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Dear Sirs

Electricity Market Reform: Statutory Consultation on changes to the Capacity Market Rules pursuant to Regulation 79 of the Capacity Market Regulations 2014

Thank you for the opportunity to respond to the above consultation. 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 suggested amendments to the Capacity Market Rules ahead of the 2015 auctions. Our response to this consultation focuses on deliverability of the proposed amendments.

This letter sets out our views on the questions you posed plus comments on a number of the other rule change proposals.

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

Yours sincerely

James Greenhalgh
Capacity Market Design Manager

Statutory Consultation on changes to the Capacity Market Rules pursuant to Regulation 79 of the Capacity Market Regulations 2014

Questions

Q1. CP06, CP25, CP34, CP41 and CP50: Qualifying Capital Expenditure for New Build CMU: We invite stakeholders to provide us with information, and factors, backed up with evidence as far as possible, that we should take into account in considering: When should the Rules be amended to introduce the period for qualifying expenditure of 77 months prior to the start of the relevant delivery year?

We agree with the decision that the 1 May starting point for qualifying expenditure should be changed to ensure consistency with the policy intent. The comments relate to the implementation date of the policy changes and the impact they will have on delivery. If the change is made ahead of this year's prequalification window, opening on 20 July 2015, it ensures that new build plant are treated the same in each Prequalification round/Delivery year. If the change is made in 2016 applicants successful in the 2015 auction would have one extra year to incur expenditure and as you state in your consultation, implementation in 2017 would give applicants up to nine years in which to incur their expenditure.

Q2. CP01, CP07, CP25, CP34, CP41 and CP50 Qualifying Capital Expenditure for Refurbishing CMU: We invite stakeholders to provide us with information, and factors, backed up with evidence as far as possible, that we should take into account in considering: (i) Should the starting point for qualifying refurbishing expenditure be prequalification results day or auction results day? (ii) Should this new starting point apply from 2016?

We agree with the requirement for change and have the same comments regarding the implementation date as stated in Q1. We have no evidence or comments regarding the start date of the period for qualifying expenditure.

We have received comments from stakeholders that any rule changes affecting Prequalification, particularly any that alter the type of CMU or the director's certificates should, be made as soon as possible. The change to the start date for the expenditure period may affect whether a party is entitled to apply as a refurbishing CMU or not.

Q3. CP69: Do you have any views on whether and how the Rules should be amended to prevent applicants being able to provide a calculation of connection capacity close to the value of entry capacity in the manner described in CP69?

We believe the question posed by the Authority may have misinterpreted the original proposal. CP69 sets out that it is possible to calculate a connection capacity **above** the entry capacity which, once de-rated, is equal to or very close to an applicant's entry capacity. Under normal circumstances a unit should not deliver more than its entry capacity. De-rating accounts for the statistically expected failure of plant. If the De-rated capacity is similar to the entry capacity, this in effect, circumvents the De-rating factor, resulting in under-procurement.

A potential alternative is having a fixed connection capacity option but allowing a range of de-rating factors. When proposed during the development of the capacity market rules, this was an option stakeholders were comfortable with.

We are happy to work with the authority and stakeholders to assess the extent of this issue and develop possible alternatives.

Q4. CP74: Do you agree that duration bid amendments should only be allowed to reduce during the auction?

We believe that a Duration Bid Amendment should only act to decrease the Duration of the Capacity Agreement sought, with descending price.

Under this proposal a Bidder would still be able to obtain an agreement at any duration/price their CMU was eligible for, but with less complexity in the Bidding Mechanism.

Any potential merit in allowing Bids to increase in duration with descending price should be considered alongside the methodology for setting Price Duration Curves.

Q5. CP46: Do you believe that DSR CMUs should be able to add, remove and reallocate CMUs? Please explain your answer. Do you think there are potential downside risks to this, as we describe above? If so, how would you suggest we mitigate these downside risks?

This question highlights the core differences behind the design of the Capacity Market and Balancing Services. The Capacity Market is a fixed capacity product only whereas Balancing Services either have a fixed capacity they can move units in and out of or they have contracts of different sizes and they declare what is available a week ahead of delivery.

The Capacity Market is designed to reward the lower amount of capacity provided with a potential upside through volume reallocation and over-delivery. CP83, proposed by DECC, changes the rules such that where there is a range of export capacities or inverter ratings the lower of the figures is taken.

Tracking changing DSR components would be challenging. The rules do not have a process for prequalifying additional components at a later date – the addition of which would be necessary to implement such a change. Furthermore changes to DSR components would likely invalidate any Metering Test Certificate and DSR Test Certificate creating a further administrative and cost burden to the Delivery Body, the Settlement Body and the System Operator.

