



TRITON POWER

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Charles Phillips
Energy Security Team
Department for Business, Energy and Industrial Strategy
3rd Floor, 1 Victoria Street
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SW1H 0ET

4th April 2019

Dear Mr Phillips

Proposed Amendments to the Capacity Market

Triton Power is a private independent power generating company with a capacity of 1.85GW. We provide power to the UK wholesale electricity market, playing an important role in security of supply when renewable generation does not deliver, and process steam to local customers through our UK power stations. Our power stations are existing CMUs and we therefore welcome the opportunity to respond to the BEIS review.

While we understand why BEIS is proposing the changes to the CM arrangements, we would like to stress that BEIS' top priority should be to reinstate the CM as quickly as possible and ensure that suppliers are in a position to make timely payments to allow obligated parties to be paid. All CM participants are suffering serious hardship and we are concerned that this may impact supply security for the coming winter.

We have not answered BEIS questions individually, but focused the key issues in the consultation.

T-3 Auction

Triton has concerns about BEIS's proposals to hold a replacement T-3 auction in early 2020, for delivery year 2022/23 due to the inability of new CCGTs to compete, being unable to deliver in such short timeframes. We have raised with BEIS before, the slippage in the auctions since the first year has resulted in auctions which are not actually giving 4 years to deliver and in the case of T-3 this is really a T-2.8 (assuming no further slippage). No CCGT can be built in under 3 years, so the auction will favour smaller plant. If BEIS proceeds, the T-3 and T-4 auctions will deliver any successful larger units at the same time, so this makes no sense.

Holding the T-3 for existing and refurbishing plant seems more competitive and logical, then the T-1 for 2022 could make up any shortfall. We note a number of smaller units had T-4 contracts, but build early and enter the market at T-1 before their T-4 delivery year as well. Then T-4 2019 can allow for new build, but with all new builds competing more equitably than T-3 would allow. Furthermore, by the T-4 auction the market may have a clearer view as to where Ofgem's review of embedded benefits is going, which may also enhance equitable competition.

If BEIS do persist with a T-3 for new build, then we agree that the Long Stop should not be extended or T-3 may deliver plant 5+ years later. There is also then a need for Government to acknowledge that this is a policy choice, which they recognise favours smaller plants, but on which they do not expect to do a u-turn later. We believe the T-3 is effectively a change in policy and therefore needs to be explicitly recognised as such.

While BEIS foresees the auctions happening in early 2020, we believe that the delivery partners, once the CM is reinstated, need to bring the auctions forward so that larger CCGTs can compete with the smaller parties. This is more likely in future years once Ofgem has fully addressed the issues of embedded benefits, as well as energy trading rules, levelling the playing fields. As a



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small company, we would very much welcome an attempt to move to a steady state of CM operation with more sensibly timed activities each year, around which the market can plan.

We fully support a rerun pre-qual for T-3, and new prequal for the 2019 T-4 and T-1 auctions, but the Delivery Body's processes and system must be improved. The current level of service is totally unacceptable, making the CM inefficient and costly to use. BEIS' Codes Review should look at a better way to run the CM as well as other Codes, including the relevant delivery partners. An immediate improvement would be a more pragmatic approach to pre-qual and better guidance, with the DB helping parties not trying to trip them up. It would be helpful for BEIS to give some formal guidance on some of the more worrying DB rule interpretations. For example, asking DB to run a pre-end of pre-qual check on applications and then help to get minor issues rectified.

We agree that TO plant must hold TEC, despite the higher cancellation charges, to pre-qualify, but also DNO connected plant must have firm connection agreements. It is unduly discriminatory that large players have capacity limited by TEC (not interruptible TEC) and yet DNO connections can be 100% interruptible. BEIS has no idea how much capacity is in this position (NG certainly do not), but given the volume of DG CMUs it should be as firm as the TO plant. We note that if renewables come into the market then this position worsens as many renewables have non-firm connections.

Triton support BEIS' proposal to bring forward the Financial Commitment Milestone (FCM) to 12 months after Auction Results Day, instead of the current 16 months after Auction Results Day. We assume that parties have been working on getting FCM agreements started in the CM standstill so should be more ready than for other auctions. We also support bringing forward the requirement to post additional credit cover under Regulation 59(4) to nine months after Auction Results Day. It would be discriminatory for plants in different auctions to be treated differently when the pressures to deliver new plant in a short timescales needs to be maintained.

