

Report on the EMR Delivery Body's performance of its functions in relation to the Capacity Market

Report

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Overview:

The Electricity Capacity Regulations 2014 require us to provide the Secretary of State for Energy and Climate Change (Secretary of State) with an annual report on the Electricity Market Reform (EMR) Delivery Body's performance of its functions in relation to the Capacity Market (CM).

This is the first of these annual reports, following the first Capacity Market auction in December 2014. It covers the period from 1 August 2014 to 30 April 2015.

Contents

Executive Summary	3
1. Background	4
1.1. Scope of the report	4
1.2. Electricity Market Reform	4
1.3. Capacity Market	5
2. Review of NGET Performance	6
2.1. Overview	6
2.2. Deliverables	6
2.3. Stakeholder engagement	7
2.4. Process for pre-qualification decisions	8
2.5. Dispute resolution	8
2.6. Information technology issues	9

Executive Summary

The Electricity Capacity Regulations 2014¹ (the Regulations) require us to provide the Secretary of State with an annual report on the Delivery Body's (National Grid Electricity Transmission Plc, NGET) performance of its functions in relation to the CM. This is the first of these reports, following the first CM auction held in December 2014. It covers the period 1 August 2014 to 30 April 2015 (the reporting period)².

Our review shows that NGET provided all its Capacity Market deliverables on time. We did not receive any complaints from stakeholders on NGET's performance, nor did we overturn any of the decisions NGET made as part of the dispute resolution process. The stakeholder feedback that we are aware of was positive. No enforcement action was taken against NGET relating to its EMR Delivery Body role during this reporting period.

There was a delay in the delivery of the CM pre-qualification IT system, which resulted in the use of a back-up contingency solution requiring applicants to upload template documents. This did not have a material impact on the overall delivery of EMR.

¹ See Electricity Capacity Regulations 2014:
http://www.legislation.gov.uk/uksi/2014/2043/pdfs/uksi_20142043_en.pdf

² EMR came into force on 1 August 2014 – we note that the Delivery Body started its preparatory work (including stakeholder engagement) in January 2014 and published the Draft Capacity Market Auction Guidelines on 30 June 2014.

1. Background

1.1. Scope of the report

Regulation 83 of the Electricity Capacity Regulations 2014 requires us to provide the Secretary of State with an annual report on:

- the operation of the Capacity Market; and
- the Delivery Body's performance of its functions in relation to the Capacity Market (this report).

The reports must be provided to the Secretary of State no later than six months after each T-4 capacity auction. If no T-4 auction is held in any capacity year, the reports must be provided no later than six months after the end of that capacity year.

This report examines the performance of NGET's functions in the Capacity Market following the first T-4 Capacity Market auction held between 16 and 18 December 2014. These functions are set out in section 1.3. below and include activities related to (i) publication of auction guidelines before the start of a prequalification window, (ii) pre-qualification of applications, and (iii) holding of the capacity auction. The report also records material operational issues that occurred during the reporting period. A separate publication, the Annual Operational Report on the Capacity Market, focusses on the operation of the Capacity Market³.

The Secretary of State may also instruct us to report on any particular matters in any reporting year, provided the Secretary of State gives notice to us not later than three months before the date by which we are required to provide the annual report. No such notice has been received for this report.

In parallel to providing the reports directly to the Secretary of State, we are required to make them publically available. This report will be published on our website.

1.2. Electricity Market Reform

The Capacity Market is one of the key mechanisms introduced under the Government's EMR programme to ensure security of electricity supply. Introduction of the Capacity Market, together with Contracts for Difference, the Emissions Performance Standard, and the Carbon Price Floor, aims to decarbonise electricity generation and ensure security of supply, whilst minimising the cost to consumers.

³ See <https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-market-reform>

1.3. Capacity Market

The implementation and operational processes of the Capacity Market are governed by the Electricity Capacity Regulations 2014 and the Capacity Market Rules 2014⁴ (the Rules), which came into force on 1 August 2014.

This report follows the completion of the first T-4 capacity market auction held between 16 and 18 December 2014 for the 2018/19 delivery year.

