

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

22/10/2020

EDF's response to Ofgem's Consultation on Capacity Market Rules change proposals

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to respond to Ofgem's Consultation on Capacity Market Rules change proposals, and we set out our response to the consultation questions in the attachment to this letter.

We urge Ofgem to make the final decision on Rule changes in good time to enable the EMR Delivery Body to implement the necessary changes and to provide comprehensive guidance to participants before the start of the next pre-qualification round.

The improvements to the prequalification process proposed in this consultation are dependent on improvements to the EMR Delivery Body's systems. We note the concerns identified in Ofgem's recent report on the EMR Delivery Body's performance and we agree with Ofgem about the need for an improved "EMR Portal" to be delivered in collaboration with users of the systems. We accept that a new Portal is unlikely to be delivered until 2022 but we would nevertheless like to see some significant improvements in time for the 2021 pre-qualification round.

EDF Energy
90 Whitfield Street
London W1T 4EZ

edfenergy.com
EDF Energy Ltd.
Registered in England and Wales
Registered No. 2366852
Registered office: 90 Whitfield Street
London W1T 4EZ

We are pleased that Ofgem is addressing the problems caused by the prohibition of changes to "configuration" in Rule 4.4.4. The revised Rule must provide clarity and should enable participants to make changes, before or after the start of delivery, provided that they continue to meet their obligation to deliver the required level of de-rated capacity (AACO).

When the Capacity Market Notice was issued in September, we identified that our Sizewell B unit constrained off by National Grid would not have been protected against penalties if there had been a Stress Event, despite delivering a Relevant Balancing Service. The issue is that the formula in Capacity Market Rule 8.5.2 provides no reduction on the Adjusted Load Following Capacity Obligation (ALFCO) if the Maximum Export Limit (MEL) is set to zero. We offer a recommendation at the end of our response to resolve this issue.

I confirm that our response may be published on Ofgem's website.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Matt Streeter on matthew.streeter@edfenergy.com, or me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Guy Buckenham".

Guy Buckenham
Head of Generation Policy & Regulation

Attachment

Ofgem's Consultation on Capacity Market Rules change proposals
EDF's responses to your questions

Amendments to Rule 4.4.4

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?

We welcome Ofgem's decision to review Rule 4.4.4. In common with many other CM participants, we have long had concerns about this rule, not least because the term "configuration" is not defined, making it very difficult to understand what sort of change is prohibited by the existing Rule.

In principle we agree with the proposal to allow changes to configuration between prequalification and delivery. We also believe it is appropriate to provide a similar amount of flexibility during the Delivery Years. In particular, we believe that it is particularly important to allow changes to configuration over the lifetime of a multi-year capacity agreement, recognising the potential for circumstances to change over such a long period of time.

We would welcome improved clarity surrounding what is allowed under changes to configuration and we agree that the de-rated capacity (AACO) of the CMU should not be reduced as a result of a change in configuration. Indeed, the best solution may be that the replacement Rule specifies that any changes made to the "configuration" of the CMU must not reduce the de-rated capacity which it is expected to be capable of delivering.

Specifically, we offer two examples of the uncertainty caused by the current Rule 4.4.4 where we would welcome clarity through Ofgem's decision on this consultation:-

- We have a CMU, where it is possible that National Grid ESO will require us to make changes to the way in which it is represented by Balancing Mechanism Units (BMUs), although the physical asset will remain the same. A change to the specification of BMUs that represent a CMU would be less material than several of the changes that Ofgem is minded to regard as acceptable; we would therefore welcome explicit confirmation that such a change does not constitute a change in configuration, or that such a change is acceptable, as far as the Capacity Market is concerned.
- The augmentation of a battery through the installation of additional cells to increase its storage capacity (in MWh) is desirable in principle and indeed was encouraged by the BEIS December 2017 consultation decision on battery de-rating, which is quite clear that such “augmentation” of batteries is permitted, indeed expected as *“it is the responsibility of capacity providers to maintain their asset in a manner that ensures they are capable of providing the technical performance to which they committed themselves at the time of accepting the capacity agreement.”* Nevertheless, there could be concern that this would breach the current wording of rule 4.4.4.

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?

We agree with the proposed assurance requirements proposed in paragraph 16 for CMUs where the change takes place before the first Delivery Year. We also agree with the proposal in paragraph 19.1 where the change takes place after the start of the first Delivery Year.

