

John Greasley
Regulation and Stakeholder Manager
National Grid Interconnector Holdings
john.greasley@nationalgrid.com
www.nationalgrid.com

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Dear Sir or Madam

Statutory Consultation on Amendments to the Capacity Market Rules 2014

National Grid Interconnector Holdings welcomes the opportunity to respond to the above publication. NGIH is the ring fenced division within National Grid responsible for interconnector development and the management of National Grid's interest in existing interconnectors. This includes interest in IFA as well as BritNed and NEMOLink our Joint Venture projects with TenneT and Elia respectively.

We support Ofgem's decision to regularly review the Capacity Market Rules in order to ensure they continue to protect consumers interests as well as working effectively for Capacity Market participants. To this end we support Ofgem's general trend within the consultation to simplify the process of prequalification, particularly for New build CMUs. We believe that the prequalification process can be made simpler still with the objective of ensuring that any capacity that can be demonstrated to exist now or in the delivery year should prequalify. Any information that is asked for at the time of prequalification that is not required to demonstrate the existence or physical capability should be removed from prequalification and requested at a later date, for example the contact details for secondary trading.

We note that Ofgem has evolved the process for Rule changes this year with the addition of a "soft" deadline for Rule changes. While this is useful in terms of giving additional time for parties to submit rule changes, it also brings in additional uncertainty about whether a change will be progressed this year or not.

We wonder if the CM rule change process needs to be brought more fully into line with other industry codes, allowing amendments to be proposed year round. Taking forward amendments earlier in the year could allow system changes to be identified earlier and implemented in time for the next prequalification round. We note that some proposals are being implemented later due to system issues, and an earlier consideration could have allowed them to be implemented earlier. Elexon as code administrator for the BSC has a process for managing system changes from BSC amendments. There could be useful learning points for the CM Rule change process.

Turning to a number of specific proposals within the consultation.

CP329 Termination provisions – loss/reduction of TEC

NGIH supports Ofgem's minded to position to take forward our proposal which rectifies the discrepancy that exists within the Rules regarding a termination event linked to the reduction/ loss of TEC and the allowance made for delays due to the failure of the GB System Operator to provide a timely connection to the distribution system.

We agree with the draft legal text provided by Ofgem in order to take this proposal forward.

CP327 Publication of Calculations following release of a CMN

We recognise Ofgem's decision to reject our proposal on the basis that a Capacity Market Notice (CMN) is not intended to be a despatch tool. In addition, we welcome a review by the System Operator into how relevant margin information and alerts are made available to market participants as outlined.

Our proposal sought to allow CMUs to build an understanding of when the system is stressed to the extent that a CMN is likely to be issued. By publishing the results of the System Operator's calculations we believed that market participants could determine the relationship between CMN's and the derated margins. This would allow CMUs to predict whether a CMN is likely to be issued ahead of time. We hold that this is beneficial to the Market as it allows for an extension to the four hour duration between awareness of increased stress event likelihood and the requirement to deliver.

Therefore, we also believe that the same results could be realised if the SO was to provide guidance on the relationship between derated margins and CMN calculations. We look forward to working with the SO as it takes forward this review.

CP328 "Conditional Prequalification" for eligible capacity

The consultation outlines Ofgem's minded to position to reject our to "conditionally prequalify" applications representing eligible capacity with an error or omission present in their application. In the summary of Ofgem's proposed decision two reasons for rejection are put forward.

Firstly, Ofgem suggests that our proposal will allow for the submission of new information and as such it would require a change to/ a conflict with the Regulation 69. However, our analysis of the Regulations suggests that the proposal of conditional prequalification would not interact with Regulation 69. Our proposal does not intend to represent a request for review of a prequalification decision by the Delivery Body; instead it proposes that the Delivery Body makes a "Conditional Prequalification" decision in the first instance on the basis of the correction of an error or omission. As no request for review of the Delivery Body's Prequalification decision would be made under this amendment, new information could be submitted by the applicant without conflicting with Regulation 69.

It is also worth noting that our proposal is very similar to an existing process in the rules whereby New Build Units can conditionally prequalify by deferring only the provision of planning consents during prequalification. New information is then provided by these applicants in the form of planning consents in order to transition these units from conditionally prequalified to prequalified. This occurs with no infringement to the Regulations, we believe therefore that there is no reason this can't hold true for applications which represent eligible capacity with an error/ omission.

In turning focus to the second reason for rejection, that conditional prequalification will require applicants to provide credit cover; we would again like to draw attention to the rules allowing for the conditional prequalification of New Build units which have deferred planning consents. Whilst rule 4.6 details that CMUs which have conditionally prequalified in line with Regulation 73 (2)(b) or Rule 4.5.1 (b) (ii), (iii), (iv) or (iva) must provide Applicant Credit Cover to CM settlement Body, 4.7 which covers Conditional Prequalification relating to the deferral of planning consents makes no such requirement. Within 4.7.1 the information that must be submitted to transition the prequalification status from conditional to prequalified is outlined, this includes the planning consents and a director's certificate but does not reference credit cover. As such, we see no reason why conditional prequalification on the basis of an error or omission would require credit cover when on the basis of deferred planning consents does not.

