

Harry Parsons and Mark Carolan
Ofgem - GB Wholesale Markets Team
Sent via email to EMR_CMRules@ofgem.gov.uk

22nd October 2020

RE: Sembcorp Energy UK response to Ofgem's Consultation on Capacity Market Rules change proposals

Dear Harry and Mark,

Many thanks for the opportunity to provide our feedback to Ofgem's proposed changes to the Capacity Market Rules 2014.

We overall welcome the proposed changes, particularly those aimed at simplifying and streamlining the processes and reporting. CM providers would benefit from simpler rules in the identified sections (Sections 2, 3, 4, 5). We believe these changes should be pursued and Ofgem should aim to remove unnecessary assurances.

We would however caution Ofgem not to introduce measures that would be too draconian: we refer here to Section 7 on Reporting Requirements and the intention to introduce a termination event if providers do not submit an update on construction progress including an estimated date for achieving the Substantial Completion Milestone, prior to the T-1 capacity setting. While Ofgem believes that a termination event would work as a deterrent and would ensure providers submit accurate construction updates, we believe the penalty to be too disproportionate when compared to the current arrangements. While we agree with the principle that it is still prudent that an update on construction progress is provided, we call for Ofgem to revisit the associated penalty in case of lack of adequate reporting. The risk here is especially exacerbated as there is no clear indication of what would be considered an "accurate construction update".

Finally, we call for Ofgem to ensure that all new Balancing Services are captured into the definition of Relevant Balancing Services: therefore, not only Intertrips and TERRE, but also – and especially – the new suite of faster acting frequency response products, which include the recently introduced Dynamic Containment, and the expected Dynamic Moderation, and Dynamic Regulation, as well as the DNO-procured services via their Flexibility Markets.

Please find here below our more detailed response to the Consultation.

We welcome the opportunity to discuss our feedback further. Should you have any questions or require further information, please do not hesitate to contact me at alessandra.dezottis@sembcorp.com.

Kind regards,
Alessandra De Zottis
Regulatory Affairs Manager
Sembcorp Energy UK

Context of response

Sembcorp Energy UK is part of the Singapore-based Sembcorp Industries group (Sembcorp), a leading energy, marine, and urban development group, operating across multiple markets worldwide. As an integrated energy player, Sembcorp provides solutions across the energy and utilities value chain, with a focus on the Gas & Power, Renewables & Environment and Merchant & Retail sectors. On the Wilton International Industrial site (Wilton) in Teesside, Sembcorp Energy UK delivers high-quality, centralised utilities and services to energy-intensive manufacturers. With 200MW of installed capacity, one of the largest and most efficient Combined Heat and Power (CHP) plants in the UK supplies electricity and heat to on-site businesses via the private distribution systems that are owned and operated by Sembcorp. Furthermore, Sembcorp's arrangements with National Grid at Wilton are possibly unique in the UK, as the CHP plant within our own Private Wires Network is directly connected to the National Grid Transmission System.

Customers at Wilton International include chemical and process plants, operated by international conglomerates, who have invested heavily since coming to the UK and have the desire to invest further. All are dependent on Sembcorp's reliable and secure supply of power and heat to successfully operate their assets, generating vital export revenues for the UK.

Sembcorp Energy UK is also the leading provider of secure, flexible, low carbon electricity and services to the UK power market. With a contracted portfolio of over 1GW of decentralised thermal power generation and battery storage assets, Sembcorp helps keep the country's electricity system balanced and resilient. Our fast-ramping and efficient assets are located across England and Wales, improving competition, contributing to security of supply, and delivering better value to consumers. Our assets are, and will continue to be, crucial to the delivery of a flexible energy system in which a greater proportion of energy is delivered by intermittent, low carbon generators.

Question 1: Do you agree with our suggestion to allow changes to a Generating CMUs configuration between Prequalification and delivery? Do you think that a similar amount of flexibility should be provided to Generating CMUs during Delivery Years?

