

3 May 2018

Dear Mark,

**Statutory consultation on changes to the Capacity Market Rules 2014 (the “Rules”)
pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the “Regulations”)**

The Electricity Settlements Company Ltd (ESC) oversees settlement of the Capacity Market (CM), including metering systems assurance and the administration of credit cover. Amendments to the CM Rules quite often impact on ESC and we welcome this opportunity to respond to Ofgem’s consultation of 22 March 2018. ESC in its response has focused on the key themes of the consultation as stated below, Ofgem’s decisions as set out in Annex B and its proposed rule drafting as set out in Annex E.

Detailed comments have been provided where ESC considers further review of decisions in Annex B, rule drafting in Annex E or further clarification is required from Ofgem to ensure changes made in our settlements service can be fully impact assessed and are fit for purpose ahead of Delivery Year 2018 and Delivery Year 2019 respectively.

Summary of key messages

Of12 DSR Component Reallocation

- ESC has provided detailed comments on the proposal for Of12 which it believes can be delivered for Delivery Year 2019 subject to Ofgem reconsidering its decisions on Change proposals (CPs) 295, 296 and 351. Both ESC and National Grid the EMR Delivery Body (NGDB) agree that these CPs need to be taken forward to enable the full functionality needed for delivering Of12.

CP276 (DSR Testing) and CP 277 (SPD Testing)

- ESC cannot support this change as currently proposed. CP276 and CP277 bypass the assurance processes put in place by the Settlement Body (ESC), NGDB and Ofgem by proposing to use Balancing Services Metering. ESC believes this undermines the Capacity Market Regulation 2 definition of a settlement period. If the balancing services metering data is required to fit this regulatory requirement, then both CP276 and CP277 would conform to assurance processes in place and be much simpler to implement and mitigate the risk of failure during a stress event.

A detailed response to the consultation proposals can be found in the attachment to this letter. I confirm that this response can be published on Ofgem’s website.

Yours Sincerely,

Omer Ahmad

**Capacity Market Policy Delivery Manager
Strategy & External Relations, LCCC and ESC**

Attachment: Ofgem CM Rules 2018 Consultation questions

1. General Provisions

No comment.

2. Auction Guidelines and De-rating

No comment.

3. Prequalification Information

CP288 (Energy UK), CP307 (WWA) and CP319 (NGET)

ESC supports the proposals being taken forward with regards to VAT. We would however, recommend that Ofgem in the Rule drafting makes clear the onus on CM applicants and agreement holders to update their key information such as VAT registration and/or status when it changes and inform the relevant bodies in a timely manner. ESC also supports Ofgem's decision in the consultation document to retain the requirement for postcodes. This is key information that helps to locate project sites and for conducting due diligence checks.

CP295 (ESC) Auxiliary Load & CP296 (ESC) Line Loss Factors

ESC cannot support Ofgem's decision to reject these two change proposals as they are required to deliver the changes needed to ESC's settlements services and processes to enable the delivery of Of12 DSR component reallocation for Delivery Year 2019. Please see ESC's response to Of12 (Ofgem) in **section 8** on **Obligations of Capacity Providers and System Stress Events** below for further detail.

Also, these two changes are required to make the necessary adjustments to deliver workable solutions in ESC's settlements services and processes for CP276 (DSR Testing) and CP277 (SPD Testing). Please see ESC's responses to CP276 and CP277 in **section 13** on the **Testing Regime** for further detail.

CP297 (ESC) Ineligible Capacity

ESC would like to see this change proposal accepted, but recognises that in this Rule change cycle it is not possible to accommodate this change without further analysis being completed by Ofgem on enabling renewable technologies to enter the Capacity Market scheme. ESC recommends that as Ofgem develops its thinking on enabling renewable technologies to enter the Capacity Market, it revisits the proposals in CP297 to ensure the safeguarding of the CM scheme's state aid clearance requirements i.e. the ineligibility of CM payments for capacity in receipt of low carbon subsidies. Also see ESC's response to CP305 (ESC) in **section 8** on **Obligations of Capacity Providers and System Stress Events** below for further detail.

CP298 (ESC) Information Sharing

As the disburser of Capacity Market (CM) funds in Great Britain, ESC has an obligation to protect public money from fraud¹ and inform the BEIS Accounting Officer if it suspects fraud may be taking place. An important part of settlements assurance is checking that public money is paid to the right people in the right amounts.

