



Energy for
generations

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To Harry and Chris

RE: Capacity Market Rule Change Consultation

Sent via email to EMR_CMRules@ofgem.gov.uk

Set out in this letter is ESB's response to Ofgem's Five Year Review of the Capacity Market Rules consultation dated 22 July 2020 (the "Consultation Paper"). The response is split into two sections, an executive summary and the ESB GT's responses to the questions from the Consultation Paper.

By way of background to this response, below is a short description of the ESB Group. ESB is Ireland's foremost energy company, with around 7,000 employees. Established in 1927 by the Irish Government, and remaining 95% state owned, ESB created the first fully integrated electricity system in the world. ESB owns the transmission and distribution systems in Ireland and Northern Ireland. ESB has been present in Great Britain since market liberalisation and for 25 years has powered homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs in the UK with our investment in Corby Power Station (350 MW) in the early 1990's.

ESB is supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined cycle gas turbine, wind and biomass technologies. ESB opened Carrington Power Station (880MW) one of the most flexible and efficient plants in the market. This was the first large scale gas-fired station to come on stream in Great Britain since 2013. Carrington is owned by ESB's 100% subsidiary Carrington Power Limited. ESB also owns 125MW of onshore wind generation capacity, with over 400 MW in the development pipeline in Britain, a 7MW battery and recently invested in the 353 MW Galloper offshore wind project. In addition, ESB's 40 MW waste wood-fired plant at Tilbury in Essex started generating recently as well.

ESB is a pioneer in electric mobility and is currently working in partnership with Transport for London to install, operate, maintain and commercialise charging infrastructure for the London taxi fleet. In 2017 ESB entered the GB energy supply market as ESB Energy.

Executive summary

ESB Generation and Trading (ESB GT) welcomes Ofgem's Rule Change consultation; Ofgem has captured issues identified in the Five-Year Review of the Capacity Market Rules and past rule change proposals that will improve the prequalification process. However, ESB GT would like to highlight that there is still significant and disproportionate risk that developers take on when they enter prequalification which isn't addressed in the consultation.

ESB GT has stated before in previous responses that the prequalification process creates uncertainty for developers and is time-consuming. The proposals in the Consultation Paper

are a positive step which ESB GT welcomes, but still the risk of making an administrative error and failing prequalification is disproportionately high. ESB GT would therefore support changes to reduce unnecessary risk placed on participants when prequalifying, particularly for existing plant. As outlined in our previous response, ESB GT believes that rather than prequalification being a one-shot acceptance with a subsequent expensive and risky appeal process, the delivery body should introduce a two-stage prequalification that will allow participants to rectify an issue in their prequalification prior to disqualification. If this requires extra resourcing, then this should be actualised as the benefits of increasing the number of legitimate participants in the auction should outweigh the potential extra resourcing cost.

If you have any questions about this consultation response, please do not hesitate to get in touch with kate.dooley@esb.ie and Paraic.higgins@esb.ie.

Questions

Questions 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?

Yes, ESB GT agrees that changes should be allowed to Generating CMUs and Demand side Response Units (DSR) configuration between prequalification and delivery. In addition, ESB GT does not object to changes being made to CMU and DSR configuration during delivery year.

Allowing CMUs and DSUs the ability to amend specifics of a project is efficient; it will enable developers to adapt to advancements in technology and system needs without impacting on their capacity market income or security of supply. So long as CMUs and DSR Units are held accountable to deliver the same de-rated MWs while adhering to emissions standards via the use of enforced termination fees, this level of flexibility should not be a problem for the ESO.

In order to see the full benefit of allowing changes to a Generating CMUs configuration via Rule 4.4.4, Ofgem needs to ensure the new Capacity Market Register Portal allows for this level of flexibility and accessibility. In addition, amending secondary trading rules to enable a liquid market will enable market participants with longer term contracts to make improvements/efficiencies to their projects at the same time as upholding security of supply via secondary trading. For example, if a developer of diesel generator that currently has a long term contract wanted to take time out of their capacity market agreement to convert the fuel type to a less emission intensive technology, a liquid and accessible secondary trading market and an amendment or deletion of rule 4.4.4 would allow for this change.

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?

The consultation wasn't clear on what milestones it referred to when it states that relevant milestones should be met before a change of components could take place; ESB GT understands this to mean the Financial Commitment Milestones that takes place between 11 and 16 months after the auction, and the Substantial Completion Milestone.