In principle, we agree that capacity providers should be able to change a Generating CMUs configuration between Prequalification and Delivery, provided that the de-rated capacity committed to at Prequalification is still met and any new capacity exceeding the de-rating factor would not lead to additional revenues.

To ensure that changes to a given CMU do not lead to a lower Auction Acquired Capacity Obligation (AACO), the provider should ensure that there is sufficient de-rated capacity in the CMU's new configuration. A new declaration on Low Carbon Exclusion will also be needed.



Finally, we believe the possibility to change CMUs configuration should also be allowed within a Delivery Year.

Question 2: Do you have any views on the suggested level of assurance that should be necessary for CMUs who would undergo changes of components?

In the view of simplifying and streamlining the rules, we would consider unnecessary to require further levels of assurance if components are changed, other than those that are normally required, i.e. meet the committed de-rated capacity and the obligation.

Question 3: Are you aware of any unintended consequences introduced by our proposals on Rule 4.4.4, including any other Rules which may need amendment to avoid conflict?

If components are changed within a Delivery Year, we agree with Ofgem's view that providers would need to complete new Satisfactory Performance Day (SPD) submissions.

Question 4: Should there be a limit of the number of times a CMU undergoes a change of component(s), and the number of components that can be changed? If so, how many and why?

No, there should not be a limit to how many times a CMU can undergo a change of components. As long as the necessary assurances are met, the decision on changes to component should rest within the individual CM providers. These are commercial decisions and Ofgem should not interfere with them. The choice to change components could, for instance, be driven by the willingness to have more cos-effective solutions, which would ultimately benefit the end consumers.

Question 5: Should there be a point in the lead up to delivery, after which changes in components should not be permitted? If so, when and why?

No, we do not envisage any limitation as to when changes to components should be permitted.

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

No, we are not aware of any such interrelated Rules.

However, in this context, we ought to stress the fact that the Delivery Body system is very complicated, and as such Ofgem should consider whether the suggestion to implement evergreen qualification can be realistically implemented into practice.

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

No, we do not believe there is any information provided during prequalification that would prevent this change. Yet, to ensure evergreen prequalification is effective, providers need to be made aware with



sufficient notice of any subsequent changes to the Rules that might have implications or impose new obligations in future prequalification windows. Industry has recently been grappling with uncertainty over consolidated Rules and has often had too short notice to take into account rule changes for prequalification windows.

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

We support the proposed changes to submitting and signing exhibits. We also support the view put forward by Energy UK with regards to the importance of accepting electronic signatures. There should not be unnecessarily prescriptive requirements for such signatures (e.g. requiring a specific format, or mandating the use of certain software).

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

No, we are not aware of any. We support Ofgem's minded-to position to ensure that Exhibits are only needed to be provided by difference, and are no longer year specific. This change will help lower barriers for all providers.

Yet, Ofgem should bear in mind the complicate Delivery Body system and should ensure that such changes can be realistically implemented into practice.

Question 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?

There should not be any additional unnecessary complexities to providing clarity of when the maximum output of the New Build CMU is smaller than the Connection Capacity. The Delivery Body should have the right system in place to deal with communications from CM providers, when they need to notify of such instances, and they can be sure that their application review satisfies the requirements.

Question 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 echo what EUK is suggesting in this regard i.e. that the Delivery Body should create a suitable and user-friendly database, instead of an Excel file. This would fix the current registers, which are difficult to navigate and to extract relevant data from.

Question 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?

Yes, we do agree with Ofgem's proposal to remove progress reports and corresponding ITE assessments in the identified circumstances. This would remove an administrative burden, which is not clear how and to what extent the Delivery Body assesses.



The information reported in an ITE are normally already available elsewhere and the requirement to submit an ITE has only been adding unnecessary paperwork, without justifying the burden and the expenses associated with commissioning this report to a third-party.

