

# 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 third of these annual reports, following the third T-4 Auction in December 2016, the Early Capacity Auction in January 2017 and the second DSR Transitional Auction in March 2017. It covers the period from 1 April 2016 to 31 March 2017.

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# Executive Summary

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The Electricity Capacity Regulations 2014<sup>1</sup> (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. This is the third of these reports, following the third round of Capacity Market auctions held between December 2016 and March 2017. It covers the period 1 April 2016 to 31 March 2017 (the reporting period).

Our review concludes that NGET provided all of its deliverables on time and that NGET's obligations in delivering the Capacity Market are, on the whole, being met to a satisfactory standard. We also recognise that the delivery of another full Capacity Market auction following the introduction of the Early Capacity Auction (ECA) added a significant amount of work and additional deliverables for NGET.

However, this is the third year of delivery and our expectation is that NGET's performance should improve with each delivered round of the Capacity Market. While general performance is adequate, there are also signs of issues, which we would like to see addressed before they become more serious.

- NGET's performance in its incentivised Customer and Stakeholder Satisfaction Survey decreased slightly to an average of 7.31. Several specific complaints were raised to us, including issues with the Prequalification IT system, communication with NGET and the level of detail given in NGET's decisions. NGET will lose £54,545 as a result of its performance under this incentive.
- NGET experienced two IT failures, which resulted in downtime over 17 working days. Stakeholders raised concerns that this affected their ability to submit prequalification information.
- We overturned ten of NGET's reconsidered decisions relating to Capacity Market Prequalification. These related to two substantive issues. NGET will neither gain or lose money as a result of our incentive on dispute resolution.

NGET have committed to reviewing stakeholder concerns and putting in place a comprehensive set of actions to address them. We expect NGET to publish the steps it intends to take before the beginning of the Prequalification Window, to monitor the improvements to ensure they are working, and to report on them.

Despite these concerns, we have also witnessed positives about NGET's performance, including the successful implementation of the Early Capacity Auction. Stakeholders rated the Auction system, NGET's Auction reporting, and the quality of pre-auction information highly. We were satisfied to see the successful implementation of the IT systems for Prequalification and the Auction.

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<sup>1</sup> See Electricity Capacity Regulations 2014:  
[http://www.legislation.gov.uk/uksi/2014/2043/pdfs/uksi\\_20142043\\_en.pdf](http://www.legislation.gov.uk/uksi/2014/2043/pdfs/uksi_20142043_en.pdf)

# 1. Background

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## 1.1 Scope of the report

Regulation 83 of the Electricity Capacity Regulations 2014 (the Regulations) requires us, no later than six months after each T-4 capacity auction, to provide the Secretary of State with annual reports on:

- the operation of the Capacity Market;<sup>2</sup> and
- the Delivery Body's performance of its functions in relation to the Capacity Market (this report).

This report examines the performance of National Grid Electricity Transmission's (NGET's) functions as the Delivery Body for the Capacity Market, which are set out below. The report also records material operational issues during the reporting period.

The Secretary of State may instruct us to report on any particular matters in any reporting year. 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 Capacity Market

NGET's deliverables in relation to the Capacity Market are set out in the Electricity Capacity Regulations 2014 and include:<sup>3</sup>

- 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 Prequalification Window, containing information on when the auction is to start, details on how to apply to Prequalify, the timetable and the de-rating factor of each Generating Technology Class set out in the Capacity Market Rules.
- Determining the Prequalification of all applications and notifying each applicant of its decision.
- Reconsidering its Prequalification decision if requested by the applicant.
- Notifying Prequalification 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 the general public.
- Establishing and maintaining the Capacity Market Register, containing – amongst other things – details of each Capacity Agreement awarded following a Capacity Auction.
- Termination of Capacity Agreements when required under the Regulations.

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<sup>2</sup> <https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-market-reform-emr>.

<sup>3</sup> Regulations 7, 8, 21-25, 31, 34, 35, 39

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

## 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 Prequalification and dispute processes. We also discuss 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 key deliverables during the reporting period. NGET met all of the deadlines on time.

*Table 1: Performance against key deliverables*

<b>Deliverable</b>	<b>Deadline</b>	<b>Date Delivered</b>
Publication of CM T-4 Auction Guidelines	Prior to PQ window	8 July 2016
Completion of Prequalification for the CM T-4 auction	23 September 2016	23 September 2016
Provision of CM T-4 Prequalification report to the Secretary of State	3 October 2016	3 October 2016
Issue decision notices on all requests for reconsidered decisions	14 October 2016	14 October 2016
Completion of CM T-4 Auction	9 December 2016	8 December 2016
Provision of CM T-4 Auction Monitor report to the Secretary of State	13 December 2016	13 December 2016
Publication of CM T-4 Auction Results	20 December 2016	20 December 2016
Issue of T-4 Capacity Agreements	20 January 2017	20 January 2017
Completion of ECA	3 February 2017	3 February 2017
Provision of ECA Auction Monitor report to the Secretary of State	7 February 2017	7 February 2017
Publication of ECA Results	15 February 2017	15 February 2017
Issue of ECA Capacity Agreements	15 March 2017	15 March 2017
Completion of DSR TA 2017	24 March 2017	22 March 2017
Provision of DSR TA 2017 Auction Monitor report to the Secretary of State	24 March 2017	24 March 2017
Publication of DSR TA 2017 Results	3 April 2017	3 April 2017
Issue of DSR TA 2017 Capacity Agreements	3 May 2017	3 May 2017

