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14<sup>th</sup> January 2016

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

### **Response from VPI Immingham**

VPI Immingham welcome the opportunity to respond to the consultation on changes to the capacity mechanism rules, dated 19<sup>th</sup> November 2015. VPI Immingham is a combined heat and power (CHP) plant near Immingham, on the south bank of the river Humber. It is one of the largest CHP plants in Europe, capable of generating 1240MW – about 2.5% of UK electricity peak demand and up to 930 tonnes of steam per hour, which is used by nearby Humber and Lindsey oil refineries to help turn crude oil into products, such as gasoline. We are also an active participant in the capacity mechanism.

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

Yes, we agree with Ofgem's priorities for rule changes. We have serious concerns regarding prequalification and the very high number of prequalification applications that were rejected before being subsequently approved at the first appeal stage. However, we believe that many of the issues are associated with poor systems and processes as well as a lack of clarity over the Rules. Although these wider issues may be outside the scope of this consultation, Ofgem should take an holistic view of the process.

With industry now getting used to the existing Rules, we would caution against making many changes that are not absolutely necessary and therefore fully support the proposal to only make changes where sufficient evidence is provided or where it simplifies and clarifies the existing Rules for participants.

### **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 have no issues with the current approach to calculating connection capacity. There was extensive discussion and analysis of the different options in the design of the capacity mechanism, with the current options being the result. We believe that they remain fit for purpose and that no issues have been detected – plant are only required to deliver their de-rated capacity during a system stress event and so as long as plant can demonstrate this, then we do not believe that there is an issue. In addition, the provision of historical performance data as part of the prequalification process ensures that the plant can in fact to deliver to their de-rated capacity.

A very simplistic analysis of the TEC register and the capacity register for the 2015 auction suggests that over 60% of transmission connected plant that was successful did not pre-qualify using TEC. Whilst only organisations themselves know on what basis they prequalified, it would suggest that

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different CMUs are all using different methodologies and therefore it would make sense to keep all the available options. We are disappointed that Ofgem does not appear to have done any analysis to quantify the potential issue that they are trying to solve and are seemingly basing their proposed changes on arbitrary suggestions from participants. Again, our own simplistic analysis suggests that the change to the de-rated capacity that would have pre-qualified had everyone used TEC to prequalify would be in the region of 1.2GW, or approximately 2%. We do not see this volume as being problematic or of a large enough order of magnitude to warrant a rule change at this stage.

At the Ofgem Rule Change meeting on 20<sup>th</sup> November, National Grid suggested that an issue could arise due to their de-rating approach and corresponding supply margins as a result, where they factor in margins for breakdowns and unavailability. that they would factor in as a matter of course Whilst this may well be an issue, National Grid are the only organisation with access to all of the information on connection capacity and would therefore be best placed to analyse the data. In their role as EMR Delivery Body, National Grid are also in a position to recommend any changes to the volume to procure to the Secretary of State following prequalification. Rather than change the Rules unnecessarily, we believe that National Grid should use this process should they have concerns in this area.

Furthermore, Ofgem should stick with the stated objectives of clarifying the Rules and improving prequalification instead of changing areas where there are no apparent pressing issues to change, especially as these areas of the Rules are now well understood.

We would note that all of these issues could be resolved by allowing plant to choose their own de-rated capacity, noting that this would require a change to the Regulations and may therefore be outside of Ofgem's remit.

**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 do not support any of the options outlined in Annex 1 and strongly support the existing approach as set out in the Rules. Those that operate the plant on a day to day basis are best placed to determine how the plant should prequalify

Of particular concern however, is Option E whereby NGET is allowed to choose the connection capacity. The conflicts of interest that arise from this proposal are huge. It also would allow a private company to potentially dictate commercial parameters of the assets of a different organisation – moving ever further away from the principles of a competitive market. Those best placed to understand plant dynamics and operational are those that own and operate it on a day to day basis and therefore they are best placed to make decisions regarding plant parameters.

**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?**

Yes, we believe that the benefits of allowing DSR CMUs to add, remove and reallocate outweigh the increased testing and prequalification. Volume reallocation may not provide sufficient flexibility as

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DSR units may not have prequalified and therefore may not be acceptable. As long as the onus remains on the capacity agreement holder to deliver, then we would support this proposal.

**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 have no comment.

**Q6: Do you agree with the proposals in Annex 2?**

Yes, we support the proposals in Annex 2.

We would be happy to discuss the content of the above response in further detail if required. For further question regarding any of the above, please contact:

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