

National Grid Ventures: Ofgem Consultation on Capacity Market Rules change proposals

October 2020

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 Ofgem's consultation on proposals to modify the Capacity Market Rules to be more simplified and consistent for Capacity Market participants and potential applicants.

We support efforts to ease the prequalification process by moving toward an evergreen approach to the evidence required from Applicants. Any changes that reduce the regulatory and administrative burden on Participants without compromising the validity of the application should be pursued. We do have some concerns that the revised process may leave Participants unduly exposed to the risk that previously acceptable data in the system is re-assessed as unacceptable due to changes in the Rules or their interpretation. In order to ensure the Capacity Market design secures supply at the lowest cost for consumers, the prequalification process should, wherever possible, avoid instances of capacity failing to qualify for purely administrative reasons. The potential for this to happen may increase with the proposed evergreen changes if they are not also accompanied by strong support from Ofgem and the Delivery Body to highlight where changes to the Rules and/or their interpretation have taken place since the previous year and therefore where previously submitted "evergreen" data now needs to be reviewed, resubmitted and reassessed.

We agree with the proposals to reduce and simplify the reporting requirements for Agreement holders. We particularly support the removal of mandatory ITE assessments in most scenarios unless the capacity project experiences a significant delay to the target completion date. To streamline and avoid complicating the reporting processes we recommend that the revised requirements are applied retrospectively to existing Capacity Agreement holders, otherwise a Participant holding multiple agreements may be required to follow multiple reporting timeframes.

We agree that the impact of actions or instructions by NGESO to curtail the volume of a Capacity Provider's output should be accounted for in the ALFCO formula. However, we are not confident that interconnector CMUs are fully protected from being unfairly penalised following a system stress event. We agree that intertrips and TERRE actions should be accounted for in the ALFCO calculation. Additionally, we suggest that a wider review should take place of which actions are included in the formula to ensure the principle that the CMU is not penalised for NGESO restrictions is consistently applied across capacity technologies.

Our responses to the specific questions are provided below.

Section 2: Amendments to Rule 4.4.4,

Questions 1-5

Provided that a sufficient level of assurance continues to be met, we do not have any views on Ofgem's proposal to allow changes to a Generating CMU's configuration after prequalification.

Section 3: Evergreen Prequalification

6. Are you aware of any Rules which may need to be changed to ensure that the principle of 'evergreen' Prequalification can be implemented?

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.

7. Is there any information provided during Prequalification which would prevent this from being an effective change?

We note that, under the 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.

We fully support developments toward evergreen and/or rolling prequalification solutions to ease the regulatory burden on participants. However, we consider that to ensure the changes are effective, the Delivery Body's role as a support function to Applicants will be more critical than it is now, this includes providing strong support and definitive directions regarding the prevailing Rules and applicants' submissions.

8. Do you have any feedback on the proposal to look at reforming the method by which exhibits are submitted and signed?

We fully support accepting electronic signatures from company directors in place of physical signatures. In the common scenario where staff and directors are spread across multiple locations this provides a pragmatic and flexible solution that we do not think would compromise the robustness of the process but would remove the inefficiency of the existing process. Ideally, we would like to see imminent implementation of this and the evergreen developments and would discourage against allowing dependencies on IS developments to the EMR Portal to cause significant delays to delivering the improvements.

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).

9. Do you know of a reason to maintain the requirement to provide Exhibits annually?

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

Section 4: Prequalification Data

10. Do you agree with our proposal to remove the Previous Settlement Period Performance requirement in cases where Applicants are prequalifying a CMU, which has previously delivered upon its Capacity Market Agreement obligations in the previous two Delivery Years?

We agree that, where an applicant has previously delivered upon its capacity agreement obligations, this requirement should be removed.

11. Do you see any unintended consequences related to delivery assurance associated with our proposal?

We have not identified any unintended consequences with the proposal.

12. Should the Previous Settlement Period Performance requirement under Rule 3.6A.1 also be removed for Interconnector CMUs?

Yes, for consistency and for the same rationale outlined for Generating CMUs, the interconnector applicant should have the option to use their Satisfactory Performance Data where that is available. However, as per the proposal for Generating CMUs, the option to use Previous Settlement Period Performance should be retained, particularly for an Existing CMU that has been recently commissioned into operations.

In addition to the above, Rule 3.6.A.1 should be revised to be consistent with the equivalent clause for Existing Generating CMUs (3.6.1) which allows for three Settlement Periods on separate days in the preceding 24 months to be used to demonstrate Settlement Period Performance. Under the current rules, an interconnector CMU is required to provide performance data from the preceding winter before Prequalification. Depending on the time of year that an interconnector is commissioned, this presents a potentially unviable requirement. For example, if the interconnector goes live between April and July of a prospective Prequalification year it will be fully operational and yet unable to meet the Settlement Period Performance requirements. The information requirement should be brought in line with that of Generating CMUs to the less restricted window of the prior 24 months from which to demonstrate historical performance and delivery.

