

Report on the EMR Delivery Body's performance of its functions in relation to the Capacity Market

Report

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Overview:

The Electricity Capacity Regulations 2014 require us to provide the Secretary of State for Energy and Climate Change (Secretary of State) with an annual report on the Electricity Market Reform (EMR) Delivery Body's performance of its functions in relation to the Capacity Market.

This is the second of these annual reports, following the second Capacity Market auction in December 2015 and the Transitional Arrangements auction in January 2016. It covers the period from 1 April 2015 to 30 March 2016.

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Executive Summary

The Electricity Capacity Regulations 2014¹ (the Regulations) require us to provide the Secretary of State with an annual report on the Delivery Body's (National Grid Electricity Transmission plc, NGET) performance of its functions in relation to the Capacity Market (CM). This is the second of these reports, following the second set of Capacity Market auctions held in December 2015 and January 2016. It covers the period 1 April 2015 to 30 March 2016 (the reporting period).

Our review concludes that NGET provided all of its deliverables on time after accounting for a two week delay to the pre-qualification process opening. We did not overturn any of NGET's dispute resolution decisions.

There was a delay in NGET's delivery of the Capacity Market pre-qualification IT system which resulted in a delay to the pre-qualification process opening and some system functionality not being available. This did not have a material impact on the overall delivery of the Capacity Market but we note that this was the second year running in which such a delay occurred. Compliance action was taken against NGET for one other IT system problem.

¹ See Electricity Capacity Regulations 2014:
http://www.legislation.gov.uk/uksi/2014/2043/pdfs/uksi_20142043_en.pdf

1. Background

1.1. Scope of the report

Regulation 83 of the Electricity Capacity Regulations 2014 requires us to provide the Secretary of State with annual reports on:

- the operation of the Capacity Market; and
- the Delivery Body's performance of its functions in relation to the Capacity Market (this report).

The reports must be provided to the Secretary of State no later than six months after each T-4 capacity auction. If no T-4 auction is held in any capacity year, the reports must be provided no later than six months after the end of that capacity year.

This report examines the performance of National Grid Electricity Transmission's (NGET's) functions in the Capacity Market following the second T-4 Capacity Market auction held between 8 and 10 December 2015. These functions are set out in section 1.3 below and include activities related to (i) publication of auction guidelines before the start of a prequalification window, (ii) pre-qualification of applications, and (iii) holding of the capacity auction. The report also records material operational issues that occurred during the reporting period. A separate publication, the Annual Operational Report on the Capacity Market, focuses on the operation of the Capacity Market.²

The Secretary of State may also instruct us to report on any particular matters in any reporting year, provided the Secretary of State gives notice to us not later than three months before the date by which we are required to provide the annual report. No such notice has been received for this report.

In parallel to providing the reports directly to the Secretary of State, we are required to make them publically available. This report will be published on our website.

1.2. Electricity Market Reform

The Capacity Market is one of the key mechanisms introduced under the Government's EMR programme to ensure security of electricity supply. Introduction of the Capacity Market, together with Contracts for Difference, the Emissions Performance Standard, and the Carbon Price Floor, aims to decarbonise electricity generation and ensure security of supply, whilst minimising the cost to consumers.

1.3. Capacity Market

The implementation and operational processes of the Capacity Market are governed by the Electricity Capacity Regulations 2014 and the Capacity Market Rules 2014³ (the Rules), which came into force on 1 August 2014.

This report follows the completion of the second T-4 Capacity Market auction held between 8 and 10 December 2015 for the 2019/20 delivery year.

² Published alongside this report.

³ <https://www.gov.uk/government/publications/capacity-market-rules>

NGET's deliverables in relation to the Capacity Market are set out in the Electricity Capacity Regulations 2014⁴ and include:

- Preparation, delivery to the Secretary of State and publication of an annual electricity capacity report, containing an assessment of the amount of capacity that is needed for a delivery year.
- Publication of auction guidelines before the start of a pre-qualification window, containing information on when the auction is to start, details on how to apply to pre-qualify, the timetable and the de-rating factor of each generating technology class set out in the capacity market rules.
- Determining the pre-qualification of all applications and notifying each applicant of its decision.
- Reconsidering its pre-qualification decision if requested by the applicant.
- Notifying pre-qualification results to the Secretary of State.
- Advising the Secretary of State on the need to adjust the demand curve for the capacity auction.
- Holding the capacity auction and notifying auction results to the Secretary of State, bidders and general public.
- Establishing and maintaining the Capacity Market Register, containing – amongst other things – the details of each capacity agreement that is awarded following a capacity auction.
- Termination of Capacity Agreements when required under the Regulations.

More information on the Capacity Market is provided in our Annual Operational Report on the Capacity Market.

⁴ Regulations 7, 8, 21-25, 31, 34, 35, 39

2. Review of NGET Performance

2.1. Overview

This section sets out our review of NGET's performance of its functions. We look at the deliverables NGET was required to provide over the reporting period, stakeholder engagement undertaken by NGET, and NGET's performance in the pre-qualification and dispute processes. We also discuss two operational issues relating to NGET's IT system.

2.2. Deliverables

Table 1 sets out the deadlines and delivery dates for NGET's Capacity Market deliverables during the reporting period. NGET met all of the deadlines after a revision of the deadlines due to a delay in the opening of the pre-qualification window. IT problems caused a two week delay and, as a result, the window did not close until 28 August. The amended implementation plan put in place following the IT problems is reflected in the deadlines below.