ESC has worked closely with National Grid Electricity Transmission (NGET) the EMR Delivery Body (NGDB) since January 2018 to review Special Licence Condition 2N (SLC2N) to identify a legal route to enable the sharing of the specific information ESC

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/338356/FINAL_ESC_Framework_Document.pdf

requires from NGDB to carry out fraud risk assessments. This route has been explored as there is currently no option to change Regulation 65 and therefore amend the CM Rules.

Both delivery partners are in the process of scoping and agreeing a potentially suitable IT solution to ensure all other CM information not relevant to fraud prevention is redacted by NGDB before sharing the relevant information with ESC in a secure way.

We aim to present our conclusions and recommendations to Ofgem before it finalises its 2018 Rule changes to allow for time to consider any necessary Rules amendments once NGDB's and ESC's data sharing review work has concluded.

CP351 (NGET/ESC)

Please see ESC's response to Of12 (Ofgem) in section 8 on **Obligations of Capacity Providers and System Stress Events** and its responses to CP276 (DSR Testing) and CP277 (SPD Testing) in section 13 on the **Testing Regime** for further detail.

4. Determination of Eligibility

No comment.

5. Capacity Auctions

No comment.

6. Capacity Agreements

No comment.

7. Capacity Market Register

No comment.

8. Obligations of Capacity Providers and System Stress Events

CP279 (Energy UK), CP289 (Engie), and CP290 (Engie)

Ofgem has stated its proposed decision is to "Take Forward (delayed implementation)" these change proposals. ESC will begin work on implementing these changes once they are all confirmed as Rule changes.

We wish to also make Ofgem aware of a BSC modification P354 which will need to be taken into account in Rule 14.4.2 drafting and potentially Rule 8.5.2 drafting to enable CP279, CP289 and CP290 to be taken forward. The implementation of these Rule changes is dependent on the final agreed solution for BSC modification P354 relating to the use of Applicable Balancing Services Volume Data (ABSVD) for non-Balancing Mechanism (BM) Balancing Services at the metered (Meter Point Administration Number-MPAN) level. For ESC to implement these changes in its settlements service based on currently available information and known dependencies we would need to have the draft Rules changes supporting P354 to be available by April 2019 for our design and development of CP279/289/290 for Delivery Year 2019/20.

CP294 (ESC) Interconnectors

ESC is aware that this proposal is similar to one that has already been proposed by BEIS in its 2017 capacity market consultation decision published on 4 December 2017, which stated:

"ALFCO with reference to interconnectors: *The CM Rules will be amended to clarify that the ALFCO calculation applies to interconnector CMUs.*" Therefore, we support the rejection of this change proposal as it is being taken forward already.

CP304 (ESC) clarify the metering requirements for a CMU which is a BMU

Ofgem has stated its proposed decision is to "Take Forward" this ESC change proposal. This change in the Rules will clarify to industry what the Metering System will be tested against where only a subset of existing BM Unit metering is used as part of the CMU.

CP305 (ESC) Site Visits

Notice period for site visits

ESC in CP305, had requested 24 hours' notice to enable faster site access where fraud is suspected, for example, metering fraud. The current CP305 proposal amendment from Ofgem is to make the notice period one month. Ofgem accepts that "ESC needs adequate access to Capacity Providers, documents, and information to conduct due diligence." However, it has concluded that 24 hours' notice is not possible currently as it requires a regulatory change to accommodate the full breadth of changes ESC has proposed in CP305 to enable it to conduct more rapid site visits for its due diligence and metering checks, which ESC accepts.

ESC supports Ofgem's alternative 'minded to' proposal to make changes to facilitate ESC's access to sites to inspect metering by reducing the window for accessing metering equipment to one month from the current two months. Should there be any further scope for Ofgem to reduce this notice period further, we would request it be considered for Delivery Year 2018.

Metering fraud prevention including units in receipt of low carbon subsidies

We agree that this change to the Rules will allow ESC to more actively prevent and mitigate metering fraud, such as including units in receipt of low carbon subsidies in a CMU (which was separately proposed in CP297 but rejected). ESC requests that as Ofgem develops its thinking on enabling renewable technologies to enter the Capacity Market (CM) scheme, it revisits the proposals in CP297 to ensure the safeguarding of the CM scheme's state aid clearance requirements i.e. the ineligibility of CM payments for capacity in receipt of low carbon subsidies.

Of12 (Ofgem) DSR Component Reallocation

ESC supports Ofgem's objective of improving flexibility in the Capacity Market (CM) to enable broader participation through the reduction of technical and cost barriers for new entrants. We recognise that this objective for improved flexibility must be balanced against the CM schemes security of supply objective and the need to ensure the scheme's reliability during a stress event.

