engage with Ofgem, BEIS and other stakeholders to address our proposals ahead of 2022 Prequalification.

Our responses to the specific questions are provided below.

## Applicant Notice and Evergreen Prequalification (2021)

We support the minded-to proposals from Ofgem for implementation of the offline solution for Applicant Notice and continued use of e-signatures for 2021 Prequalification.

## Relevant Balancing Services and Interconnector ALFCO

### Questions 1-3

We support the minded-to proposal for the Relevant Balancing Services (RBS) revised governance framework and change process, including the proposal to include TERRE as an RBS and any other such trading arrangements/platforms developed through the post-Trade and Cooperation Agreement processes. As the GB electricity system transitions to net zero, this will require rapid shifts to more dynamic and flexible system operation – the approach to accounting for RBS in the GB CM must reflect this.

We do not have comments on the specific CM Rules amendments proposed in Annex A or the definitions of 'Declared Availability' and 'Contracted Output'.

However, in our response to the prior Ofgem consultation and our response to the recent BEIS consultation we restated the deep limitations to the current definition and calculation of ALFCO for interconnector CMUs in the CM Rules. In the section below we further raise these concerns and propose legal text for CM Rules changes to rectify.

### Interconnector ALFCO

The proposed approaches to RBS are appropriate to the broader CM, however Ofgem's minded-to proposals do not address the fundamental problems with ALFCO for interconnectors. Further modifications are necessary because, in practice, the ALFCO and LFCO for interconnectors does not accurately reflect performance and results in asymmetric treatment between interconnectors and other capacity providers.

The QBSCCKj term, unlike for generators, does not fully account for the impact of SO actions and balancing services on interconnectors. Such SO actions either restrict interconnector capacity ahead of real time (e.g. ITLs and/or NTC limitations) and/or limit interconnector output after gate closure (e.g. emergency assistance and intertrips). Constrained/limited interconnectors are then at risk of CM under-delivery or failure to deliver, with recourse only to Rule 8.5.1 (ba). 8.5.1(ba) offers little protection in practice as great number of ESO actions are taken prior to the Interconnector Scheduled Transfer being finalised and so are accounted for in the Interconnector Schedule Transfer, rather than taking the interconnectors output to a position below the Interconnector Scheduled Transfer.

Our proposal for modifying the CM Rules to remedy this situation has two parts:

The definition of Relevant Balancing Services for interconnectors should be extended to identify specific services provided by interconnectors which result in System Operator actions which reduce or limit interconnector flows. This would include services such as Intraday Transfer Limits (ITLs), NTC reductions/limits, SO-SO trades, Emergency Assistance and Intertrips. This may be achieved via the newly proposed "Relevant Balancing Services Guidelines".

Rule 8.5.2 (a) should be amended to further clarify the formulae for interconnectors. Specifically, that QBSCCKj for an interconnector represents the volume restricted by the System Operator pursuant to a relevant balancing service on that interconnector for the specific half hour. This is because the terms MELkj and QMEkj are not used in the same way for interconnectors as for generators for which the formulae were originally designed.:

## Planning Consents, CM Register, Maximum Obligation Period and Previous Settlement Performance

### Questions 4-8

We have no views on the Ofgem minded-to proposals for Planning consents and Maximum Obligation Period.

We support Ofgem's minded to proposal for the CM Register amendments to Rules 7.4.1(d) and 7.5.

We would however like to reiterate our concern expressed in our response to the previous consultation – for cybersecurity reasons (phishing and/or spam emails) the secondary trading details should be restricted to those with login access to the EMR Portal. We set this out in greater detail in the section below, which focused more broadly on the changes to be implemented by Ofgem and the EMR Delivery Body ahead of 2022 Prequalification.

We support Ofgem's minded to proposal to not yet implement any changes to the Satisfactory Performance processes. As stated in our prior consultation response, this would have raised the specific concern that those CMUs which had previously participated as New Build in their first year applying to Prequalify as Existing would then be unable to satisfy the requirements having not yet reported operational data. We will monitor the developments of BEIS's review of Connection Capacity and further guidance from Ofgem accordingly.

