



## OFGEM CONSULTATION

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

Respondent's details:

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

Sembcorp Utilities (UK) Limited is the energy and utilities supplier to the Wilton International industrial park in Teesside and we are part of the Singapore-based Sembcorp Industries Group, a global energy and water business. Our customers in the UK include world class chemical and process plants operated by international conglomerates who have invested heavily since coming to the UK in the past decade and have the potential and the desire to invest further. All are massively dependent on Sembcorp's reliable and secure supply of power and heat in order that they can successfully operate chemical, petrochemical and bioenergy assets that play a major part in generating vital export revenues for the UK.

We appreciate the opportunity to comment on Electricity Market Reform: Open letter and consultation on changes to the Capacity Market Rules and we hope our comments below ensure an ongoing workable legislative framework so we can continue to deliver Combined Heat and Power generation capacity for the UK.

## **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?*

R1 - In general Sembcorp agrees with your priorities. Prequalification is particularly onerous for existing generation CMU's, especially when they already have a Capacity Agreement in place for an earlier delivery year. Making the Rules clearer will help with this and other aspects of the prequalification process.

We believe that the structure of the Capacity Market requires considerable change in order to enable developers to deploy new build flexible and efficient generation which will contribute to a stable and enduring electricity market.

This is probably outside the remit of this consultation however we would like the opportunity to discuss our concerns, which have previously been raised with DECC, directly with Ofgem if 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?*

R2 - We agree with the current methodology however we believe it can be improved as detailed in our answers to Q3.

*Q3 - Do you believe that any of the options presented would improve the calculation of connection capacity? Are there other options we have not considered?*

R3. Our comments on each option are as follows:

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

We disagree with this option as the CEC and TEC arrangements for a Generating Station may well be incompatible.

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

We believe that the current methodology allows Generators this optionality and specifically merging the options will not offer any improvements to the



process as it would prevent the Generator selected the appropriate option for its forecasted operations in the delivery year.

*Option D: Use an alternative figure to determine connection capacity*

We believe that Combined Heat and Power (CHP) is not treated equitably under the current arrangements. Sembcorp believes that in certain circumstances the actual operational Derated Capacity that could be reliably delivered by a prospective CHP CMU is constrained by the current Rules. We believe this includes Transmission Connected CHP generation as well as embedded CHP generation. The issue relates to the current Rule 3.5 - Determining the Connection Capacity of a Generating CMU. As a CHP CMU has a variable power output - depending on the heat load it is supplying - defining the Connection Capacity within the definitions in Rule 3.5 is not always possible. The Rules should be amended such that a CHPQA accredited CHP Generator should be able to nominate an achievable Connection Capacity during normal CHP operations. This Connection Capacity is likely to be less than STEC and UCEC as well as lower than the "Average Highest Output" of the Settlement Period performance. A form of Settlement Period Performance should be introduced to validate the proposed Connection Capacity and Capacity Delivery of a CHP CMU. This current lack of flexibility may be preventing 'behind the meter' CHP Generators (both distribution and transmission connected) from being able to comply with the current Rules. We would be happy to discuss this point further if required.

*Option E: Let NGET determine the connection capacity*

We believe this would be viable for the situation described relating to CHP Stations as detailed above.

*Option F: Only allow one method to calculate connection capacity*

We believe this would be unworkable in securing capacity given the significant differences in connection arrangements for Capacity Market participants.

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

R3a – Yes, providing that the Unit CECs include all the Generating Units within the BM Unit.

*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?*

R3b – We believe that not being able to choose a lower connection capacity is a problem specifically for CHP Stations. Our proposed methodology for addressing this issue is detailed in our comments under Option D in Q3.

*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?*

R3c - We believe that the penalty charges arrangements should help to ensure that most appropriate connection figure is used and therefore where choices are possible they should allowed.

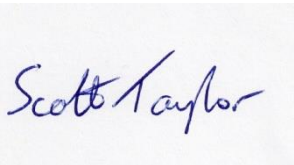
*Q4 – Do you believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the costs of increased testing and prequalification? Does volume reallocation already provide sufficient flexibility for DSR CMUs?*

R4 - No comment

*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?*

R5 - Yes

Yours Faithfully





**Scott Taylor**

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