Q6. CP24: Do you have any reasons or evidence for why we should not also include OC.6.7 as a form of load reduction in the definition of Involuntary Load Reduction (in addition to our proposal to make the amendment suggested by CP24)?

We believe that OC6.7 should be added to the definition of Involuntary Load Reduction. Furthermore we think that further industry work should be undertaken to align the Capacity Market with the imbalance regime developed through the Electricity Balancing Significant Code Review.

Q7. CP49: Do you have any evidence to show that CHP is failing to prequalify or that there would be benefits to allowing embedded generation to bid as a DSR component?

We do not have any evidence to support this question, all CHP that sought to prequalify in 2014 were successful in doing so and participated in the 2014 T-4 Auction. 43 CMUs with the technology class "CHP and Autogeneration" entered into 2014 Auction with 36 securing agreements.

There is nothing to prohibit behind the meter generation participating in the capacity market if they install a meter solely measuring the output of the unit. Other changes in this area, such as CP91 that allows generators connected to private networks to prequalify, should mitigate and other barriers to entry.

Proposals with Operational Interactions

This section discusses proposals which are being taken forward but have operational consequences or interact with implementation.

CP80 and CP81 – Evidencing Planning Consents

These proposals require applicants for New Build CMUs to provide evidence of Relevant Planning Consents. As this is a new requirement for 2015 we have sought to include it in the build of the Administration System for applications.

We note that the consultation refers to provision 3.7.1A in DECCs draft rule changes. The provision stated is not included in the draft rule changes. 3.8.1A is also absent from the Authorities proposed drafting, as such we believe this to be an error in the document.

Proposal A – Streamlining submission of a Price Maker Memorandum

This proposal seeks to amend the process for submissions of a Price Maker Memorandum, and the intention is that applicants will be able to lodge the relevant documents with the authority from the start of Prequalification (20 July 2015). The implication of such a change is that neither the Applicant nor the CMU applying for Price Maker Status will have been defined or confirmed by the Delivery Body, the Authority need to be satisfied that they are granting Price Maker Status to the same CMU that is actually Prequalifying. One suggestion would be that the application for Price Maker status includes the description of the CMU provided at Prequalification, if this were then printed on the receipts The Delivery Body can cross check these fields.

We note that Ofgem do not think there is sufficient justification to amend the deadline for submission of the receipt and Price Maker Certificate to the Delivery Body. The rules do not state the start date for the submission window, without the proposed amendment the window is between Prequalification results day and 10 working days prior to the start of the auction. The implication of extending the application window is that the window for submission to the Delivery Body extends to the date from when the Authority provides receipt of the Price Maker Memorandum. We believe the intention is that receipts will not be issued until after prequalification results day but clarity of this in the rules or in associated guidance would be welcome.

Proposal B – Minimum level for the announcement of spare capacity.

We agree that this proposal reduces the ability of a Bidder to strategically withhold capacity, since the bidder has less certainty about when the withdrawal of their unit could cause the auction to clear. The ability of participants to respond to the progress of the auction is an important feature of the auction mechanism which improves price discovery. We agree that this proposal strikes a reasonable balance between these objectives.

We note that the proposal does not include a provision for the Transitional Auction.

Proposals likely to be rejected.

In this section we have sought to comment on proposals which the Authority are minded to reject. We believe that some proposals warrant reconsideration.

CP82 – Evidence of previous performance.

This anonymous proposal suggested amending Rule 3.6.1 such that STOR data held by National Grid can be used as evidence of previous performance. The rejection reason provided is that Of gem do not believe the rules preclude the use of STOR data in the event a supplier letter is not available. We agree with the rejection of this proposal however the reason stated in the letter could be misinterpreted. The Rules require a supplier letter, the regulations define an electricity supplier and National Grid would not qualify as such. Whilst STOR data may be permissible, the output would need to be verified by a third party.

CP87 – Review of the Prequalification Process

We agree with the rejection of this proposal at this stage of Capacity Market development. Implementation of a two-stage review during prequalification would be a significant change and we believe any rule changes made this year should be enhancements of the rules rather than fundamental changes. To ensure a successful prequalification round we will be working with applicants prior to the close of the prequalification window on 14 August 2015 and endeavouring to address any errors or omissions wherever possible.

CP54 and CP60 (part ii) – defining the applicant

These proposals suggested that a despatch controller should be able to apply on behalf of a new build or a refurbishing CMU. Ofgem suggest that despatch controllers may not be individually in control of the refurbishment of generating units. Whilst we agree with this statement we believe that it is the despatch controllers risk to manage. Ofgem state that no evidence is provided on whether potential capacity has been prevented from participating. We believe that capacity has been prevented from participating, capacity where the legal owner may be a party not involved in the energy industry.

