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Dear Sirs

Electricity Market Reform: request for views on suggested priority areas for changes to the Capacity Market Rules before the 2015 auctions.

Thank you for the opportunity to respond to the above open letter. This response is made on behalf of National Grid Electricity Transmission (NGET). NGET was designated as the Electricity Market Reform (EMR) Delivery Body for the Feed in Tariffs with Contracts for Difference (CfD) and Capacity Market in December 2011, a role which was formally conferred on NGET by the Secretary of State pursuant to secondary legislation made under the Energy Act 2013.

The Capacity Market Rules ("Rules") are central to the operation of the Capacity Market and prescribe many of the detailed rules and procedures as to how the Capacity Market will operate. As such, to the extent not specified within the Electricity Capacity Regulations, the Rules specify the obligations of both the EMR Delivery Body and industry participants wishing to bid in the capacity auction.

We welcome the opportunity to comment on the Authority's proposed priority areas for changes to the Capacity Market Rules ahead of the 2015 auctions.

This letter sets out our views on the priority areas you have highlighted plus our proposed rule changes which are appended to this document.

The timescales for making changes ahead of the 2015 prequalification window are challenging but achievable. We note that The Authority plans to consult in April or May, targeting implementation of the updated Rules in mid-June.

Implementation of rule changes in the summer, close to the opening of the prequalification window, has consequences on the prequalification systems currently under construction and could impact industry preparedness. It will be challenging to deliver significant changes to the prequalification system if the rules are approved in the summer. Similarly rule changes create uncertainty for applicants at a time when they need stability in order to make investment decisions, or decisions on the future of plant.

We believe that the rule changes can be delivered in multiple work streams. Some of this year's proposals are feasible and may be necessary for prequalification and the auction in 2015, others may not be required as immediately, but may require further consideration and so would benefit from development work during the summer and a separate consultation later in 2015 to implement them in the 2016 annual process.

Our approach to rule changes this year has been to focus on improving and evolving the existing arrangements, rather than propose significant change. We have prioritised changes which we deem to be quick wins and those which coincide with your highlighted priority areas, particularly streamlining prequalification.

In addition to the changes which have been highlighted for consideration in this year's process, contained in Appendix A, we have set out a number of other areas which require consideration in Appendix B. We do not consider it necessary to implement these changes before the 2015 prequalification window and we suggest that. Some of the changes proposed in Appendix B may benefit from input from industry experts.

We have also sought to comment on the three priority areas highlighted in your open letter.

Streamlining and clarifying prequalification arrangements

We support changes to streamline and clarify the prequalification arrangements. Through the 2014 prequalification process it became clear that improvements are possible in a number of areas.

Contained in Appendix A are a number of proposed rule changes which aim to streamline prequalification by removing unnecessary information, and others which seek to clarify existing rules to focus prequalification applications on the required and assessed information, reducing the administrative burden on applicants.

Arrangements for price-maker memoranda

We have had no direct involvement in the provisions of price-maker memoranda and so we are unable to provide specific comments on this area. In general we are supportive of any changes which improve the clarity of the rules.

Rules Governing DSR

We are aware that the policy decision which excludes the DSR resources with a pre-existing T-4 Capacity Agreement from participating in transitional auctions has been widely discussed around the industry. The transitional auctions were introduced to provide a number of benefits that were seen as necessary to maximise the participation in the capacity market by less conventional, but potentially more cost effective sources of capacity than the traditional forms.

These benefits include providing a route for DSR providers and owners / aggregators of smaller generation assets to build a portfolio ready to participate in the enduring T-1 auctions. They also offer an important potential additional interim revenue source that can support a DSR provider's business as it seeks to build its portfolio in the period to full participation in T-1 auctions in 2017. The transitional auctions also allow innovative products to be trialled in the context of a capacity market such as the current design permits through the use of time banded capacity products.

We believe that these important benefits offered by the transitional auctions are an important contributing factor to the further development of DSR resources and should we believe be

made available to as many potential participants as possible so as to maximise their benefits. On balance then we do not support the current blanket prohibition on parties with pre-existing agreements from a previous capacity auction from participating in the Transitional Arrangements and we propose that this should be removed. However the terms of its removal should be examined carefully. For instance it may be necessary to retain the prohibition from the Transitional Arrangements for some forms of capacity in order to ensure that innovative or new forms of capacity are not crowded out completely by established DSR providers or owners / aggregators of smaller generation.

We note that, whilst not listed in your letter, there is also significant discussion regarding the availability of longer term agreements for DSR resources. Whilst this is also a policy decision we agree that DSR providers should in principal be able to access longer term agreements if there is a viable investment opportunity in genuine demand side response, noting that there are already provisions for smaller generation assets to access longer term agreements.

Once again the finer details of how this is achieved require further detailed consideration and we recognise that in implementing such a change amendments to Capacity Market Regulations will almost certainly be required, which is a matter reserved for government and therefore not within Ofgem's remit. Options for its introduction could mirror the existing provisions for New Build or Refurbishing CMUs that must provide details of a project spend above a threshold figure. However it may also be the case that given the very different nature of investment to deliver DSR resources that a different set of criteria are required to be developed that focus on DSR's unique characteristics.

Should you wish to discuss any aspect of this response further with NGET then we would be happy to do so.

Yours sincerely

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