The level of assurance that is proposed seems high and seems as though it would be a barrier to enabling the changes proposed to Rule 4.4.4. If Ofgem believes that it is right for CMUs to be able to change components only when a CMU has met the relevant milestones, then it would be arbitrarily limiting how much participants could take advantage of changing Rule 4.4.4. For example, only allowing a component change after a CMU has met its financial completion milestone would mean that a project would have committed to spending 10% of total spend as per its original prequalification information potentially making it trickier than if it were able to amend the components prior to spending 10% of project spend. The closer that a project gets to delivery, the less likely that a developer will need to make changes to the project; for example changing its technology or fuel type could potentially mean significant cost and time, and therefore asking a project to meet the substantial completion milestone before making changes to its components is far riskier than earlier on in a project. This rule change would be more useful if milestones were not a part of the assurance required by the ESO.

ESB GT believes that termination fees are incentive enough to ensure that projects are delivered. Strengthening the secondary trading market will also provide some assurance that security of supply can be met through that liquidity.

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?

No comment.

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?

ESB GT believes that there shouldn't be a limit on the number of changes that can be made to CMU components. Ofgem should ensure that the Capacity Market Register that is being developed by the ESO has the full functionality needed to enable this.

The portal for the Capacity Market Register needs to have the functionality, if it doesn't already, to allow for this level of change. Without this functionality, this level of flexibility would likely add administrative burden to the ESO or lead to a delay between when a change happens and when the market has visibility of the change.

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?

ESB GT does not believe that it is necessary to have a cut-off date after which components should not be permitted to make amendments. In addition, ESB GT does not object to component changes throughout delivery year.

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. However, ESB GT believes that the system should have a mechanism built in whereby if there are changes to the rules year on year that will impact on prequalification, market participants should be warned/flagged to that change. This would prevent applicants mistakenly using the evergreen option when the rules have changed and risk not prequalifying. Not having this level of functionality defeats the purpose of having an evergreen prequalification.

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

ESB GT supports the changes as proposed notwithstanding comments made in response to question 6. ESB GT has stated before in previous responses that the prequalification process creates uncertainty and is time-consuming. ESB would therefore support changes to reduce unnecessary risk placed on participants when prequalifying, particularly for existing plant.

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

ESB GT agrees that confirming the use of electronic signatures as a permanent feature of prequalification is a good change. Being able to use electronic signatures reduces the administrative burden that comes with collecting hard copy signatures.

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

No, if the delivery body requires that a declaration stating that the exhibits can be rolled over and nothing has changed, this should be sufficient.

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

Yes. Existing CMUs are required to provide evidence of previous settlement period performance where they have met their obligated capacity. This is unnecessary when existing CMUs have proven their ability to meet their obligations by completing three Satisfactory Performance Days in the previous year. Requiring both is overly burdensome and has no obvious value.

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

No comment.

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

No comment.

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

Yes, aligning the planning consent requirements for transmission and distribution ensures a level playing field for all CMUs.

Question 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?

No comment.

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?

While ESB GT recognises the policy intent in the rules, we believe that greater clarity is welcome.

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?

ESB GT would like a timeline on when the new portal is to be active and encourages the delivery body to reach out to industry to comment on whether the CMR portal is usable.

Question 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?

No comment.

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?

ESB GT supports the removal of six-monthly update ITE reports as the frequency of the reports is arbitrary. In addition, it is unclear how the ITE reports are being used and in which manner they are being audited. Greater clarity on how the ITE reports are being used would assist participants in understanding the benefits the customer is receiving in return for the cost born by developers of the ITE reports.

ITE reports were introduced before the increase in termination fees, and ESB GT believes that the termination fees in place are sufficient if a market participant does not deliver on its de-rated MWs.

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

The reporting milestone of having a construction report 22 months before delivery seems appropriate. It will allow the ESO to take an informed view of what projects are currently on track or not on track and therefore the ESO will be able to make amendments to T-1 target capacity.

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?

It is ESB GT's position that an ITE is unnecessary and therefore should not be a requirement. If the ITE is not a requirement, having a corresponding termination event for not providing a construction update 22 months before delivery would incentivise parties to provide an update to the ESO. The ESO will then have confidence that they will be able to see what impact delays may have on a T-1 target capacity.

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?

No comment.

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

No comment.

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?

There is no reason why the requirement to provide six monthly reports or to provide ITE reports on construction should be grandfathered. An objective of the rule change process is to simplify the rules therefore having one set of rules in terms of reporting for market participants is preferable.

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’?

No comment.

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

No comment

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

Yes. ESB GT would support a principled approach being taken to Relevant Balancing Services in future. Rather than continuing to update a prescribed list, having a principle in the rules that states what types of services should count as a relevant balancing services is preferable. It would reduce the burden of having to change and update this list as often as the list of services changes. While intertrips and TERRE are two of the services mentioned here, the ESO have procured for a turn down service this summer and entered into a bilateral agreement for turn down with a nuclear site; these too should be included as RBS. Further to this, having DNO procured services also included in this list is important.

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

Yes, please see answer to question 26.

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?

Yes, please see answer to question 26.