NGET's deliverables in relation to the Capacity Market are set out in the Electricity Capacity Regulations 2014⁵ and include:

- Preparation, delivery to the Secretary of State and publication of an annual electricity capacity report, containing an assessment of the amount of capacity that is needed for a delivery year.
- Publication of auction guidelines before the start of a pre-qualification window, containing information on when the auction is to start, details on how to apply to pre-qualify, the timetable and the de-rating factor of each generating technology class set out in the capacity market rules.
- Determining the pre-qualification of all applications and notifying each applicant of its decision.
- Reconsidering its pre-qualification decision if requested by the applicant.
- Notifying pre-qualification results to the Secretary of State.
- Advising the Secretary of State on the need to adjust the demand curve for the capacity auction.
- Holding the capacity auction and notifying auction results to the Secretary of State, bidders and general public.
- Establishing and maintaining capacity market register, containing – amongst other things – the details of each capacity agreement that is awarded following a capacity auction.
- Termination of capacity agreements when required under the Regulations.

More information on the Capacity Market is provided in our Annual Operational Report on the Capacity Market.

⁴ See Capacity Market Rules: <https://www.gov.uk/government/publications/capacity-market-rules>

⁵ See in particular Regulations 7, 8, 21-25, 31, 34, 35 and 69.

2. Review of NGET Performance

2.1. Overview

This section sets out our review of NGET's performance of its functions. We look at the deliverables NGET was required to provide over the reporting period, stakeholder engagement undertaken by NGET, as well as NGET's performance in the pre-qualification and dispute processes. We also note an operational issue relating to NGET's IT system which had an impact on pre-qualification.

2.2. Deliverables

Table 1 sets out the deadlines and delivery dates for NGET's Capacity Market deliverables during the reporting period. NGET met all the deadlines.

DECC decided on 19 August 2014 to amend the Capacity Market Rules 2014. As a result, the pre-qualification window was extended by five working days. This led to the following revisions to the initial deadlines published on 30 June 2014⁶:

- Pre-qualification window closed on 5 September 2014 (instead of 29 August 2014)
- Pre-qualification results day was 3 October 2014 (instead of 26 September 2014)
- First capacity auction commenced on 16 December 2014 (instead of 9 December 2014)
- Tier 1 and Tier 2 dispute processes were moved forward by 5 working days from the original targets.

⁶ See

<http://www2.nationalgrid.com/UK/Our%20company/Electricity/Market%20Reform/Announcements/June%202014%20Auction%20Guidelines%20publication/>

Table 1: Performance against key deliverables

Deliverable	Deadline	Date Delivered
Publication of CM T-4 Auction Guidelines ⁷	1 August 2014	1 August 2014
Completion of Pre-qualification for the CM T-4 auction.	3 October 2014	3 October 2014
Provision of CM T-4 pre-qualification report to the Secretary of State	6 October 2014	6 October 2014
Management and Issue of decision notices on all CM Tier 1 disputes received	17 October 2014	17 October 2014
Completion of CM T-4 Auction	18 December 2014	18 December 2014
Provision of CM T-4 Auction Monitor report to the Secretary of State	22 December 2014	22 December 2014
Publication of CM T-4 Auction Results	2 January 2015	2 January 2015
Issue of T-4 Capacity Agreements	29 January 2015	29 January 2015
Maintenance of Capacity Market Register	Regularly updated	Regularly updated

Table 1 shows that NGET met all their deliverables on time.

There were no known issues with the auction process or systems. The Auction Monitor's report⁸ concluded that the auctioneer had, in its opinion, 'complied with the relevant sections of the Rules and Guidelines'. The Auction Monitor observed that prior to the auction starting, 12 Capacity Market Units (CMU) were included in the auction system but were not pre-qualified. These CMUs were removed from the auction in the first round and the Auction Monitor concluded that this was in accordance with the Rules and did not affect the auction outcome.

2.3. Stakeholder engagement

A key role of NGET as the CM Delivery Body was to ensure that participants had the knowledge and understanding to fully participate in the CM. NGET recognised early on that this required collaborative engagement with market participants to develop knowledge and understanding of the tools, systems and processes in a timely manner, so that they were able to participate effectively when the CM reached implementation.

⁷ The Capacity Market Auction Guidelines were initially published on 30 June 2014. Following the extension to the length of time that the pre-qualification window would be open, the formal guidelines were published on 1 August 2014. A further version was published as the final set of guidelines on 25 November 2014, see https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Capacity_Market_Auction_Guidelines%20Final%20D-15.pdf.

⁸ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/391622/t4_cm_auction_2014.pdf

As part of these efforts, NGET held between January and July 2014 eight stakeholder workshops covering pre-qualification process, auction, electricity capacity report, IT systems and general implementation updates⁹.