## Changes to be implemented for 2022 Prequalification

We support the Ofgem minded-to proposals for 2022 Prequalification implementation for Applicant Notice, Reporting Requirements, CM Register, and Evergreen Prequalification. We have no views on the minded-to proposal for Amendments to Rule 4.4.4 in 2022.

As per our response to the previous consultations we would also like to raise concerns about the proposals for Reporting Requirements, CM Register and Evergreen Prequalification.

### *Reporting Requirements in 2022*

While we are supportive of the prior proposals to modify reporting requirements, we have several concerns to raise.

We do not have any strong views on whether a termination should apply in the event of this construction report not being submitted. If this were to be implemented as a penalty we would recommend that an appeals process, that allows for exceptional mitigating circumstances to be considered, is provided for in the Rules.

The new reporting milestone construction progress update should not have to be validated by an ITE unless there is a delay to the target completion date. The ITE requirement would represent an unnecessary cost and regulatory burden, particularly if (due to timing of the milestone) the SCM is likely to follow soon after this reporting submission. We consider that an owner declaration should be sufficient for this milestone.

We also do not agree with the current use of 'material change' to the Construction Plan in the Capacity Market Rules. Delivering a Construction Milestone (more than two months) earlier than planned should not constitute a material change that triggers a requirement for an ITE report. Similarly, delivering a Construction Milestone later than planned should not trigger a requirement for an ITE report if the target completion milestone does not change, that is, a resequencing of activities within the project development that does not impact overall delivery should be permissible without an external assessment.

Should the reforms be implemented, for consistency and ease the amendments to reporting requirements should be applied retrospectively to Capacity Providers who hold outstanding Capacity Agreements. If the amendments were not applied to existing Agreement holders then there is a risk that the same Capacity Provider is required to monitor and adhere to different sets of reporting rules depending on the prequalification year for all its agreements, which in the case of Participants who hold multiple one-year agreements will be burdensome and vulnerable to inadvertent omissions.

### *CM Register in 2022*

As stated above, we support all proposals to increase transparency in the CM. Our preference for the larger proposals to reform the CM register however would be also to ensure security in doing so. Secondary trading contact details should only be available to those with log-in access to the EMR Portal (e.g. registered authorised individuals). This would reduce the exposure of those secondary contacts to phishing and/or spam emails.

In line with the move towards increased data availability and transparency, we would welcome commensurate efforts to be made by the EMR Delivery Body and Settlement Body to enable the continued maintenance of good quality data. In particular, it is critical that where incorrect data is identified (for example, by Capacity Providers), there should be formal and robust processes in place to facilitate the swift correction of those errors and mitigate future recurrences. This is true both for the information retained in the CM Registers as well as metered data maintained by the Settlement Body.

### *Evergreen Prequalification in 2022*

While we support Evergreen Prequalification in principle, and the measure for 2021, the detail of implementation is critical.

We would recommend reviewing section 3.3 of the Rules 'Submitting an Application for Prequalification' and, depending on the finalised requirements, would expect potential revisions to 3.3.6 to clarify that a separate application is not necessarily required for each Capacity Auction.

We note that, under the Ofgem prior proposals, an annual Exhibit will still be required to confirm that the relevant information is valid for the current period and that the obligation remains on the Applicant to ensure their application each year meets the requirements of the prevailing Rules. As such it seems that a significant burden remains on Participants to actively engage in the prequalification process on an annual basis.

It would be useful to understand what the implications would be for a prequalified submission under this process that later transpires to have contained erroneous information. We would anticipate that intentionally fraudulent activity would give rise to a termination, however in the case of accidentally omitting to change a non-material detail that rolls over from the previous year, would there be any recognition of mitigating circumstances? While it remains the responsibility of the Applicant to be abreast of developments, there may be more potential for loss of organisational memory regarding the application submission under the new arrangements and therefore greater exposure to accidental errors.

The potential option to be able to create and manage Prequalification Exhibits within the Portal is one that we would be interested in understanding more about. Where a company director signature is required it can be an advantage to be able to provide a copy of the relevant document to be signed to then upload to the Portal, it is unclear how this process would work if directly via the Portal (it may not be practical if company directors are required to access the platform themselves, particularly if they are working from a remote location).

We do not think there is a need to maintain the requirement to resubmit Exhibits annually.