



15 January 2016

Dear Ms. Pickford,

Green Frog Power welcomes the opportunity to respond to Ofgem's open letter and consultation to the Capacity Market Rules.

We provide detailed responses to the specific questions below, but in principle we are broadly in agreement with Ofgem's overall approach. In particular, we agree with the priorities of simplifying prequalification and making the Rules clearer.

We would like to raise a general concern about the potential perils that may plague well-intentioned rule clarification the rules. Over-prescriptiveness can have the effect of complicating prequalification due to unintended interpretation of the rules, thereby directly conflicting with the first priority.

Yours faithfully,

Graz Macdonald
Head of Regulatory and Policy Analysis
Green Frog Power Limited

Question 1: Do you agree with our priorities? Are there other priorities we should consider for this round of rule changes?

Green Frog Power are in agreement with Ofgem regarding the key priorities for this consultation – making the rules clearer and simplifying prequalification. In both cases we believe that it is a priority that there is a compelling reason for change. We worry that unintended consequences could arise from an increase in prescriptiveness that is intended to “clarify” or “simplify”. Care needs to be taken to ensure that such improvements do not create additional complications elsewhere in the rules or for specific parties or circumstances.

Question 2, Do you think that there are issues with the current methodology for calculating connection capacity, as described in Annex 1? Are there other issues we have not considered?

Green Frog Power agree that, in certain circumstances, the current rules could allow a CMU to declare a higher capacity than their competitors. This is clearly unfair and anti-competitive.

The real problem is finding a solution that does not cause more problems than it solves. We think that allowing a choice of calculation methodology minimises these concerns.

Each of the connection capacity methodologies has its shortcomings – as outlined in the open letter. However, we should expect that each participant will choose the methodology that have the most favourable business outcome for them. This flexibility provides some offset to the potential “unfairness” that could arise.

In the development of the Capacity Market rules it was noted that there was only one circumstance in which a plant would exceed its TEC – when the system operator calls a “Max Gen”. While it appears to be intuitively true that there would

always be a Max Gen during a Stress Event as defined by the Capacity Market Rules, there is the potential that a plant would not be able to meet its Capacity Market Obligation without being in breach of the CUSC. It is for this reason that a plant is required to hold TEC to at least the derated level of CM capacity obligation.

Question 3, Do you believe that any of the options presented would improve the calculation of connection capacity? Are there other options we have not considered?

Option A: Test up to connection capacity rather than derated capacity

We do not agree that a plant should be tested to its connection capacity rather than its derated capacity. In the first instance, it is being compensated for delivering its derated capacity, and penalties will accrue against that level of capacity. Requiring that a plant does not just meet, but exceeds the level it has agreed and committed to deliver is unusual and possibly not in keeping with European guidelines on contracting.

It is also the case that a plant must hold sufficient TEC to cover its derated capacity. Therefore, it will never be the case that the plant will be unable to complete its testing without breaching the CUSC. That a plant may be able to deliver more than their TEC in a stress event where a Max Gen order has been given, then that plant is able to trade its over-delivery - providing incentive (beyond the CUSC) of delivering as much capacity as it is able to do.

There is also the very real issue of ambient temperature and the impact on maximum capacity for certain generating technologies (CCGTs in particular). Connection capacity will most often be for the amount that a plant can deliver in the cooler conditions. If a plant is in the position where it was

unable to meet the testing requirements during the winter, then it needs to meet the testing requirements during the summer. This plant may very well find it impossible to reach its connection capacity in the summer due to the warmer temperatures. In theory, this could also happen in a very warm winter!

Option C: Use the minimum of Historical Output and TEC

It is not clear to us that the current rules do not already permit this, since a CMU must hold TEC to at least its derated capacity, and it must have delivered to at least that level on three occasions.

Option D: Use an alternative figure to determine connection capacity

Green Frog Power agreed with Ofgem's view that alternative measures of connection capacity as defined by the Grid Code or the CUSC would not improve the reliability of the calculations nor simplify them.

Option E: Allowing NGET to choose connection capacity

On first instinct our response is to strongly disagree with this proposal. However, if the deterministic methodology were developed by the whole industry and individual decisions were not subject to National Grid (or any one else's) judgement and interpretation, then there is perhaps merit to this idea. However, we would like to see a more concrete proposal, and we would like to see that industry was fully and actively engaged with Ofgem, DECC and National Grid in developing such a formula.

Option F: Only allowing one method to calculate connection capacity

Green Frog Power strongly disagrees with this proposal. This is a market with a very diverse set of participants with a very diverse portfolio of very

diverse assets with very diverse technological and commercial characteristics.

