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Capacity Market call for input – establishment of the Capacity Market Advisory Group and updating the Capacity Market Rules change proposal process

Dear Sir / Madam,

We welcome the opportunity to respond to Ofgem's call for input on the change process for Capacity Market Rules and the establishment of the Capacity Market Advisory Group (CMAG) in our role as EMR Delivery Body, within National Grid Electricity System Operator (NGESO). The ESO fulfils the role of EMR Delivery Body for the Capacity Market (CM) and is responsible for Prequalifying Auction participants, running the Capacity Auctions, issuing and monitoring Agreements, and issuing CM Notices. Our response to this consultation provides the views of NGESO and is not confidential.

As the Delivery Body, our aim is to play a central role in informing and shaping policy and Rule development within the CM and to represent the views of the market in these forums. We do this by working with Ofgem, BEIS and industry to facilitate the development and implementation of policy and Rule change in the most efficient and effective way to ensure the Rules continue to meet policy objectives and operational requirements. We have already put in place a robust estimation process for undertaking impact assessments on proposed policy change and are keen to work with Ofgem and the CMAG to review the approach against the CMAG prioritisation process expectations. We will continue to provide insight and undertake impact assessments on Rule change proposals to support future policy, including through Ofgem's change process and CMAG. We look forward to continuing to engage with Ofgem to ensure the Delivery Body is adequately resourced and funded to fulfil the new duties and outputs arising from our role in the CMAG process.

We remain supportive of Ofgem's intention to deliver changes to ensure the CM Rules change process becomes more dynamic and adaptive to policy requirements and industry feedback, as well as promoting greater transparency. We are equally committed to delivering a step change in how participants experience the end-to-end process and to driving efficiencies in the administrative process.

We agree with Ofgem's view that the Rule change process, including CMAG, should be considered as a priority change within the CM regime. We understand that Ofgem has purposefully kept proposals within the consultation open to allow interested parties the opportunity to help shape arrangements for the CM Rules change process and CMAG. In the final decision letter, we suggest Ofgem provides clear direction as to how the Rule change process and CMAG are expected to operate at a practical level. We also encourage Ofgem to make clear how CMAG sits alongside other change and governance processes within the CM and Contracts for Difference (CfD) and how it links to the formal Rules change process.

The Delivery Body recognises that the establishment of CMAG will provide for a more dynamic Rule change process and, in turn, enable the CM regime to be more responsive to changing market conditions. Thus, we welcome the opportunity to bring our expertise and experience of the CM and Rules change process to CMAG to support its efficient operation and the fulfilment of its objectives. To this point, we believe that CMAG should look to achieve an appropriate balance between flexible and responsive change and the need to provide clarity and certainty of future changes that deliver benefit to all parties involved in the CM, in preference to a programme of continuous change.

Our detailed response to the specific questions is included in this letter. Should you require any further information or would like to discuss any of the points raised within this response, please contact Jared Morgan in the first instance: Jared.Morgan@nationalgrideso.com.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AF', enclosed within a circular scribble.

Andrew Ford

EMR Delivery Body Manager

Q1. In general, do you agree with our intention to establish CMAG? If not, please explain your concerns.

The Delivery Body remains supportive of Ofgem's intention to establish CMAG. We agree that the formation of CMAG should allow the rule change process to become more dynamic and adaptive whilst increasing transparency and promoting collaboration between stakeholders. Beyond this primary objective, CMAG should also assist in facilitating the efficient operation of the CM and ensure that changes to the Rules are consistent with achieving the CM objectives in an economic, efficient, and non - discriminatory fashion. In addition, the Delivery Body frequently receives customer feedback on the increasing complexity of the CM Rules and administrative processes. To this point, we are mindful that future changes overseen by CMAG do not add further layers of complexity to existing Rules and would suggest that a further objective of CMAG should be to implement change whilst minimising complexity in the Rules.

We welcome Ofgem's desire to make the Rule change process more flexible. We agree that the change process should be quicker, where possible, but suggest this should be balanced to ensure there is sufficient certainty that provides stakeholders and Delivery Partners the ability to plan and implement change, in line with operational timelines. As part of previous commitments under the Five Year-Review, Ofgem stated there would be a minimum 12 month period for Rule change implementation of standard business processes for Applicants, Capacity Providers and Delivery Partners, other than for urgent change. Whilst one of the Delivery Body's objectives, in line with our RIIO-2 business plan and new portal commitments, is to facilitate a quicker change implementation process, where possible, there will remain a need to plan ahead and have sufficient implementation periods for Rule changes.