NGET created a dedicated website on the CM¹⁰ and ran webinars giving participants training on how the auction tool would work and how to use it. NGET also conducted a Stakeholder Implementation Coordination Workshop in October 2014. On 8 December 2014, NGET organised a mock auction to provide potential bidders with the opportunity to test access and confirm the data relating to their CMUs are as shown on the Capacity Market Register. The mock auction also allowed potential bidders to practise entering bids in an environment that was similar to the T-4 auction which started on 16 December 2014.

In February 2015, NGET initiated a series of five monthly stakeholder events in preparation for the 2015 CM auction¹¹.

Although some of these actions and events took place before 1 August 2014, they are in our view an important contributor to the successful delivery of EMR in the reporting period.

2.4. Process for pre-qualification decisions

In January 2015, we initiated a review on whether NGET had in place fully documented, robust and auditable processes for making its 2014 Capacity Market pre-qualification decisions and dealing with Tier 1 disputes¹² on these pre-qualification decisions.

We found that NGET was using appropriate systems and controls. We noted that these systems and controls were designed to ensure that the decisions made at the pre-qualification and Tier 1 stages were checked by other members of the NGET Capacity Market team and signed off at an appropriately senior level within NGET.

We concluded that no further review of NGET's decisions was necessary.

2.5. Dispute resolution

In recognition of the importance of NGET's deliverables over the first 20 months of EMR (August 2014 to March 2016), we set a financial incentive to encourage NGET to deal effectively with any disputes it receives from applicants in the Capacity Market.

⁹ For schedule of the workshops and individual presentations see <http://www2.nationalgrid.com/UK/Our-company/Electricity/Market-Reform/Capacity-Mechanism-Implementation/>

¹⁰ See <https://www.emrdeliverybody.com/cm/home.aspx>

¹¹ See <https://www.emrdeliverybody.com/CM/Industry-Events.aspx>

¹² Our dispute resolution process begins only after NGET has reviewed its original decision (Tier 1 review).

The dispute resolution incentive focuses on NGET's performance in respect of how many reviewable decisions made by NGET are overturned by Ofgem.

There were 12 CMUs appealing NGET's Tier 1 decisions in respect of the Capacity Market applications during the reporting period. At the Tier 2 stage we did not overturn any of these Tier 1 decisions made by NGET.

2.6. Information technology issues

NGET experienced delays with the roll-out of the CM pre-qualification IT systems supporting the delivery of their obligations related to the CM. The main role of this IT system was to provide an interface for all EMR participants to register their organisation and submit applications for the CM.

Our concerns with the delay related to the potential impacts on the delivery of the CM and on the confidence that stakeholders have in the new arrangements.

The delays in delivery of the Capacity Market pre-qualification IT system (originally due by 4 August 2014) resulted in NGET having to rely on an alternative contingency system based on applicants uploading template documents in Excel. To support applicants and help complete the information templates, NGET published a range of detailed user guides with the templates providing step by step guidance on the type and format of information required to complete the template.

Following the development of the contingency solution in July, there was no delay to the overall delivery of EMR - the Capacity Market pre-qualification window opened on 4 August 2014 in line with the DECC timetable. To ensure applicants had sufficient time to familiarise themselves with the contingency solution, NGET extended the application window by two weeks, giving applicants four weeks to submit their information. This resulted in NGET reducing the amount of time it had to assess applications by two weeks. NGET organised a dedicated implementation workshop prior to submission of final information by the applicants. The workshop provided additional opportunity to brief stakeholders on the technical requirements associated with the contingency IT solution.

Having been subsequently made aware of further implementation delays, on 19 September 2014 we wrote to NGET expressing our concerns in relation to potential escalation of IT system costs, as well as consequential impacts on the delivery of EMR and on the confidence that stakeholders have in the new arrangements. On 15 October 2014 we received a response from NGET explaining the background of the issue, describing the experience with the contingency solution and setting out its strategy to put in place an enduring IT solution.

Notwithstanding the need to rely on contingency IT solutions, the Capacity Market pre-qualification process was completed on time and the pre-qualification process results were published on time on 3 October 2014. The enduring IT solution is expected to be in place by the end of June 2015.

DECC conducted a lessons learnt session¹³ with external stakeholders in January 2015, where stakeholders provided views on NGET's performance as the Capacity Market delivery body. There was some criticism in respect of IT delays. Overall, stakeholders were generally positive on the work NGET did to prepare the industry and support applicants through the application process.

¹³ For details on DECC's 'lessons learnt' industry stakeholder workshop, see <https://www.gov.uk/government/publications/decc-capacity-market-stakeholder-event-january-2015>