As the key requirement for any change in configuration is that the de-rated capacity should not be reduced, there could be a case for requiring that Satisfactory Performance Days (SPDs) should be demonstrated in the new configuration even if they have already been demonstrated in a previous configuration. However, given the need to allow sufficient time to enable SPDs to be demonstrated within the requirements of Rule 13.4, and to ensure that the burden on participants is proportionate, we would propose that, in addition to the basic requirements of Rule 13.4:-

- Where the change in configuration is effective before 1 January, there should be a requirement to demonstrate three SPDs in the new configuration before 30 April

- Where the change in configuration is effective on or after 1 January but before 30 April, there should be a requirement to demonstrate at least one SPD in the new configuration before 31 May.
- Where the change in configuration is effective after 30 April, there should be no additional requirement to demonstrate SPDs in the new configuration for that Delivery Year.

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?

We have not identified any unintended consequences from the proposals on Rule 4.4.4.

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?

We do not believe that it is necessary to place limits on the number of changes to the components of a CMU; in view of the costs of change, we think it is very unlikely that participants will seek to make multiple changes without good reason.

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?

This is not necessary because there may need to be changes in components after the start of delivery. However, it should not be permitted to allow one particular component to be used for more than one CMU for the same delivery period.

Evergreen prequalification

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?

We agree with the proposal in Paragraph 3.17. The only change to the Rules that we believe to be necessary will be to replace the Exhibits with the revised forms that make it clear that they are not year-specific.

It is essential for changes to the portal be made to align with evergreen prequalification as well. We recommend the following changes to the portal:

- CMUs should not require cloning for evergreen prequalification, the functionality should exist to track changes so this can remove the requirement to perform the same task for the same CMU multiple times.
- To improve system flexibility, this can be achieved by:
 - Currently, more information than the rules require is uploaded, therefore, a separate set of screens to create an opt-out unit would improve the efficiency of this task
 - The system should distinguish between multi-year and 1 year DSR units for applications so the application being submitted contains less irrelevant fields. In addition, the system also contains out of date fields or fields no longer relevant (some of these date back to 2015)
 - Improving the system speed, particularly for data loading and scanning tasks
 - It should be possible to load metering configurations when a CMU is created for Existing CMUs, rather than having to enter it via a different functionality

We would also welcome improvements to functionality of the portal, such as the ability to complete bulk uploads/downloads and increased automation for centrally metered units to check SPDs, generation etc. over the last two years.

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

We believe that it will be effective to specify as proposed that new Exhibits are only required where there is a change to the information shown on the Exhibit.

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

We welcome the proposal to look at reforming the method by which Exhibits are submitted and signed. We would highlight that it is quite possible that there will be changes in the directors of a company between one year and the next. Provided that each Exhibit was signed by someone who was authorised to sign the Exhibit when they signed it, then it should be sufficient for the annual Exhibit, signed by current directors, to confirm the validity of all the other Exhibits.

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

It is not necessary to have all Exhibits updated annually, instead we would support the annual Exhibit confirming no changes, in order to provide the evidence that the company directors have agreed there were no changes.

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?

EDF agrees with this proposal.

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

EDF does not foresee any unintended consequences related to delivery assurance.

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

EDF agrees with this proposal.

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

EDF is comfortable with the proposal and we have no amendments to suggest.

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?

We agree with the proposal and the legal owner should be responsible for the planning declaration. However, there is a wider issue here because there are factors other than planning that cannot be controlled by the Despatch Controller, which may affect the delivery of the CMU (e.g. the requirements of the Financial Commitment Milestone, for which currently the Despatch Controller can be responsible under the rules for a New Build CMU of less than 50MW).

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?

EDF does not object to the proposal, however, greater clarity would be welcome on the following:

1. If the connection capacity is set at the RPC maximum output level, where this is lower than the connection capacity, why is technical documentary evidence required? Considering connection capacity is being lowered, it is unclear why this needs to be proven.
2. What happens if you defer planning from prequalification and then the planning permission has a lower value than the connection capacity you submitted at prequalification? Will the de-rated connection capacity be adjusted down as this would be prior to the auction?

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 CP270 and 271 proposals to the CMR?

We welcome Ofgem's decision to implement CP270 and 271 and we agree with the additional information added to the original proposals. We strongly support its implementation because it will significantly improve market transparency.

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?

We agree with this proposal. It will significantly improve market transparency so it is obvious what level of capacity is on the system, what technology it is and where it is located. This will not impose any additional requirements on capacity providers and it will lead to a more open and increasingly competitive market. Firstly, because it will allow aggregators to offer the owners of capacities competitive deals and prevent an incumbent "hiding" the source of their capacity from the market. Secondly, it will also allow market analysts to forecast potential auction outcomes more accurately.

