

Ofgem
9 Millbank
London
SW1P 3GE

Email to: EMR_CMRules@ofgem.gov.uk

15 January 2016

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to comment on Ofgem's consultation on changes to the Capacity Market Rules. Our detailed responses are set out in the attachment to this letter. We are supportive of Ofgem's focus areas for rule changes, but in particular, we consider that it is vital that the calculation of connection capacity is resolved. We believe that changes introduced last year to the way connection capacity is set have not been applied in a consistent manner by all applicants. The Capacity Market Rules need clarifying to ensure that in future this element of the rules is clear to all Applicants.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Natasha Ranatunga on 0203 126 2312, or me.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Cox'.

Mark Cox
Head of Transmission & Trading Arrangements

Attachment

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules

EDF Energy's response to your questions

Q1. Do you agree with our priorities? Are there other priorities which we should consider for this round of Rule changes?

We agree with Ofgem's priorities to simplify prequalification and make the rules clearer. At this stage, we do not believe that there are other priorities which Ofgem needs to consider. However, we would like to highlight Energy UK's Capacity Market Rule change proposal to amend the ION/FON requirements in relation to construction plans for Refurbishing CMUs. We would be happy to discuss this issue if clarification is required.

Q2. Do you think there are issues with the current methodology for calculating connection capacity, as described in Annex 1? Are there other issues we have not considered?

We believe that there are issues with the current methodology for calculating connection capacity. We believe that the current Capacity Market rule on Auxiliary Load (3.5B.1(c)) is confusing and contradictory. Currently, all Connection Capacity irrespective of how it is calculated (via 3.5.2, 3.5.3 or 3.5.5) must be net of Auxiliary Load. However, there are a number of issues including:

- Rule 3.5B.1 (c) appears to contradict Rule 3.5.2(a) which says that CEC must be stated as in the Connection Agreement (this is not net of Auxiliary Load).
- CEC is itself an uncertain number; we understand it may be a Gross figure (no Auxiliary load is deducted) or a Gross-Net figure (the Unit Transformer but not the Station Transformer Load is deducted) or a figure in between the two.
- The need to reduce CEC to take account of Auxiliary Load causes problems with the formula in Rule 3.5.5 in some cases making this Rule ineffective.

Therefore, it is vital that Ofgem considers the Energy UK proposal to clarify the Capacity Market rules.

Q3. Do you believe that any of the options presented in Annex 1 would improve the calculation of connection capacity? Are there other options we have not considered?

Option A: Test up to connection capacity, rather than de-rated capacity

We do not believe that this would improve the calculation of connection capacity unless CMUs are able to reduce their connection capacity to a figure which CMUs are confident that they can deliver.

Option B: Use a range of, or more granular, de-rating factors

We believe that this option could potentially improve the calculation of connection capacity; however, we note that Ofgem will not consult on this option as it envisages that changes to the Regulations are required.

Option C: Use the minimum of Historical Output and Transmission Entry Capacity

We believe that Option C could be amended so that a cap is derived which would indicate the maximum level for connection capacity. We believe that CMUs should be permitted to reduce their connection capacity from the maximum level.

Option D: Use an alternative figure to determine connection capacity

We believe that this option could potentially improve the calculation of connection capacity. We would welcome further detail from Ofgem on option D.

Option E: Let NGET determine the connection capacity

We do not believe that this would improve the calculation of connection capacity, as this requires National Grid to forecast capability of future CMUs that it does not own or operate. National Grid does not currently have the expertise to validate a CMU's connection capability. If National Grid determines the connection capacity incorrectly it would not face any penalty, the consequences would lie with the CMU.

Option F: Only allow one method to calculate connection capacity

We believe that the option to only allow one method to calculate connection capacity could potentially be beneficial. However, this is dependent on what the method is. We would welcome further clarification from Ofgem on option F.

Q3a. Do you agree that the sum of unit CECs should always be used when apportioning TEC?

We agree that the sum of the unit CECs should always be used when apportioning TEC.

Q3b. Do you think that not being able to choose a lower connection capacity is a problem? What are your views on the options considered?

Yes, we believe that not being able to choose a lower connection capacity is a problem. Plant should be able to participate in the Capacity Market with a smaller agreement rather than being excluded.

We support Option I to allow applicants to choose a lower connection capacity. We believe that there may be occasions where an operator may want to legitimately select a lower connection capacity than dictated by current rules. For example, where a unit is restricted for operational or safety reasons but historical output and TEC/CEC do not yet reflect this.

We note Ofgem's concern over the potential for capacity withholding. A possible safeguard would be to require the capacity provider to submit a note to the Delivery Body or Ofgem explaining the reasons why they require a lower connection capacity. The Delivery Body would not necessarily be required to evaluate the reasons but this would provide a clear disincentive against reducing capacity unless there were clear physical reasons for it. Adopting this approach would make the proposal in Question 3c redundant since an operator could choose to use the lowest number if necessary.

Q3c. Do you think there is an issue with taking the lowest figure in a connection agreement? Do you believe that a choice of figures should be allowed?

We do not believe there is an issue with taking the lowest figure in a connection agreement.

Q4. Do you believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the costs of increased testing and prequalification? Does volume reallocation already provide sufficient flexibility for DSR CMUs?

EDF Energy believes that it is important that CMUs have the ability to add and remove components at any point during a delivery year, as per rule 8.3.4(b). This will allow aggregators to mitigate against the risk of underperformance from specific delivery components.

We also see merit in allowing reallocation of components following a Capacity Market Warning. Volume reallocation provides a means to manage performance risk in stress events but it cannot be used to satisfy testing requirements. We believe it is important that the testing regime provides adequate assurance that the CMU will be able to meet its capacity obligation and we recognise that such a proposal could introduce some additional complexity to ensure that testing is robust. However, we would support, in principle, the development of a proposal to improve the flexibility of DSR CMUs in this area.

Q5. Do you agree that Emergency Manual Disconnection, as covered in section OC6.7 of the Grid Code, should be included in the definition of System Stress Event, Capacity Market Warning and Involuntary Load Reduction?

We believe that Emergency Manual Disconnections should be included in the definition of a stress event so long as it is clear that the reason for them being implemented is a system wide lack of capacity rather than a problem peculiar to a part of the system or a problem with the transmission system in some other respect e.g. a transmission constraint. A simple reference to Emergency Manual Disconnection is not sufficient.

Q6. Do you agree with the proposals in Annex 2?

EDF Energy agrees with the proposals in Annex 2.

**EDF Energy
January 2016**