Finally, in the response to CP84, which you are accepting, you state ensuring greater consistency amongst generating CMUs as a reason for accepting, we believe these rule changes would achieve greater consistency.

CP60 (part iii) – setting Connection Capacity.

This portion of the proposal seeks clarification that the Rules for setting Connection Capacity applying to existing generators extend to pre-refurbishing elements of a Refurbishing CMU. The rejection reason given is that the Regulations include pre-refurbishment CMUs within the definition of Existing Generating CMUs. We agree with the Authorities response but believe that it would be a relatively simple amendment but would provide some welcome clarification for applicants if this were explicit in the Rules.

CP55 – Auction Clearing

We agree that the Auction Clearing at zero is a very unlikely scenario. We note that all Bidders should, in theory, submit exit bids at the level at which their administrative costs would not be covered by the value of their capacity agreement. However, we doubt that the

consumer would benefit from the administration of Capacity Agreements with no penalty for failure to deliver, or reward for delivery. We received advice to this effect from the DECC ahead of the 2014 Auction.

CP09 and CP89 – CM Register Fields

Whilst not proposed by National Grid, we believe that the addition of refurbishing status to the CM register would be a valued addition. In most cases such information can be inferred from the register but is not easy to determine, as such we feel that this rule change is a clarification rather than addition.

CP67 – Prequalification Information

We welcome the removal of bank details from the Prequalification information. We request that the Authority reconsiders the second part of our proposal. The Authority are correct in stating that meter numbers are required at Prequalification to facilitate checks for duplicate CMUs and we are happy to maintain this requirement, however the original proposal included the removal of the metering assessments and SLDs from Prequalification, with allowances for those to be provided to the Settlement Body at a later date. We still believe this would be a beneficial amendment as it would reduce the amount of information provided at prequalification, particularly as this information has no bearing on an applicant's prequalification status. This would also help to achieve CP88, proposed by DECC. An alternative would be an extension to the deferral of the metering assessment – this is not addressed in the DECC changes.

CP71, CP88, CP75 and CP70 – Review of Prequalification Information

These proposals suggest reviews of Prequalification Information, The CM Register, Capacity Agreement Notices and Independent Technical Expert Reports, we acknowledge that no specific suggestions for rule changes were proposed and we look forward to working with stakeholders and the Delivery Partners to develop these for implementation in 2016.

Other Comments

We have also reviewed the drafting provided and have a number of specific comments which we have included below.

Chapter 1

- "Licensed Distribution System Operator" definition is not required as it is already defined as Distribution Network Operator by reference to Regulation 2
- "Line Loss Factors" definition refers to "Distribution System" which is not defined. This should refer to "Distribution Network" which is already defined by reference to Regulation 2.
- "Line Loss Factors" definition also refers to "Transmission System Boundary" which is not currently defined. Should this perhaps refer to "Transmission Network Boundary Point" (as "Transmission Network" and "Boundary Point" are each already defined in the Rules)?

Chapter 3

- 3.5.2: At the end refers to CP17. Is CP 17 intended to change all references to MW to 3 decimal places or just de-rated capacity as the CP seems to imply?
- 3.5.6 refers to "auxiliary load". This term is not defined – addition of a definition would add clarity.

- 3.6.1(c)(bb) refers to "the unlicensed network". Is this intended to be the same as a "Private Network" as referred to in 3.6.3 and elsewhere?
- 3.7.1: suggest "legal" is inserted in front of "right" in (a) and (b) as per CP81 decision.

Chapter 4
- 4.7.1(a): suggest "legal" is inserted in front of "right" as per CP81 decision.

Chapter 5
- 5.6.5(a): Capital "B" on "Bidder"
- 5.6.7 and 5.6.8: Remove "highest"

Chapter 8
- 8.6.4 refers to "Transmission System boundary" which is not currently defined (see comment above re" Line Loss Factors". Should this perhaps refer to "Transmission Network Boundary Point" (as "Transmission Network" and "Boundary Point" are each already defined in the Rules)?

Chapter 11
- 11.3.3(c): insert "or assigned" after "made" in line 3
- 11.3.3(d): insert "or assigned" after "or" in line 4 and delete "on their behalf" in the same line.

Chapter 13
- 13.2.6(a)(iii); should refer to "Distribution Network Operator" as currently defined.
- 13.2.6(a)(iii); refers to "the unlicensed network". Is this intended to be the same as a "Private Network" as referred to in 3.6.3 and elsewhere?
- 13.2.6A(ii); refers to "the user". It is not clear who this is. Should it refer to "the Applicant or Capacity Provider (as applicable)"?

Schedule 2
- 1.2(ii) refers to "the user". It is not clear who this is. Should it refer to "the Applicant or Capacity Provider (as applicable)"?

Exhibit A
- (e): remove square brackets as now no option available to delete.