The Auction Monitor's three reports<sup>4</sup> concluded in each case that the Delivery Body complied with its responsibilities pursuant to 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 tools, systems, and processes to enable effective participation. NGET held a total of five stakeholder workshops over the reporting period covering the Prequalification process, the auction, the Electricity Capacity Report, IT systems, and general implementation updates.<sup>5</sup> These workshops were a continuation of a series of events initiated in the previous reporting periods. In addition to these workshops, NGET continued to operate its dedicated website on the Capacity Market<sup>6</sup> and organised webinars for providers on the auction platform and on metering.

Several stakeholders raised specific concerns with us about NGET's unavailability during Prequalification, although we understand that one reason for this was the significant increase in applications submitted following the introduction of the Early Capacity Auction by the government.

The 2016 Customer and Stakeholder Satisfaction Survey forms the basis of one incentive under Special Licence Condition 4L of NGET's Electricity Transmission Licence. The incentive has a value of ±£300,000 for the Capacity Market. For the previous reporting period, 2015/2016, stakeholders rated NGET's performance of its functions at an average of 7.46 out of a maximum of 10. This figure set the baseline for the Customer and Stakeholder Satisfaction Survey carried out this year. NGET's performance in the 2016/17 survey resulted in an average score of 7.31. This is a slight decrease from the baseline score and results in NGET losing £54,545 on the Customer and Stakeholder Satisfaction Incentive.

Stakeholders expressed dissatisfaction with the NGET website, with the DB Admin System, and with the quality of information provided at Prequalification and during the Dispute resolution process. Each of these categories received an average score below 7. In the 2015/16 Survey, similar questions averaged considerably higher scores, including over 8 for satisfaction with the Delivery Body's explanations of decisions.

On the other hand, stakeholders gave high reviews for NGET's auction reporting, the online auction system, and quality of pre-auction information, averaging scores of 8, 8.1, and 7.8 for these issues respectively.

## 2.4 Process for Prequalification decisions

We reviewed NGET's Prequalification decision-making processes in 2015 and do not think a further review is necessary at this time. However, stakeholders and our internal monitoring identified several issues, which we discuss in the following section.

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<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/578017/T-4\\_Capacity\\_Market\\_Auction\\_2016\\_Auction\\_Monitor\\_Report\\_for\\_publishing.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/578017/T-4_Capacity_Market_Auction_2016_Auction_Monitor_Report_for_publishing.pdf);  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/594732/EA\\_2017\\_Auction\\_Monitor\\_Report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/594732/EA_2017_Auction_Monitor_Report.pdf);  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/608085/TA\\_2017\\_Auction\\_Monitor\\_Report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/608085/TA_2017_Auction_Monitor_Report.pdf);

<sup>5</sup> <https://www.emrdeliverybody.com/CM/Industry-Events.aspx>

<sup>6</sup> <https://www.emrdeliverybody.com/CM/>

We are concerned with the significant number of applications requiring a reconsidered decision by NGET. While we expect the majority of these to have been the result of applicants submitting new information before the reconsidered decision, the volume suggests that improvements to the process can still be made. We would like to see NGET put in place actions to reduce the number of appeals.

Stakeholders have also raised complaints to us about inconsistent application of de-rating by NGET leading to unexpected capacity determinations and about CMUs being Conditionally Prequalified and therefore having to secure a significant amount of credit cover in a short amount of time. Several stakeholders also noted that the information received by NGET to justify its decision was not always adequate. As noted in the section below, we overturned one of NGET's Prequalification decisions on the grounds of procedural unfairness relating to the communication of the decision to the Applicant.

NGET has informed us of a number of process improvement actions it is taking to increase efficiency and improve customer experience in Prequalification, including commitments to improve the usability and navigability of both the Delivery Body website and the DB Admin System. NGET intends to focus on improving its customer support through better communication, clearer guidance, and the use of engagement leads for each customer. We would expect these commitments to lead to better and more timely communication between NGET and customers and to make the Prequalification process simpler and clearer. We expect NGET to monitor and report on the outcome of these, including through assessing the volume of Prequalification decisions that require a request for reconsideration.

## 2.5 Dispute resolution

NGET has a financial incentive on dispute resolution to encourage effective decision making by NGET. The Dispute Resolution incentive is specified in Special Condition 4L of NGET's Electricity Transmission Licence and is awarded on the basis of how many reviewable decisions by NGET are overturned by Ofgem.