As noted in a previous response, allowing choice to participants allows for better competition and fairness in the event that a single measure would almost certainly favour some parties over others. If anything, to improve the fairness and to ensure that everyone is able to participate in a fair and reliable manner, more, rather than fewer, options should be permitted.

Question 3a, Do you agree that the sum of unit CECs should always be used when apportioning TEC?

We understand that the purpose of the connection capacity calculation option permitted under Rule 3.5.5 is to provide a practical alternative for plant that may have TEC significantly lower than CEC. For older plant, CEC will often be a legacy factor that has no practical bearing on normal operations. This measure also permits a plant to prequalify its units individually, since CEC is frequently held at the station level.

We think that the formula works as it is – it may indeed result in TEC not equal to CEC – but we see this not as a problem, but as a solution.

Removing the option of station CEC in this calculation could result in a situation where a CMU is unable to prequalify – if for example TEC on each unit has been lowered to half the original capacity, yet station CEC remains unchanged. Many plants carry only station CEC and will therefore be unable to prequalify. They will not be able to demonstrate their CEC through historical running, nor will they ever be able to.

We note that one solution would be for the station owner to ask National Grid to lower CEC to the appropriate level. This would involve a fair level of administrative

burden on National Grid and the station owner. It is unclear to us whether the “problem” is significant enough to warrant the additional administrative encumbrance.

Question 3b, Do you think that not being able to choose a lower connection capacity is a problem? What are your views on the options considered?

Green Frog Power agree with Ofgem that plant might be “unfairly” excluded from and auction because it had not delivered sufficiently high capacity on three occasions. This may not be due to unreliability, but rather commercial factors. We agree that it would be sensible to permit these plant to partake in the capacity auction.

We do not agree that plant should be able to choose a lower connection capacity than permitted by one of the three options available. Ofgem is correct to be concerned about the potential for gaming. Even the appearance of such a possibility could be damaging to the integrity of the capacity market.

Question 3c, Do you think that there is an issue with taking the lowest figure in a connection agreement? Do you believe that a choice of figures should be allowed?

Green Frog Power agree with the proposal that a party should be permitted to choose the connection capacity to use, in the event that a connection agreement cites more than one capacity. For any technology where ambient temperature has a significant impact on capacity, then the lower of the capacity options will almost certainly underestimate the delivery potential of such a plant in the most probable of Stress Events.

Not permitting such a plant to choose between the connection capacities will be of greater benefit to technologies that do not suffer from the same ambient effects. We do not think that it is the policy intent to favour certain technologies in the application of connection capacity calculations.

Question 4, 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?

Green Frog Power agrees in principle with this proposal, though we would also like to see the full details. The cost of testing CMUs is almost certainly going to be outweighed by the increased probability that a DSR CMU will be able to fully deliver its commitment. It seems sensible to permit a reasonable level of flexibility.

Question 5, Do you agree that Emergency 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?

Green Frog Power agrees with the addition of Emergency Disconnection to the definition of Stress Event. We agree that in most circumstances such a circumstance would fall constitute a system adequacy issue, and it makes sense that the definition of a Stress Event is intuitively understood by market participants, taking into account that such an event is defined after the event.

Our agreement with the proposal notwithstanding, we need to mention that it is a slippery slope to regularly extend the definition of s Stress Event. Plant have already bid into two auctions on the basis of a two different definitions. We would want to avoid a situation where plant start to price in the risk of further widening of the definition of a Stress Event.

Question 6, Do you agree with the proposals in Annex 2?

Green Frog Power agree with the proposals to clarify the points contained in the Frequently Asked Questions – they all seem straightforward and carry little risk of unintended consequences.

We agree in principle with the proposal that New Build plant must have planning permission for the duration of their capacity agreement. We think it is obvious that a planning permission should at least implicitly be for the duration of the capacity agreement.

However, changing the requirement may create administrative burden for councils with new and existing planning permissions and for plant that already have planning permission, but will now find that their planning permission is not acceptable, particularly plant that have not won an agreement.

We think it would be sensible to take a cautious approach and ensure that this is an issue that is likely to have an impact on CMU ability to meet their capacity obligations before imposing what could be costly and burdensome restrictions on the prequalification process.

One solution that would minimise negative consequences of this proposal would be to continue allowing Planning Permissions with no explicit end date but ensure that there are no time limits explicitly stated in the Planning Permission that are within the duration of the Capacity Agreement.