ESC therefore, supports the principle to facilitate DSR component reallocation (Of12) in the CM scheme. We have been reviewing the requirements since Ofgem's statutory consultation in 2017 and have made good progress on identifying the key challenges with our Settlements Service Provider (EMRS) and their external software developers to delivering this proposal in our settlements system and service.

As this is a complex change, with potentially high expected use throughout the delivery year, ESC and EMRS require a significant change to the settlements systems, which were designed at the outset of the Capacity Market under a different set of requirements. To support the Of12 proposal ESC and EMRS are proposing to substantially automate the aggregation rules processes in key areas to support the removal of barriers to entry for DSR CMUs and move towards a component level approach (specifically for DSR CMUs).

ESC has identified further additional Rule drafting requirements which we believe are essential to enable delivery of Of12 for Delivery Year 2019/20, as explained below. Both ESC and NGDB plan to implement and end-to-end test for all required changes to the EMR systems and services in 2019, subject to all necessary changes being published in the 2018 CM Rules prior to June 2018. In conjunction with NGDB, ESC has scheduled this change for Delivery Year 2019/20 on the expectation that Of12, CP295, CP296 and CP351 are finalised in the CM Rules in June 2018.

Data requirements

OF12 should be linked with CP295, CP296 and CP351 due to the complexities of the metering data required and the associated risk of error.

A permitted on-site generating unit is subject to the definition of a generating unit in the Regulations and is required to provide a Metered Volume that is Net Output. This potentially requires the subtraction of Metered Volumes from a separate Auxiliary Load circuit, and where this Auxiliary Load circuit supplies other generating units an apportionment multiplier would be applied to those Metered Volumes. To be able to facilitate that in the settlement system the information required in CP295 is essential, this would also be applicable should the component be reallocated.

A Meter Point used by a DSR CMU Component that is not the BSC Settlement Meter requires to have Line Loss Factors applied to the Metered Volumes. This is applicable to all Balancing Services and Bespoke Metering Configuration Solutions. As above, to be able to facilitate that in the settlement system the information required in CP296 is essential, this would also be applicable should the component be reallocated. As there are high volumes of Components in this scenario it is imperative to have it clarified in the Rules what is required to carry out this activity.

CP351 is required to have a data validation process to validate all of this metering information to allow the settlement activity to be performed accurately giving industry the assurance that the risk of error and poor quality data impacting the settlement process is minimal. This is the basis of the aggregation rules used to determine CMU Metered Volumes and this will become an ongoing activity, potentially high volume, with Component reallocation. Without a process in the Rules to have a single location of this data and have it validated there is a risk that the settlement activity will not be operating accurately. Having a single source of this information will provide a more efficient and robust process, particularly if we have high volumes of requests for Component reallocation.

Minimum data requirements (note that different combination of the data is required depending on BMU/MPAN/MSID meter type):

- CMU ID
- ComponentID
- ComponentEFD
- ComponentETD
- BMUID
- SharedDemandMultiplier
- MPAN
- BMEID
- BoundaryMPAN
- BoundaryMSID
- InterconnectorID
- Distributor ID
- LLFC ID
- Metered Entity Type

- Change Flag
- Component address

These data items must be provided in the correct format as specified by NGDB and EMRS. This assumes that if there was a change to the Metered Entities comprising a Component this will result in a new Component being created. Otherwise we will require additional data requirements as part of the minimum information.

Data requirements for Of12 should be included in the Rules for clarity and openness to participants. ESC, NGDB and EMRS agree that Chapter 14 is used to keep the data in a single place as far as is reasonably practical and as part of the Metering Assessment to incentivise Capacity Providers to complete Metering Information in a timely manner.

The metering information processes must be completed in advance of the Delivery Year commencing for normal CMUs and within a set amount of time for new DSR Components through the Delivery Year. The connection should be made to a Metering Assessment requirement by linking this process to a termination reason to the non-provision of data under Rule 6.10.1.

Rule 8.3.4(f) and Rule 13.2.11

This needs a validation step added to enable ESC and NGDB to authenticate the meters involved. We believe that DSR CMUs should have a DSR Volume for both the CMU level and individual Component level to provide assurance that there is enough capacity in the CMU to deliver the obligation where Components are reallocated.