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?

EDF somewhat agrees with the proposal in paragraph 7.9 because we appreciate the issues that have been raised by smaller providers and welcome Ofgem's intent to achieve a balance between a reduction in administrative burden and giving sufficient assurance of project delivery. However, it remains crucial that the Delivery Body monitors to ensure that the capacity agreed is delivered. In principle, an ITE report should only be required if a material change leads to a significant risk of delay of the agreed delivery.

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

It is important to provide clear warning in good time to allow alternative procurement if there is going to be a risk that capacity will not be delivered. Therefore, we agree with the proposal that a review should take place ahead of the T-1 auction capacity being set. The new reporting milestone should be set such that the resulting reports are available to the System Operator when they are preparing their Capacity Report and recommendations which will inform the Secretary of State's decision as to the T-1 auction target.

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?

We agree that the new reporting milestone should be implemented with a corresponding termination event and an ITE report is also appropriate to validate the proposed reporting milestone.

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?

The information required as part of any update must provide sufficient assurance to the Delivery Body that the capacity agreed will be provided within the required timescales. The reports should

include an estimate of the earliest and latest commissioning dates and the expected connection capacity that the project will deliver.

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

Currently, we do not believe the definition is clear. If there is a construction plan that is complete and ready earlier than intended, it is not logical to have to explain this when it will provide more security of supply. In addition, the definition must align with what is allowed under the new Rule 4.4.4 proposals.

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?

EDF believes this is reasonable; however, the introduction of a termination event that was never originally agreed is not appropriate for existing agreements because the potential for termination would alter the risk profile of the Capacity Agreement and was not known at the time of entering the agreement.

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’?

EDF believes this is appropriate.

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 response for this question.

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

EDF agrees with the inclusion of intertrips as a Relevant Balancing Service but providers should be protected against the consequences of not meeting their Capacity Obligation because intertrips are for the benefit of the Grid. We would like to highlight that it takes a longer period of time to get nuclear stations back online; therefore, the protection timeline should be extended accordingly for nuclear plant. Also, this poses a risk of being unable to respond to a Stress Event because of an outage on a nuclear unit following an intertrip.

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

No response for this question.

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?

Although we recognise that there is uncertainty about the participation of the GB market in TERRE, we agree that it should be included in the list in Schedule 4.

More generally, we believe that there is a need to ensure that the list of Relevant Balancing services can be properly maintained, given that there are frequent changes in the procurement of balancing and flexibility services. For example, the new Dynamic Containment service should also be included in the list of Relevant Balancing Services in Schedule 4. We suggest that Ofgem should introduce a process to enable new services to be added to (but not removed from) the list of Relevant Balancing Services in a timely manner without the need for a Capacity Market Rules consultation. For example, the Rules could refer to a list to be maintained by the ESO under Ofgem supervision rather than directly listing all of the Relevant Balancing Services.

Relevant Balancing Services

When the Capacity Market Notice was issued in September, we identified that our Sizewell B unit constrained off by National Grid would not have been protected against Capacity Market penalties if there had been a Stress Event, despite delivering a Relevant Balancing Service.

The issue is the formula in Capacity Market Rule 8.5.2 provides no reduction on the Adjusted Load Following Capacity Obligation (ALFCO) if the Maximum Export Limit (MEL) is set to zero. Given the time that it would take to bring one of the Sizewell B units back to full load when constrained off, setting the MEL to zero was necessary to provide the right information to the market.

Therefore, in order to resolve the issue of ensuring a unit that is constrained under a Constraint Management Service with a MEL of zero is protected during a Stress event, we suggest the below:

1. Define a new Relevant Balancing Service called Constraint Management Service (Inflexible Unit) and add it to Schedule 4.
2. Amend Rule 8.5.2 (a) to state

*“for a Generating CMU or an interconnector CMU comprised of BM Units **not providing a Constraint Management Service (Inflexible Unit) in settlement period “j”**”*

3. Amend Rule 8.5.2 (b) to state

*“for a CMU which is a DSR CMU or a Generating CMU that is not comprised of BM Units **or is comprised of BM units providing a Constraint Management Service (Inflexible Unit) in settlement period “j”**”*

4. In Schedule 4 amend the text at the start of Part 2 to state:

Part 2: Non-Balancing Mechanism and Constraint Management Service (Inflexible Unit)
Adjustment Formulae

Then include a row in the following table to define Declared Availability and Contracted Output as terms in the Constraint Management Service contract the values of which would then be set by the unit operator or owner in negotiation with National Grid (ESO).

EDF Energy
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