There were 52 CMUs appealing NGET's Reconsidered decisions in respect of the Capacity Market Applications for Prequalification and one CMU appealing a decision on the Capacity Market Register during the reporting period. We received appeals concerning connection capacity, administrative errors made by the applicant in the Application for Prequalification, allegations of procedural unfairness by NGET, misapplication of the Capacity Market Rules, Total Project Spend and Maximum Obligation Period, and erroneous classification as a Conditionally Prequalified CMU.

On appeal, we overturned ten of the Reconsidered decisions made by NGET and changed the outcome on two.<sup>7</sup> In the Early Capacity Auction, we overturned one Prequalification decision for two CMUs relating to misapplication by NGET of the Capacity Market Rules on dispatch controllers. We overturned one decision, for eight CMUs, in the DSR Transitional Auction as a result of procedural unfairness. We overturned no decisions in the T-4. For the purposes of our decisions and the Dispute Resolution incentive, these CMUs were grouped where NGET had made the same decision for a number of related CMUs. As a result, NGET's performance under its Dispute Resolution incentive was £0.

In addition to the above we changed the Prequalification parameters for two CMUs in the Early Capacity Auction, which did not count towards NGET's financial incentive.

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<sup>7</sup> All of our CM Prequalification Appeal determinations can be found on our website. <https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-market-reform/electricity-market-reform-emr-dispute-resolution>



## 2.6 Information technology

NGET made several improvements to its IT systems in the reporting year. The Prequalification system was successfully implemented, following failure to do so in the previous two years. NGET also made improvements to its compliance procedures relating to its licence conditions on confidential information. As noted above, stakeholders rated NGET's auction system very highly. However, some IT problems were still encountered, leading to alleged difficulties in Prequalification for some applicants.

The Application portal was unavailable on two identified occasions during the reporting period. NGET experienced an unscheduled shut-down for a short time during the Application window as a result of the volume of traffic experienced. NGET then suspended the system from 24 October to 15 November 2016 to deploy system changes introduced as a result of internal process improvement and to comply with changes to the CM Rules by Ofgem and BEIS. This suspension was ahead of the deadline to submit planning consents for New Build CMUs on 4 November 2016. We received several complaints about the unavailability of the system at this time and were made aware that it complicated submission for some Applicants.

NGET have stated that the deployment extended beyond the deadline due to a system defect, which could have threatened NGET's compliance with Special Licence Condition 2N. NGET has also assured us that it contacted all Applicants to inform them of the system unavailability and offered an alternative workaround by allowing submission of planning consents by email.

NGET continued to implement remedies as recommended by an independent external auditor following the CEMRI breaches in 2015.<sup>8</sup> We met with NGET in July 2016 and we remain satisfied by the remedies taken.

## 2.7 Conclusion

NGET met the requirements for performing its role as the Capacity Market Delivery Body in the year 2016/17. The issues in stakeholder engagement and in the operation of the CM web portal did not substantively affect the operation of the Capacity Market despite causing difficulty and frustration for some applicants. We recognise the importance of IT to the delivery of the Capacity Market and will continue to monitor NGET's compliance in this respect.

Although there were an increased number of concerns from stakeholders, we have also witnessed positives about NGET's performance. Stakeholders rated the Auction system, NGET's Auction reporting and the quality of pre-Auction information highly. We were satisfied to see the full implementation of the IT systems for Prequalification and the Auction despite some slight accessibility issues. NGET also successfully implemented the Early Capacity Auction.

While we do not have major concerns with the approach taken by NGET to its management of the Prequalification and dispute resolution processes, we expect NGET to implement further process improvements to reduce the volume of Requests for Reconsideration following the Prequalification Assessment Window. We also expect this to be accompanied by better guidance documents and better engagement with stakeholders during the Application Window to ensure that stakeholders receive sufficient guidance to successfully apply.

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<sup>8</sup> As detailed in our 2015/16 Report on the EMR Delivery Body's performance in relation to its functions in relation to the Capacity Market  
[https://www.ofgem.gov.uk/system/files/docs/2016/06/20160606\\_delivery\\_body\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/06/20160606_delivery_body_report.pdf)

We expect NGET to operate a fair process when delivering its obligations in the Capacity Market. In the reporting period, we overturned disputes for a lack of procedural fairness by NGET for providing insufficient reasons for rejection at Prequalification, which impeded Applicants from correcting errors in the submitted Application. We expect NGET in future to provide complete and robust reasons for rejecting any Applications for Prequalification.

In the previous Delivery Body Performance Report we urged NGET to improve its stakeholder engagement. We have not seen a marked improvement and have instead received an increased volume of complaints. NGET have committed to present a series of actions it intends to address stakeholder concerns before the beginning of the Prequalification Window. We expect NGET to provide evidence that the actions have been taken and that they have improved performance.