For example, if we consider the scenario where there are five Components in a DSR CMU. The DSR CMU has proven at 20MW. We have no easily identifiable way of knowing what each Component delivered as part of that 20MW. If, for example Component 1 delivered 16MW and Components 2 to 5 delivered 1MW each there is a risk that the CMU could not deliver its Capacity Obligation if Component 1 was re-allocated. There is a risk that the CMU, with Component 1 in place, completed all required SPDs and was then reallocated that any substituted Component wouldn't have enough capacity to make up the 16MW Component 1 is capable of. Where the capacity provided is broken down at Component level it could be determined whether the DSR Test on the new Component 6 was enough to compensate for the contribution of Component 1 (i.e. the 16MW) once it was reallocated.

Rule 13.2.11 for DSR Testing and certification

In addition, this would require a change to Rule 13.2.11 to also make it a requirement to include the proven capacity of the individual Components on the DSR Test Certificate. There would need to be a process in the Rules, including responsible party, to determine that the overall CMU Capacity Obligation can still be met prior to permission to reallocate being given.

We see this as being vital to prevent a barrier to entry for Component reallocation while still providing assurance that the Capacity Obligation can be delivered. Ultimately we, and all stakeholders, need to have the confidence that a Capacity Obligation can still be delivered during a Stress Event to prevent the Capacity Market from failing to serve the purpose it was created for.

Of13 (Ofgem)

ESC has worked closely with Ofgem on the Rule change drafting requirements to deliver Of13. We are assessing this change in our settlements system based on the drafting provided in Annex E and are confident it can be delivered for the 2018 Delivery Year.

Of15 (Ofgem)

ESC will work with Ofgem to implement this change once it is finalised. Currently it requires regulatory changes to be delivered in full.

9. Transfer of Capacity Obligations

No comment.

10. Volume Reallocation

No comment.

11. Transitional Arrangements

No comment.

12. Monitoring

No comment.

13. Testing Regime

CP276 (DSR Testing) and CP277 (SPD Testing)

Supporting flexibility in the CM Rules and safeguarding settlement and assurance processes

ESC supports Ofgem's objective of improving flexibility in the Capacity Market (CM) to enable broader participation through the reduction of technical and cost barriers for new entrants. We recognise that this need for improved flexibility must be balanced against the CM schemes security of supply objective and the need to ensure the scheme's reliability during a stress event.

ESC believes that the change proposals 276 (DSR Testing) and 277 (SPD Testing), as currently proposed and drafted in the CM draft Rules, will increase the risk of non-delivery during a stress event through the use of Balancing Services Metering for Satisfactory Performance Days (SPD) rather than the Supplier Settlement Metering that would be used in a Stress Event. Therefore, in their current drafted form, these changes will have a high impact on ESC's settlements service.

In order to progress these changes, Ofgem would need to ensure that the CM Rules require any Balancing Services Metering solution used for SPDs to undergo a metering test (to the required standards of Rule 13.3 and Schedule 6). If this is not made a requirement, then the implications on the CM scheme and settlements are set out below. Without this and associated changes, the implementation of CP276 and CP277 will not provide any assurance that capacity can be delivered when required in a stress event.

ESC has outlined the key affected areas below to further highlight the challenges to our settlements service if CP276 and CP277 were to be progressed in their current form. We have also proposed how these could be delivered at the end if our recommendations are adopted by Ofgem in their final decisions on these change proposals. For a change of this technical nature we would usually seek a fully automated solution, however for CP276 and CP277 this would require developing at risk, incurring material up front cost prior to the consultation outcome, and would also result in significant impacts to our existing 2018 change pipeline. Based on currently available information and known dependencies, ESC has tentatively scheduled a manual solution for implementation in Summer 2018.

Settlement and Assurance Incompatibility of CP276 and CP277

CP276 and CP277 bypass the assurance processes put in place by the Settlement Body, the Delivery Body and Ofgem by proposing to use Balancing Services Metering for SPDs rather than the Supplier Settlement Metering that would be used in a Stress Event.

What does the Metering Test check?

That the metering is compliant with the relevant National Grid System Operator agreement for that Balancing Service and the CM Rules. The metering test checks that:

- The CSV file format is correct and can be loaded into the settlement system
- The Metered Volumes in the CSV file are accurate and in the correct format (i.e. kWh)
- The CSV file is in the correct time format (i.e. local clock time – BST in Summer and GMT in Winter)
- The overall accuracy of the Metering System.

Currently, only STOR, FCDM and FFR are allowed under the Balancing Services Metering Configuration solution. The metering has to be compliant with the relevant National Grid System Operator agreement for that Balancing Service and the CM Rules. If it is used for settlement in the CM scheme it must have undergone a Metering Test.

Also, the aggregation rule would have been validated and loaded into the settlement system. This cannot currently happen for CP276 and CP277 as currently proposed in the consultation and draft CM Rules, rendering them incompatible for settlement and assurance purposes, since the changes proposed in CP276 and 277 bypass the need for a Metering Test, removing the assurance from the metering solution.

