

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

ENGIE Energy UK- Ireland

Background

ENGIE (previously known as GDF SUEZ) in the UK is the country's largest independent power producer by capacity with interests in 5,015 MW of plant in operation in the UK market made up of a mixed portfolio of assets – coal, gas, CHP, wind, OCGT distillate, and the UK's foremost pumped storage facility. Several of these assets are owned and operated in partnership with Mitsui & Co. The generation assets represent approximately 6% of the UK's installed capacity. The company also has a retail business supplying electricity and gas to the Industrial and Commercial sector.

ENGIE welcomes the opportunity to respond to Ofgem's consultation on changes to the Capacity Market Rules.

Summary comments

- **The Capacity Market rules for determining connection capacity were put in place following an extensive and detailed review by both DECC and industry to ensure that they catered for different circumstances at different power stations. Any change to this approach risks excluding generation from the capacity market or forcing additional costs on generators in having to purchase additional TEC to meet any change to the criteria.**
- **ENGIE would not support change in this area unless it included the ability for the generator to self-declare their capacity obligation. ENGIE would support such self-declaration being treated as a priority but not the options set out by Ofgem.**
- **The consultation implies that there is an issue that needs to be addressed where CMUs have a derated capacity close to their maximum capacity and asks whether CMUs should only be allowed to use one method to determine their CMU connection capacity. ENGIE does not see the need for a Rule change in this area, this type of situation should not be a concern, in fact it should be seen as beneficial as the station clearly has the capacity to deliver up to their commercial TEC.**

Response to consultation questions

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

1. ENGIE supports the current arrangements for determining connection capacity and would not support change in this area unless it included the ability for the generator to self-declare their capacity obligation. ENGIE would support such self-declaration being treated as a priority but not the options set out by Ofgem.

2. It is important to understand the difference between unit CEC, CEC_{ST} (station), TEC and metered output to help to understand why the current arrangements were put in place as well as how they interact with the policy decision to use a de-rated connection capacity.
3. Connection Entry Capacity (CEC)
 - The GB transmission system contains different types of generator; some have limited fuel, some can only produce the highest level of output when ambient temperatures are low (CCGT) or water flows are high (hydro) or the right blend of fuel is available (Coal) .
 - When generation requests a connection it applies for both unit CEC and station CEC_{ST} where CEC is the highest expected instantaneous real time power output of the generator unit or station. The Transmission Owner (TO) will then size the switchgear at an appropriate level.
 - CEC relates to the minimum of size of connection assets installed by the TO. CEC does not relate to the capability of the generating unit, just the capability of the switchgear.
 - Where there are multiple units, a station CEC_{ST} is also declared and this again relates to the maximum instantaneous capability of the connection.
 - Where there are multiple units that have linked fuel systems or other common services, the sum of the individual unit CEC can be higher than station CEC_{ST}.
 - CEC cannot be compared directly with TEC as it is defined on a different temporal basis and relates to the size of the TO connection assets not the assets of the generator.
4. Transmission Entry Capacity (TEC)
 - TEC is defined as average generation over a settlement period and is determined by a generator based on its required access to the transmission system on a station basis.
5. Metered Output
 - Metered generation is actual output at a BM unit level.
6. The Capacity Mechanism rules for determining connection capacity were put in place following an extensive and detailed review by both DECC and industry to ensure that they catered for different circumstances at different power stations. In general we do not support changes in this area and believe that the current approach works well and is appropriate.

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?

7. ENGIE supports the current arrangements and would not support change in this area unless it included the ability for the generator to self-declare their capacity obligation.
8. It has been a challenging task to put in place the current Rules that address Capacity Market connection capacity. Any change to this approach risks excluding generation from the capacity

mechanism or forcing additional cost on generators in having to apply for purchase additional TEC to meet any change to the criteria.

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?