It is crucial that enough time is given from policy decision making through to Rules development and change delivery to allow Delivery Partners to implement changes in a way that is workable for our processes and systems and ultimately our customers. Customers themselves also require time to become acquainted with new changes and be suitably prepared and resourced to participate in the CM. We would, therefore, welcome Ofgem's confirmation of a commitment to provide a sufficient implementation period for change.

The Delivery Body agrees with Ofgem that what constitutes an urgent change should be defined prior to the establishment of CMAG. Careful consideration should be given as to how a significant commercial impact is distinguished from an urgent change. If the definition is interpreted widely and without clear understanding, there is a risk that many suggested changes could unnecessarily be defined as urgent. This, in turn, could lead to inefficient solutions and customers having insufficient time to familiarise themselves with Rule changes, as well as potential compliance risks associated with operational offline processes and/ or short delivery timelines. We suggest that it should be mandatory for any proposer to provide evidence of a well-justified needs case for the change so that benefits can be properly assessed against the cost of delivery.

Q2. Do you agree with the objectives and role of CMAG as set out in Section 2 of the new Guidance?

The Delivery Body generally agrees with the objectives set out in Section 2 of the new Guidance. We recognise that an integral part of CMAG will be to further Ofgem's principal objectives.

We concur with Ofgem that change requests to CMAG should be assessed by Delivery Partners and all other CMAG members before they are submitted to Ofgem and recognise that impact assessments will be required to help form a view of the complexity of the change under consideration and implementation costs and timelines. The ability of Delivery Partners to provide impact assessments will depend on the number, nature and frequency of Rule change proposals, the frequency of CMAG meetings and the associated process cycle. The provision of impact assessments will also be dependent upon resources availability to complete such assessments and to deliver other EMR activities, such as change implementation, delivery of operational processes and obligations, alongside CMAG related activities. Depending on the process and arrangements that Ofgem and CMAG decide to put in place, there could be significant additional demand on the Delivery Body and others to support an effective CMAG and Rule change process. We would be keen to work with Ofgem to agree appropriate amendments to our RIIO-2 Business Plan deliverables and resource model to support the new change process. We are confident that the RIIO-2 framework will allow us to reflect any such changes arising from our role in CMAG.

The Delivery Body sees merit in the creation of a single repository for all material related to CMAG and an overall CM Rules repository. We agree with a forward programme of change proposals and would suggest a change log along with a timeline for each change looking at least 24 months in advance. Ofgem is looking to CMAG to help determine the detail of the CMAG process, but we nonetheless consider that there should be full transparency with industry about the scale of the backlog of existing change across the CM, and whether these will be passed to CMAG, including regulatory, customer and operationally driven change, and the prioritisation criteria for future implementation.

The Delivery Body agrees with the basic principles of CMAG but recommend that Ofgem set appropriate framework parameters or 'guardrails' to ensure these principles are achieved. This includes clarification on how a change would progress the CM regime, in line with the principles set out in the Terms of Reference. We believe this is critical as we continue to receive feedback from participants around how complex the CM can be for them. We suggest that an objective of CMAG should be to implement change whilst reducing the complexity of the CM Rules. Another example of clarity required on Ofgem's expectation is regarding CMAG membership. Here, we consider that it would be beneficial to all concerned if Ofgem were to provide more detail of what they expect the composition of CMAG to look like and what role Ofgem expect CMAG members to perform. We agree that all interested parties should demonstrate suitability before joining CMAG, but clear guidance should be provided as to how suitability can be demonstrated and how it will be assessed.

We suggest that the members from industry should reflect an appropriate mix of CM stakeholders in the market, encompassing different technology types and business models to promote fairness. It will

be important to have the right members who can demonstrate the basis of their support for a particular approach or proposal. Where appropriate the members should assist in developing an alternative if they are not able to agree with a proposal or option.

Q3. Do you foresee any unintended consequences from following the indicative process as set out in Section 3 of the new Guidance?

The consultation document states that CM Rule change proposals can be submitted either to CMAG or directly to Ofgem. Whilst we understand that some changes may need go directly to Ofgem due to commercially sensitive information, there is a requirement for a holistic approach to any change of the CM Rules. We suggest, therefore, that CMAG should have the opportunity to review and assess all proposals against the full CMAG change backlog and provide a wider perspective on the change. The consultation document states that “some change proposals may not be suitable for discussion at an industry forum”. However, all changes will eventually be subject to consultation. Any proposal could be submitted anonymously via Ofgem, if required. We would expect Ofgem to act as the Representer at CMAG to gain any clarification on the proposed change. We are conscious that there is an existing standardised form for stakeholders to submit a proposed change via Ofgem’s website. If Ofgem decide that change requests can be submitted via CMAG or directly to Ofgem, we recommend that an identical, standardised form should be used for submitting proposals to either CMAG or Ofgem.