No validation through SPDs – CP277

The Supplier Settlement Metering cannot demonstrate the Capacity Obligation. Under CP277 this may only be discovered at the Stress Event and incur penalties. Those penalties can be avoided by Volume Reallocation. The affected Capacity Provider also avoids credit cover requirements for Unproven DSR and the Metering Test for the Balancing Services Metering.

Systems Issues – CP276 and CP277

The Settlement System is designed for 30 minute Settlement Periods starting and ending at 00:00.

Line Loss Factors are time/season dependant and referenced from the start of an hour or half hour – this will therefore have an impact on calculations. The system is not designed for dynamic start times of a half hour period. An alternative period could start on any second/minute in a 24 hour period. The CSV file has no field for a timestamp reference for the start of a period. The settlement system is not designed to load and process one.

Where an alternative DSR period is used (CP276) the CSV file would somehow need to be amended to still get 48 (assuming not a clock change day) periods for it to be loaded by the system – we are not sure if this is viable. There would also be system issues with long/short periods at start/end of settlement day. This issue could be resolved if the proposals in CP276 and CP277 are aligned to the definition of a Settlement Period as made in Regulation 2.

"settlement period" means a period of 30 minutes beginning on an hour or half-hour – this is how the current ESC settlements system is set up and how settlement occurs in the wider UK electricity market.

This will help to minimise the need for large fundamental changes to the ESC settlements system and deliver the assurance needed for metering in the CM scheme.

There is also a similar definition as the BSC in Section X-2 4.3:
A period of 30 minutes beginning on the hour or the half-hour and in accordance with paragraph 4.3 of this Annex X-2.

4.3 Settlement Period Times

4.3.1 Settlement Period j starts at the spot time occurring at the beginning of the half hour and ends at the spot time occurring exactly 30 minutes later. The spot time at the beginning of one period therefore coincides with the spot time at the end of the previous period.

4.3.2 For the avoidance of doubt the first Settlement Period of a Settlement Day begins at the spot time 00:00 on the current Settlement Day (D), and ends at the spot time of 00:30 for the current Settlement Day D.

ESC believes that CP276 and CP277 can be progressed if the following changes are made to the proposals. However, without these changes, as outlined above and summarised below, the implementation of CP276 and CP277 will not be possible.

Assurance and validation processes needed in the CM Rules:

- Metering Tests to include metering systems only used for SPDs
- Aggregation Rule validation to include metering systems only used for SPDs
- ESC's CP295, CP296 progressed, currently not minded to be taken forward by Ofgem
- Delivery Body's CP351 progressed, currently not minded to be taken forward by Ofgem
- Redesign of data submission for CSV files

Redesign of settlement system for:

- Non-settlement periods
- Conditional aggregation rules
- Applying Line Loss Factors for non-settlement periods

Interaction with Of12 (Ofgem) functionality

In addition to delivering CP276 and CP277 if the above changes are made to the respective change proposals and draft CM Rules, the taking forward of CP295, CP296 and CP351 would also help to fully deliver Of12 functionality for DSR Component Reallocation in Delivery Year 2019.

CP300 (ESC)

Ofgem has stated its proposed decision is to "Partially Take Forward" this ESC change proposal. ESC will implement this change as modified by Ofgem once it is confirmed as a Rule change.

14. Data Provision

No comment.

15. Schedules & Exhibits

CP301 (ESC)

Ofgem has stated its proposed decision is to "Take Forward" this ESC change proposal. ESC will implement this change once it is confirmed as a Rule change.

CP302 (ESC)

Ofgem has stated its proposed decision is to "Take Forward" this ESC change proposal. ESC will implement this change once it is confirmed as a Rule change.

CP303 (ESC) Bespoke Technical Requirements

ESC proposed this change based on operational insight gained through applicants completing metering tests over the past 2 years. The response from Ofgem demonstrates the need to balance the aim for more flexibility for applicants in the Capacity Market scheme with the potential risks Ofgem believes could arise from making the requirements for these tests less stringent.

16. Other**CP299 (ESC) Agreement Monthly Penalty Cap**

ESC appreciates Ofgem's support in recognising and agreeing that "the Agreement Monthly Penalty Cap should not be negative for any Capacity Provider." We understand the need for regulatory change by BEIS in order for Ofgem address this issue in the CM Rules, so we await an update from Ofgem in due course. In the meantime, this remains an open risk to the CM scheme should a stress event occur.