We encourage Ofgem to duly assess whether maintaining the ITE for selected circumstances is actually necessary. We believe that the ITE could easily be replaced with a more straightforward and simple self-certification of the information required. Especially as ITE does not drive any actions or responses from the Delivery Body, we believe this administrative burden does not provide any added value.

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

The suggested date seems appropriate to help inform procurement needs for the T-1 auction.

Question 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?

Introducing a termination event in case of not submitting an accurate update is too draconian and we urge Ofgem not to introduce measures that are not proportionate to the obligation they relate to. Currently, failure to submit a report or submitting one in the wrong format carries no consequence, other than the failure is noted. Moving from this to a termination event is way to disproportionate and would be at odds with the other circumstances which trigger termination events.

As a matter of fact, all termination events are triggered by doing something (or failing to do something) that risks, fails to provide assurance on, or prevents the actual delivery of the capacity obligation.

Not providing a construction report does not do any of these things - hence there is no current penalty for failing to provide a construction report. Just because the information is more valuable in some circumstances - i.e. setting the T-1 auction capacity requirement, this does not justify introducing this as a reason to terminate an entire capacity agreement.

It should also be noted that there are already sufficient termination events for the delivery of capacity for the T-1 auction.

Therefore, rather than a blanket termination event, the Delivery Body should first assess and differentiate between failure to submit a report and not submitting one in the correct format. Then, there should also be measures in place to ensure that providers are allowed to correct, submit/resubmit their reports and are given sufficient time to comply with the new reporting requirement.

Although we can understand Ofgem's thinking around introducing a deterrent to ensure providers submit accurate construction updates, we believe the penalty to be too disproportionate when compared to the current arrangements. While we agree with the principle that it is still prudent that an update on construction progress is provided, we call for Ofgem to revisit the associated penalty in case of lack of



adequate reporting. The risk here is especially exacerbated as there is no clear indication of what would be considered an “accurate construction update”.

Question 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?

If a project is not going to meet the SCM, there should be the ability to state this and to also state when (by the Long Stop Date) the project is expected to be Operational.

Question 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?

Yes, as the new change would help remove unnecessary burdens, it should be applied to all eligible providers. It would not be fair to apply different obligations to providers that already hold CM agreements. It would also create confusion.

Question 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 consider this to be suitable. deem this suitable. In this context, we would echo the concern raised by Energy UK with regards to the use of Egress system by the ESO. This communication platform, albeit secure, brings several complications due to it being incompatible with CM providers’ systems resulting in missed communications and unnecessary burdens. We therefore would encourage Ofgem to mandate the Delivery Body to communicate solely via the CM Portal.

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

With regards to TERRE, this balancing service should be included in the Relevant Balancing Services list, albeit the development of this product and GB participation in it has been delayed and there are uncertainties over the future of the product itself and of its platform. Therefore, it might not be the most immediate priority to include TERRE in the RBS list, but it should be swiftly included once – and if – this EU standard product is introduced.

Furthermore, we call for Ofgem to ensure that all new Balancing Services are captured into the definition of Relevant Balancing Services: therefore, not only Intertrips and TERRE, but also – and especially – the new suite of faster acting frequency response products, which include the recently introduced Dynamic Containment, and the expected Dynamic Moderation, and Dynamic Regulation, as well as the DNO-procured services via their Flexibility Markets.



With regards to the new suite of faster acting frequency response products, omitting these services from the RBS list would lead to risk to penalties in CM if providers are providing these balancing services when a CM stress event occurs and, as such, is discouraging them from taking part in Dynamic Containment. Including Dynamic Containment, Dynamic Regulation, and Dynamic Moderation in the RBS list would remove a barrier to entry and would ensure that both the CM and the new frequency response services are recognised as equally crucial to system security.

Finally, in light of the mentioned uncertainty over EU standard products and the relatively fast development and introduction of GB specific products, we would encourage Ofgem to explore a more enduring approach and solution as to how the RBS list is updated to ensure swift updates to the list and clarity around whether a service is deemed RBS.