If however, Ofgem continues to believe that the detail of this proposal does not amount to an acceptable way forward we suggest that further consideration is given to a solution to the same end. With the increased stringency surrounding the prequalification process and the inability to submit new information in an appeal process the current

arrangements present a significant risk that a large amount of capacity which would otherwise be eligible to participate in the market is excluded from the auctions due to an error/ omission in their prequalification. This will have a detrimental impact on consumers as the level of capacity entering the auction falls below that which is available and the clearing price rises.

For instance, using the Capacity Market Register we have calculated that in the 2017 T-4 Prequalification Window over 430 MWs of derated eligible capacity was rejected. This capacity consists only of Unproven and Proven DSR capacity, Existing Generating capacity and Existing Interconnector capacity. As these unit classes should have no material reason not to successfully prequalify we assume that these rejections were made on the basis of administrative errors or omissions in the unit's applications. This means that at least 430 MWs of eligible capacity were excluded from the auctions; their inclusion could have seen the auction clearing at a lower level than £8.40 per KW hour. We, therefore, advise that in order to best protect the interests of consumers, as well as simplifying the process for the Delivery Body and the CM applicant, that Ofgem considers further a solution to this issue.

CP260, CP332 Interconnector Satisfactory Performance Days

Both CP260 and CP332 propose to align the Satisfactory Performance Day (SPD) requirements for Interconnector CMUs with Generating CMUs.

We support Ofgem's decision to reject this proposal on the basis that a requirement for an Interconnector to demonstrate its Capacity Obligation for SPDs would test the price differentials experienced in the winter period rather than the ability of the Interconnector to deliver on its obligation.

We would, however, like to take this opportunity to emphasise the ability of Interconnectors to provide a reliable source of capacity, in part due to the fundamental differences in price between the UK and Europe. To this end if we were to be captured by the same SPD requirements as generators our results show that IFA, our existing Interconnector to France, would have met the requirement on 186 days in the period 1 October 2017 to 25 April 2017 (207 days) based on its 2017/18 Early Auction capacity agreement of 1172.920 MWs, well above the Capacity Market Rules requirement to demonstrate Satisfactory Performance on only three days.

Of16 Auction algorithm

At NGIH we support Ofgem's ongoing efforts to protect consumers and promote best value for the security of supply that the Capacity Market offers. We recognise such efforts in the changes proposed to the auction algorithm to ensure that the auction clears at the lowest possible price for the volume of capacity required. We would, however, like to take this opportunity to detail an unintended consequence that we believe may result from such a change.

By changing the auction algorithm to require an exit bid to clear, the possibility for an auction clearing price below the floor of a given bidding round arises. We believe that Ofgem's proposed amendment may fundamentally change the nature of the auction process.

Currently the auction process allows for parties to withhold submitting their Exit Bid until the bidding round in which the price might fall beneath the minimum price at which they can operate with a Capacity Market Agreement. The removal of the safeguard that an auction can only clear within a bidding round may compel CMUs to change this behaviour. In order to protect against clearing prices below their intended Exit Bid CMUs are likely to submit their Exit bids before the first bidding round.

As such, this proposal potentially removes the benefits of a descending clock auction as all Exit Bids are submitted prior to the start of the auction. Instead, we believe a logical conclusion would be to effectively move the auction to a sealed bid format where the clearing price could be determined in a single bidding round on the basis of the sealed Exit Bids being opened in that round. Therefore, we suggest that Ofgem further considers the proposal and its potential consequences, including a thorough analysis of the impact on consumers, the Delivery Body and CMUs.

CP312 and CP325 Schedule of construction reports

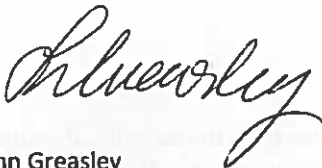
NGIH supports Ofgem's response to amendments CP312 and CP325 by taking forward the principle to fix the timing of the reports. The set dates for construction report submission will simplify the process for New Build CMUs and NGET alike; as such we hold that it is a positive step for the Market.

We would, however, advise that Ofgem fixes the dates of all construction reports including the 3 and 9 months reports rather than only the 6 and 12 month reports as proposed. By fixing only the dates of 1st June and 1st December this proposal opens the possibility that the 3 and 9 month reports take place within 3 months of June or December as they continue to depend on the timing of the auction. For instance, following successful participation in the 2017 auction a New Build CMU is required to submit an additional construction report in May, marking 3 months following the auction in which they secured the agreement. Following this proposal, the same CMU would then be required to complete the first (non-additional) construction report on the 1st June.

Due to the short time frame between these two reports it is unclear what, if any, significant material differences will feature in the report, excluding the requirement for an Independent Technical Expert update. In order to preserve the value of these reports we, therefore, suggest that Ofgem considers fixing the dates for all construction reports. For instance, the 3 month and 9 month report could be submitted on 1st March and 1st September respectively. Further, in order to maintain a reasonable time frame between securing an agreement and the first construction report we advise that Ofgem cancels the requirement for any construction report which falls within 3 months of the auction. This would continue to allow the auction periods to freely move throughout the year whilst harnessing the simplification benefits of a normalised construction report schedule.

If you would like to discuss any aspect of this response, please contact Alice Varney on 07968622168 or alice.varney@nationalgrid.com

Yours faithfully



John Greasley

Regulation and Stakeholder Manager

National Grid Interconnector Holdings