We suggest that it would be useful for Ofgem to provide a clear expectation on how often Rule changes and consultations could potentially occur each year from changes that are assessed by CMAG.

Ofgem have helpfully shared a high level diagram of the proposed CM Rules change process. We recognise that any change recommended by CMAG would sit alongside changes that will need to be prioritised by other Delivery Partners. It should be made clear in the final decision letter how CMAG and the CMAG priority list aligns and interacts with other policy and change development and prioritisation processes, such as the CM Policy Board and Regulatory Change Advisory Board.

We agree with Ofgem that the CM Rules changes should be published at times that sufficiently avoid the Prequalification period. In addition to this, we suggest that all operational processes and timelines should be considered before publishing changes to the CM Rules. It is essential that the Rules should be published well in advance of impacted operational process windows to enable co- creation of Guidance documents and implementation within the systems and to allow participants sufficient time to familiarise themselves with the changes. We emphasise that a sufficient implementation period for non-urgent change would minimise the risk of a change failing to be completed in advance of Prequalification, particularly if more than one change was due to be implemented at the same time. This would also minimise the risk of offline processes having to be used due to a lack of time for system implementation. Consideration should also be given to whether a change affects Participants that have already Prequalified and are participating in an Auction and/or already have an Agreement. If the change affects these Providers, it needs to be decided when is best to implement the change.

Q6. Do you have any comments on the indicative template for the CMAG Terms of Reference we have included as part of this call for input?

The Delivery Body suggests that the frequency of CMAG meetings will need to be considered further as the proposed Terms of Reference are formally defined, with the potential for meetings to be more frequent in the beginning. Thereafter, meeting frequency should be monitored so as to determine an appropriate frequency, based on the volume of change proposals coming to and following the CMAG process. The frequency of CMAG meetings should also be mindful of the formal Rule change process and the frequency in which formal Rule change consultations and amendments are made by Ofgem and BEIS.

The consultation states that CMAG could benefit from a single, non-rotational Chair with the aim of managing meetings in a consistent manner and ensuring CMAG runs smoothly and fairly on behalf of all members. We suggest that the role and accountability of the Chair should be clearly defined within the Terms of Reference and there should be a requirement, within the Terms of Reference, for CMAG members to declare any interest in change proposals that are being.

We agree with Ofgem's view that the role of the Secretariat should focus on supporting and administering the operation of CMAG, whilst ensuring that any changes align with CMAG's objectives and should not suggest change proposals themselves.

We suggest that the Terms of Reference should make clear whether CMAG members will be expected to work on behalf of their company's interest or whether they should act impartially when considering the Capacity Market as a whole. Moreover, the Terms of Reference should also state whether CMAG will be provide recommendations to Ofgem, by means of a majority, in which case each party will likely need to provide a declaration on whether they support each proposal, or consensus- based position or whether there will be an alternative means.

The Delivery Body supports Ofgem's position that the prioritisation criteria should be defined in accordance with the criteria set out within the Terms of Reference. We agree that costs to market participants should be considered and suggest that costs to systems should be replaced with costs to implement the change which could include system, process and other costs.

Further, we consider that the Terms of Reference should recognise whether CMAG is required to refer every assessed change proposal to Ofgem, who then makes a final decision, or whether CMAG will only refer proposals that it has first endorsed.

Q7. Please indicate if you or a suitable representative from your company or stakeholder group are provisionally interested in joining the inaugural CMAG. Please do not provide names at this stage. We will formally ask for expressions of interest when we publish the new Guidance.

We consider that a representative of NGESO, in its capacity as EMR Delivery Body, would be well placed to join CMAG. The Delivery Body is minded that CM Rules changes progressed through the CMAG process may have a bearing on or relevance to wider market design reform and other work being undertaken by the ESO and industry stakeholders. With this in mind, we would welcome confirmation from Ofgem that information that the NGESO receives from CMAG would not be deemed Confidential Electricity Market Reform Information (CEMRI) and, as such, could be shared across the ESO. We believe that applying such an approach would help to support alignment across all markets and further maximise the benefits of policy change.