We note the proposals on Metering Assessment for existing CMUs and Proven DSR and agree it is logical to bring the dates forward.

The milestones discussed above if missed often result in termination, as is true for other rules. Some things can be appealed to BEIS, but in our view not enough. Like allowing additional information at pre-qual appeals, the process and governance of these events is onerous and disproportionate. Triton would like to see a role of Ofgem in hearing appeals and tweaking Rules in a governance process which is more like other energy codes. We hope BEIS will look at governance in a more holistic way and bring forward some timely changes.

Triton agrees that 40WDs is sufficient time for parties to re-lodge/lodge credit, where required, once the CM standstill is lifted. We note that Ofgem keeps saying that it will also be making sure that suppliers can pay their bills when standstill ends. However, we hope that BEIS is checking what Ofgem is actually doing to make suppliers ready and we would urge BEIS to reconsider its position on voluntary vs mandatory supplier payments. It will be vital that existing CMUs that have honoured their obligations are paid their owed CM income in a timely manner if confidence in the CM is to be maintained.

Triton has long argued that interconnectors should not be in the CM, as they simply cannot deliver energy; being transmission. Their cap and floor regime also protects them from market forces (and the CM standstill), so they are distortionary. We would welcome a move to allow foreign plant into the market, capped at the volume of interconnection, but in the meantime believe customers should not pay interconnectors when they cannot deliver. However, if they must remain, we support the proposals from BEIS to alter the way the de-ratings of interconnectors are set.



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While sceptical about interconnectors, Triton remains even more concerned about the credibility of the CM in allowing intermittent technologies to participate. We have no concerns if the Government wishes to go on subsidising solar or wind, but after a stress event on a cold, windless, dark night the customers will discover that they were paying these technologies which were highly unlikely to be running at the right time. We recognise that they add to security and are included in the margin calculations the ESO undertakes. However, margin and availability to run in a stress event are very different. We do not believe that the inclusions of renewables will be politically defensible after a stress event as described, and we do believe it will make CM parties worried that the risk of a stress event is increasing as additional renewables are added to the CM.

As the CM is technology neutral, to overcome the issues associated with devising a policy that “does what it says on the tin” Triton suggests that BEIS rethinks the rules on eligibility, setting capacity obligations and proving performance. De-rating has always been a more academic issue than a commercial one, and we continue to believe that parties should be allowed to set their own obligations based on their knowledge of their assets and their appetite for risk. We still believe that capping obligations is sensible; i.e. obligation not exceeding TEC (or firm DNO capacity). However, parties may want to pre-qualify 90% or even 80%, if they want to plan for trading or outages across a portfolio.

Having allowed parties to set their own obligations (as they do in other markets), the testing regime needs to be altered. If a party is available (not on outage) then the ESO should call them for a test run up to their obligation at least once per year. The ESO could already do this for BM and ancillary services plant, and would need a contact and process for all other CMUs. This obligation must also move as an agreement is traded. The SPDs are a barrier to trading and it is a nonsense that if you hold an obligation for 5 days in October and then traded you still have to do SPDs, when you were unlikely to trade if you could do the SPDs. Triton would urge BEIS to consider the SPD regime to make it more a test of ability to run when called, which in turn should help incentivise trading.

Triton believes that the secondary trading needs a full review and had thought Ofgem were doing this. However, in the absence of Ofgem’s long promised document, we would note that trading is not timely or efficient. There are significant barriers to trading that need to change to: allow trading before the SCM; move SPD obligations with the trade (not leave them with seller); qualifying as an acceptable transferee and the trade needs to be quicker; and rejected trades should be appealable to Ofgem. Parties picking up an obligation could also become subject to testing by the ESO, so the regime goes on ensuring that the obligations sit with those who can deliver them.

If you have any questions in relation to any of the points raised please do not hesitate to contact me.

Yours sincerely,

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Mick Farr

President and Chief Operating Officer

cc: Johannes Pelkonen, Senior Economist, Ofgem - EMR_CMRules@ofgem.gov.uk