Table 1: Performance against key deliverables

Deliverable	Deadline	Date Delivered
Publication of CM T-4 Auction Guidelines ⁵	30 June 2015	29 June 2015
Completion of Pre-qualification for the CM T-4 auction	25 September 2015	25 September 2015
Provision of CM T-4 pre-qualification report to the Secretary of State	5 October 2015	5 October 2015
Management and issue of decision notices on all CM Tier 1 disputes received	9 October 2015	9 October 2015
Completion of CM T-4 Auction	10 December 2015	10 December 2015
Provision of CM T-4 Auction Monitor report to the Secretary of State	14 December 2015	14 December 2015
Publication of CM T-4 Auction Results	22 December 2016	22 December 2016
Issue of T-4 Capacity Agreements	22 January 2016	20 January 2016
Maintenance of Capacity Market Register	Regularly updated	Regularly updated

Table 1 shows that NGET met all of its deliverables on time.

We are not aware of any issues with the auction process or systems. The Auction Monitor's report⁶ concluded that the Delivery Body fulfilled its responsibilities pursuant to

⁵ The Capacity Market Auction Guidelines were initially published on 29 June 2015. They were updated following changes to the prequalification window and republished on 21 July 2015 and 6 August 2015. A final version was published 16 November 2015, see <https://www.emrdeliverybody.com/Capacity%20Markets%20Document%20Library/Finl%20Auction%20Guidelines%2016th%20November%202015.pdf>

Chapter 5 of the Capacity Market Rules and the Data and Auction sections of the Capacity Market Auction Guidelines.

2.3. Stakeholder engagement

NGET has a key role in ensuring that market participants have the knowledge and understanding to successfully participate in the Capacity Market. NGET continued to develop and implement the tools, systems, and processes from the first year of the Capacity Market to enable effective participation.

As part of these efforts, NGET held a total of nine stakeholder workshops over the year covering pre-qualification process, auction, electricity capacity report, IT systems, and general implementation updates.⁷ These workshops were a continuation of a series of events initiated in the previous review period.

NGET continued to operate its dedicated website on the Capacity Market⁸ and ran webinars giving participants training on the auction tool and how to use it. NGET also organised workshops and mock auctions to provide bidders with the opportunity to test access and functionality, as well as to confirm their data on the Capacity Market Register. This provided a simulation of the T-4 Auction, allowing market participants to gain familiarity and practise in bidding.

2.4. Process for pre-qualification decisions

The findings of our previous review of NGET's prequalification processes for its 2014 Capacity Market pre-qualification decisions and dispute resolution were sufficiently reassuring that we did not initiate another review. We do not think a further review of NGET's decision-making is necessary at this time.

2.5. Dispute resolution

Recognising NGET's performance in its dispute resolution function in the first Capacity Market year, we continued the financial incentive on dispute resolution to encourage effective performance. This incentive is awarded on the basis of how many reviewable Tier 1 decisions by NGET are overturned by Ofgem.

There were two CMUs appealing NGET's Tier 1 decisions in respect of the Capacity Market applications during the reporting period. At the Tier 2 stage we did not overturn any of these Tier 1 decisions made by NGET. As a result, NGET was awarded the full value of the Dispute Resolution incentive under Special Condition 4L of its Transmission Licence.

2.6. Information technology issues

Two IT issues affected the delivery of the Capacity Market in this reporting period. The first, as was mentioned in Section 2.2 above, was that NGET failed to deliver the IT

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/490284/CM_AM_Assurance_Report_T-4_CM_Auction_2015_Final_1.pdf

⁷ <https://www.emrdeliverybody.com/CM/Industry-Events.aspx>

⁸ <https://www.emrdeliverybody.com/CM/>

system for pre-qualification on time, delaying the opening of the period by two weeks. As a result, the pre-qualification was shortened by one week and it closed on 25 September. This was the second consecutive year in which problems with IT systems roll-out caused delays in pre-qualification. We treat these issues seriously, as GB consumers fund the Delivery Body for efficient delivery of IT systems. Delays in delivery also create risks to the effective operation of EMR and may have impacted stakeholder confidence. We wrote to NGET asking them to detail the causes and consequences of the issues that it has had with delivering these systems.

The other IT issue affecting Capacity Market delivery involved the handling of Confidential EMR Information (CEMRI) on 3 August 2015. NGET self-reported the incident to us and we required NGET to appoint an independent external auditor to examine the policies and procedures in place for handling CEMRI and to ensure compliance with Special Condition 2N and Regulation 65(1). The incident management process was also reviewed and remedies recommended. We have reviewed the completed audit and will review the remedies when implemented.

2.7. Conclusion

We conclude that NGET adequately performed its role as the Capacity Market Delivery Body in the year 2015-16. The issues experienced in IT systems roll-out did not substantively affect the operation of the Capacity Market despite delaying the beginning of pre-qualification by two weeks. We recognise the importance of IT to the delivery of the Capacity Market and will continue to monitor NGET's compliance in this respect. We continue to be satisfied with the approach taken by NGET to its management of the pre-qualification and dispute resolution processes, as well as its stakeholder engagement.