

The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Matthew Magill
EMR Capacity Market Manager
National Grid

matthew.magill@nationalgrid.com

Mobile: 07790 357992

15 January 2016

Dear Sirs

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

Thank you for the opportunity to respond to the above open letter. This response is made on behalf of National Grid Electricity Transmission (NGET). NGET was designated as the Electricity Market Reform (EMR) Delivery Body for the Feed in Tariffs with Contracts for Difference (CfD) and Capacity Market in December 2011, a role which was formally conferred on NGET by the Secretary of State pursuant to secondary legislation made under the Energy Act 2013.

The Capacity Market Rules ("Rules") are central to the operation of the Capacity Market and prescribe many of the detailed rules and procedures as to how the Capacity Market will operate. As such, to the extent not specified within the Electricity Capacity Regulations, the Rules specify the obligations of both the EMR Delivery Body and industry participants wishing to bid in the capacity auction.

We welcome the opportunity to comment on the Authority's proposed priority areas for changes to the Capacity Market Rules ahead of the 2016 auctions.

This letter sets out our views on the priority areas you have highlighted plus our proposed rule changes which are appended to this document.

We note that there are several priority areas and the potential for many further rule changes to be received, in addition to those being considered by DECC following their consultation, and would reflect that after a period of significant change in this area, amendments are focused on simplifying the existing requirements on participants. A key learning from the first two auction processes is that whenever a change to processes and/or Rules is introduced there needs to be as much time as possible for all participants impacted by the change to fully understand it and assess the impact of the change on their Prequalification and/or bidding strategy.

Implementation in the summer, close to the opening of the Prequalification window, has consequences on the existing prequalification systems. It will be challenging to deliver significant changes to the prequalification system if the rules are approved in the summer

and we welcome to opportunity to work with Ofgem to develop a set of rule changes which can be delivered in time for Prequalification ahead of the 2016 Auctions.

As Delivery Body we are fully committed to helping industry understand the Prequalification process but this does need time available both for us to prepare systems and guidance material and then to be able to fully communicate this to all potential participants.

We have sought to comment on your questions below.

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

We agree with your proposed priority areas, we particularly support changes to streamline and clarify the prequalification arrangements. Through the previous two Prequalification rounds it became clear that improvements are possible in a number of areas.

Attached are a number of proposed rule changes which aim to streamline prequalification by removing unnecessary information and others which seek to clarify existing rules to focus prequalification applications on the required and assessed information, reducing the administrative burden on applicants.

Q2: Do you think there are issues with the current methodology for calculating connection capacity.

We believe that there is an issue with the current methodology for calculating connection capacity for existing transmission connection generating units. There is currently a risk of a gap between the over-delivery against de-rated volume expected from plant whose de-rated capacity matches their TEC. Of the plant that has a Capacity Agreement for 2019/20 the analysis we have carried out suggests that there is a gap between Connection Capacity calculated under the Rules and the true maximum physical output of all CMUs.

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 believe, of the options proposed, that Option C – Use the minimum of Historical Output and Transmission Entry Capacity provide the most reliable method for calculating the connection capacity. This option provides a realistic figure of what the plant is capable of delivering and taking the de-rated capacity from this figure provides a genuine de-rated capacity fulfilling the intent of the de-rating methodology.

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.

There is a perception that the CM is currently inflexible and restrictive for DSR, specifically around the reallocation of components. The following highlight the areas which we believe the industry are seeking to address.

- a) DSR reallocation would allow an applicant to move components within CMUs to different CMUs within their portfolio.
- b) Reallocation would allow a CMU which has components which generate in different seasons (i.e. winter/summer components) to reallocate them during the year.

- c) Reallocation would facilitate portfolio maintenance by allowing DSR CMUs to add in/replace different components within the delivery year.

We have summarised our response to these points below, each of which has been expanded on in an accompanying proposal,

- a) The intent behind the CM is to provide a firm level of capacity across a number of CMUs for an entire year. It is not a balancing service contract where you can offer differing volumes each week as more capacity becomes available. In that reallocating components from one CMU to another may boost the reliability of the receiving CMU but at the expense of the delivery CMU. Leading to no overall benefit in security of supply but increase in costs to provide it.
- b) We do not think any fundamental change is necessary to achieve the desired outcome. A CMU can currently prequalify more components than are necessary to fulfil a Capacity Obligation, facilitating seasonal differences. For example if CMU has 20MW of summer components and 20MW of winter components, the capacity market allows all to be allocated to a single CMU to provide 20MW all year around.
- c) The current rules allow for new DSR components to be added through the year in the form of a secondary trading entrant: This method is complex and we would welcome a more straightforward approach that ensured genuine new capacity was added to the capacity market. (We have elaborated upon this within a specific proposal).

We believe that the above routes provide the flexibility that DSR providers are seeking with regards to CMU reallocation but note that we are also committed to working with DSR providers to facilitate the growth of DSR volumes in the Capacity Market and increase their ability to participate in other balancing services outside of the Capacity Market.

It should also be noted that any rule changes with these type of significant system impacts would have to be impact assessed to implement an appropriate implementation timescale.

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 made a specific proposal aiming to align the definition of a System Stress Event with the Cash out procedures; we believe that simplifying the definition of a System Stress Event is important. Our proposal would lead to it no longer being necessary to define what sorts of demand reduction define a Stress Event in the Capacity Market Rules but instead allow Stress Events to be defined and aligned with the current BSC imbalance pricing arrangements.

Should you wish to discuss any aspect of this response further with NGET then we would be happy to do so.

Yours sincerely



Matthew Magill
EMR Capacity Market Manager.