Section 5: Planning Consents

13. Is the proposal outlined in paragraphs 5.12.1 to 5.12.4 appropriate – do you think any amendments should be made?

We support the proposals set out for the option to defer the provision of the CMU's RPC(s) until after the prequalification window. We also agree that the amendment should not be restricted to applicants who have applied for a DCO. Indeed, in the case of interconnector CMUs there may be RPC(s) for the CMU that are granted outside the UK jurisdiction, any amendments to the rules should be written such that they are not restrictive of any form of RPCs that may be required.

14. Do you agree with our proposal to clarify who should make an associated planning declaration when the Despatch Controller and legal owner are separate companies?

We support this proposal.

15. Do you have any views on our proposal to clarify the Rules when the RPC states the maximum output of the New Build CMU is smaller than the Connection Capacity?

We do not have any views on this.

Section 6: Capacity Market Register

16. Do you have any comments on our proposals to add the information outlined in paragraphs 6.5.1 to 6.5.7, paragraph 6.6, 6.9.4, along with the CP2701 and 271 proposals to the CMR?

We support the proposals and the principle of greater transparency. Our preference would be that the CMU secondary trading contact details are only available on the restricted access area of the EMR Portal (that is,

only available to registered CM participants who are able to sign-in). 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.

17. Do you have a view on our proposal outlined in paragraph 6.18, to record the new CMR information items additions proposed for capacity providers who hold valid capacity agreements, where the information has already been collected at the time of application?

We do not have any comments on this proposal.

Section 7: Reporting Requirements

18. Do you agree with our proposal, outlined in paragraph 7.9, to remove progress reports and corresponding ITE assessments for the scenarios detailed, and replace with an alternative reporting milestone?

Subject to our comments below, we agree with the proposal to remove the existing progress report requirement and replace with a new reporting milestone ahead of the T-1 capacity setting.

19. Do you have any views on the timing of the proposed new reporting milestone?

We do not have any strong views on the timing of the new milestone.

20. Do you have a view on whether the new reporting milestone should be implemented with a corresponding termination event? Should the proposed reporting milestone have to be validated by an ITE?

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.

21. Do you have a view on what information should be included as part of any update given to the Delivery Body in relation to the proposed reporting milestone?

We do not have any views on what information would be required here besides the information already required in the construction progress reports.

22. Is the current definition of “material change” clear enough – do you have any suggestions on how it could be amended/clarified?

We 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.

23. Should the proposed amendments to reporting requirements be applied to all capacity providers who hold Capacity Agreements that have not expired or been terminated when these Rules changes come into force?

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.

Section 8: Applicant notice

24. Do you believe it is appropriate to amend the Rules to mandate the Delivery Body to send a formal notice to an Applicant, as well as an update to the CMR, when their corresponding Prequalification Status changes from 'Conditionally Prequalified' to 'Not Prequalified'?

Yes, we agree that this proposal would be beneficial.

25. Are there any other changes that should be proposed relating to the notice(s) issued by the Delivery Body to an Applicant?

We do not have any further suggestions regarding the notice(s) issued by the Delivery Body.

Section 9: Outstanding areas of the First Policy Consultation

26. Do you agree with our proposal to include Category 2 and 4 intertrips as Relevant Balancing Services in Schedule 4?

We agree that, when enacted by NGESO, intertrips should be accounted for in the assessment of whether a CMU has delivered its capacity obligation and the CMU should not be penalised for the output curtailed by NGESO.

We note that intertrips at BMUs are partly covered by the existing ALFCO formulae for volumes that lie within the Gate Closure period, via the QAS_{ij} term (which captures Applicable Balancing Services Volume and includes intertrips). Volumes beyond this point are not accounted for and we agree that consideration should be given to how best to offer protection to those Capacity Providers beyond the initial curtailment period through a consistent and fair mechanism.

27. Do you believe Category 3 intertrips should be included as a Relevant Balancing Service in Schedule 4?

We consider that Category 3 intertrips should be treated in the same respect as Category 2 and 4 intertrips.

28. Do you think that the Relevant Balancing Services list in Schedule 4 should be updated to include the Trans European Replacement Reserve Exchange?

We would support a wide-ranging review of which NGESO actions may impact a Capacity Provider's ability to meet their Capacity Market obligations and how those volumes should be treated accordingly in the ALFCO, this would include TERRE activities as well as NGESO actions on interconnectors. For consistency and fairness, it is critical that interconnectors are adequately protected from the impact of the actions taken by NGESO that constrain interconnector output during a system stress event. Relevant NGESO actions would include Intraday Transfer Limits and the Capacity Calculation Methodology, that restrict maximum interconnector capacity ahead of real time, and actions that limit output after gate closure, such as emergency assistance, intertrips, TERRE and MARI. The Relevant Balancing Services should appropriately capture all actions that align to the principle of not penalising Capacity Providers for involuntary capacity curtailment, including actions that impact interconnectors. We expand on our concerns with the interconnector ALFCO calculation in the final section of our response, below.

