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Dear Philippa

Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules (19 November 2015)

National Grid Interconnector Holdings (NGIH) welcomes the opportunity to respond to the above publication. NGIH is the ring fenced division within National Grid responsible for interconnector development and the management of National Grid's interest in existing interconnectors.

See Appendix 1 for our response to the specific consultation questions.

If you have any questions, please contact me on 07971 387158.

Yours faithfully,

Chris Shanley
Interconnector Regulation Manager

Appendix 1 – National Grid Interconnectors Limited Response to the Consultation 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 that it is important to avoid confusion with changes to the Rules and the Electricity Capacity Regulations which DECC will be introducing as a result of their recent consultation.

The DECC consultation on reforms to the Capacity Market rules included forty seven questions and it is expected that this will result in changes to the overall policy framework and incremental improvements to the process. With this in mind we suggest that the rule change priorities are limited to those proposed by Ofgem and therefore only changes that aim to simplify arrangements for prequalification and make the Rules clearer, are considered.

Q2: Do you think there are issues with the current methodology for calculating connection capacity, as described in Annex1? Are there other issues we have not considered?

The current options for determining the connection capacity of a transmission connected generating unit are as follows:

- Use the Connection Entry Capacity (CEC)
- Take the average of the three highest outputs in the past 2 years
- Use the Transmission Entry Capacity (TEC) of the plant

We accept that the above approach may have potential issues that could result in a plant not being able to obtain a Capacity Agreement that exactly matches the maximum capacity that could be provided during a stress event. However, it is unclear from Annex 1 what the magnitude of the issue is.

The overall level of obligation is determined when the connection capacity is applied to the de-rating factor (realistic long-run expectation of the imports at times of system stress). The de-rating process could equally result in a plant not being able to obtain a Capacity Agreement that exactly matches the maximum capacity that could be provided during a stress event.

The de-rating factor for each Generating Technology Class and DSR is calculated in accordance with the methodology prescribed in the CM rules, the interconnector De-rating methodology is determined by the Secretary of State and both are explained in more detail within the Electricity Capacity Report (ECR). Ofgem acknowledge that making changes to the de-rating (making them more granular, etc.) would require changes to the Regulations.

We do not believe that the determination of the de-rated capacity is an exact science and that the most important consideration is that Capacity Providers have obligations that they can realistically meet. We also believe that any additional capacity can still be rewarded in a stress event through over delivery payments or through the DECC proposal to allow parties to take on additional obligations (in obligation trading “window 2”) above their de-rated capacity/up to their TEC/connection capacity.

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?

We expect that the current three options for determining the connection capacity meet most needs and suggest that the current options are maintained. However, we support removing any identified minor inconsistencies with the calculation of the connection capacity, such as ensuring that only the sum of individual CECs is used to apportion TEC (option G).

We can see issues with capacity providers not being able to choose a lower connection capacity and believe it is sensible to allow applicants to choose a different connection capacity figure as long as the connection capacity selected is not higher (in aggregate) than would be provided by the current methodology. This approach should prevent possible inadvertent rule breaches caused by having to choose one of the current options.

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?

We are not best placed to answer this question.

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 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 do not believe that this change will increase the possibility of a stress event occurring.

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

We support the proposed changes to the rules to clarify the areas highlighted in Ofgem's Frequently Asked Questions.

We are not best placed to answer the question as to whether New Build Generators must have planning permission for the duration of their capacity agreement but expect in most cases this would be the case anyway.

We feel it is appropriate to extend the definition of a defaulting CMU to include those who participated in the auction but were not successful in winning an agreement.