9. Allowing generation to choose the level of connection capacity with a test at the de-rated metered level has always been the most appropriate way to determine the connection capacity but this was rejected in the design phase. Absent this we believe the current rules are appropriate.
10. Option A - Test up to connection capacity, rather than de-rated capacity
 - ENGIE believes that it may not be possible to test up to full capacity in circumstances where CEC has been used to determine connection capacity and TEC is below CEC. As previously noted, CEC is the minimum size of the TO assets and in circumstances where TEC is below the de-rated CEC, it would potentially put the generator in breach of the Grid Code and CUSC to generate above TEC.
11. Option B - Use a range of, or more granular, de-rating factors
 - De-rating factors are not relevant to individual units. Whilst it was a policy decision to de-rate at the unit level, in reality units are either available or not and the de-rating factor relates to a class of generation. ENGIE would not support further granularity of de-rating factors unless these were determined by the generator.
12. Option C - Use the minimum of Historical Output and Transmission Entry Capacity
 - No mention of de-rating is used in this option as such it would lead to an across the board increase in capacity and would not meet the policy objective of using de-rated capacity. A secondary issues it that on multi-unit stations a decision would need to be made on how to proportion the TEC across units possibly using the existing $CEC_i / \text{sum } CEC_i$ rule.
13. Option D - Use an alternative figure to determine connection capacity
 - The only party that can determine the correct connection capacity is the generator backed up with a metering test. ENGIE believes that the generator should be able to nominate a figure subject to proven metering at a de-rated level. This method was suggested during the initial capacity market rules design phase but rejected by DECC.
14. Option E - Let NGET determine the connection capacity
 - Please see answer to Option D.
15. Option F – Only allow one method to determine connection capacity
 - The consultation implies that there is an issue that needs to be addressed where CMUs have a de-rated capacity close to their maximum capacity and asks whether CMUs should only be allowed to use one method to determine their CMU connection capacity.

- Stations that have elected for a lower TEC for commercial reasons have effectively already de-rated their plant. The commercial TEC is not therefore a measure of station capacity or capability. ENGIE does not see the need for a Rule change in this area, this type of situation should not be a concern, in fact it should be seen as beneficial as the station clearly has the capacity to deliver up to their commercial TEC.
- If this change is introduced, ENGIE believes it will reduce the flexibility of generators to choose an appropriate option and will ultimately result in a lower volume of capacity being offered into the market with a resulting increase in the cost to consumers.

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

Option G – Always use the sum of unit TEC's when apportioning CEC

16. ENGIE IS happy with this proposed clarification to the rules.

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?

17. Option H – Choose the lowest metered output in the three Settlement Periods identified

18. Options I – Allow applicants to choose a lower connection capacity

- For these options, please see answer to Option D.

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?

19. Option J - Where multiple figures exist, allow a choice of which figure to take

- CEC relates to the capability of the TO assets and not the ability of the generator to generate. Unless there is the ability to choose a connection capacity, in general, the lower figure should be used as the generator should not exceed this figure.

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?

20. If this change is allowed then it should apply to all CMUs, not just DSR CMUs. Volume reallocation would also achieve the same end and has the benefit that the DSR CMUs to which volume is reallocated must first have had to pre-qualify and be tested.

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?

21. ENGIE agrees that this should be included except where the Emergency Manual Disconnection occurs due a fault or constraint in the transmission or distribution system.

Q6 – Do you agree with the proposals in this Annex?

22. ENGIE agrees that where a CMU has opted out of the T-4 auction but intends to remain operational, it should be allowed to take part in the T-1 auction.

23. Ofgem is proposing that New Build Generators must have planning permission for the duration of their capacity agreement. ENGIE does not see the need for this additional clarification in the Rules. Once planning permission is granted, there is a time limit for commencement - this is typically five years. There is only a limit on the duration of operations if specified in the planning consent. This happens in the case of wind farms but few other types of development.

24. Ofgem is proposing to extend the definition of a defaulting CMU to include those who participated in the auction but were not successful in winning an agreement. We agree that this should apply where misleading information has been provided but not simply because the CMU did not win an agreement (the consultation could be clearer here).

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