Interconnector ALFCO

The fair and effective functioning of the Capacity Market requires market participants to be solely penalised for the capacity delivery for which they are responsible and not for any reductions which result from supporting the GB system upon instruction from the GB Electricity System Operator (GB ESO). It is therefore right that

interconnectors, along with all other technology types, are subject to an ALFCO formula which ensures that stress event performance is based only on the delivery for which the CMU is responsible.

However, in its current form the ALFCO formula fails to accurately undertake this task for Interconnector technologies. Therefore, we would welcome focus on the interconnector ALFCO and would encourage this to be done in a timely manner. Rule 8.5.1(ba) should be addressed as part of a wider review of the ALFCO formula, to ensure that an interconnector CMU is not unfairly penalised following a system stress event.

The existing ALFCO formula was originally developed in 2014 with generators and other balancing services providers in mind and received no adjustments prior to application to interconnectors. When first establishing the ALFCO formula two different methodologies were developed, one for generators or balancing services providers that were CMRS registered with their own Balancing Mechanism Units (BMUs), and one for those CMUs that were SMRS registered and did not have their own BMUs.

However, interconnectors, while they have BMUs, are treated in the balancing and settlement arrangements very differently to other categories of balancing services provider. It is therefore appropriate to develop a third distinct methodology to accurately calculate an interconnector ALFCO.

8.5.2

(a) for a Generating CMU or an interconnector CMU comprised of BM Units:

$$ALFCO_{ij} = LFCO_{ij} + (1 - \beta)QBOA_{ij} + (1 - \beta)\min(QAS_{ij}, 0) - \beta(QBSCC_{ij})$$

Of the main components of the ALFCO formula only LFCO is applicable to interconnectors. As interconnectors do not participate in the balancing market comparably with other providers, the other formula components ($QBOA$, QAS & $QBSCC$) as defined in the BSC and Capacity Market Rules, would return zero values for any interconnector CMU. As such the interconnector ALFCO formula effectively equates to LFCO, meaning no adjustments are made for any actions called upon by NGESO, leading to the possibility that interconnector CMUs are unfairly penalised for supporting the GB system. As a result, there has been a historic reliance on the provisions of Rule 8.5.1(ba) in order to “protect” interconnectors from actions taken by NGESO that constrain the performance of interconnectors during a system stress event.

Following a system stress event, performance against a CMU’s ALFCO is compared against its output E_{ij} . For capacity providers that are not interconnectors, E_{ij} represents the metered output of the CMU. For interconnector’s however, E_{ij} draws upon Interconnector Scheduled Transfer. Defined in the BSC, Interconnector Scheduled Transfer is a theoretical, rather than actual, measurement of output and is not transparent in terms of which adjustments are included. To promote consistency with other capacity providers, and ensure accuracy within the ALFCO formula, we believe E_{ij} for interconnectors should be based upon their metered output with the appropriate adjustments made to ALFCO to account for NGESO actions.

As noted above, Interconnectors ALFCO is currently assumed to be the same as that applied to other capacity providers with Balancing Mechanism Units. The nature of Interconnector BMUs means that we believe that this is not the appropriate methodology to follow. In contrast to generators which have a 1:1 relationship between physical generating units and BMU IDs, each interconnector asset can have upwards of 50 BMU IDs. For each interconnector CMU there are two BMU IDs held by the interconnector administrator (operator), two by NGESO and separate IDs for each and every customer which enters into physical trades. We therefore believe that a better starting point would be to develop an approach in line with the current ALFCO formula for CMU’s not comprised of BM Units (this formula is currently restricted to generating units or DSR CMUs). There are differences even here however due to the unique nature of the adjustments by NGESO in relation to interconnectors. For example, these adjustments may come through the European Network Codes or EU Regulations and not just through the operation of the GB Codes and commercial contracts.

We propose then that the alternative interconnector ALFCO formula should adjust, MWh by MWh, for any reduction which results from any NGESO action. For interconnectors these reductions come in two forms a) where the maximum interconnector capacity is restricted ahead of real time through mechanisms such as, but not limited to, Intraday Transfer Limits and the Capacity Calculation methodology and b) where output is limited

in real time (after gate closure) through provisions such as, but not limited to, emergency assistance, intertrip, MARI and TERRE.

In accordance with rule 14.4.2, we recommend that the NGESO is best placed to provide the data and formulation for these reductions. Unlike generators, the NGESO actions associated with interconnectors are not clearly defined in the BSC. Instead they are outlined in a combination of different contracts and codes including the Grid Code, European Network Codes and commercial agreements unique to each interconnector. As such, NGESO is the sole market participant able to provide data on the full range of relevant services and actions across the whole portfolio of existing and new build interconnectors. We are unable, therefore, to propose a definitive formula for each and every restriction that the ESO might deploy in connection with an interconnector. However, we believe it would be appropriate to list the principles and key restrictions as “relevant balancing services” in the CM Rules, whereby NGESO is tasked with developing more detailed formulae in consultation with interconnector operators. This approach is in line with the method used in 2014 with regard to the Frequency Control by Demand Management service.