



Renewable Energy Systems Limited
Beaufort Court, Egg Farm Lane, Kings Langley
Hertfordshire WD4 8LR, United Kingdom
T +44 (0)1923 299 200 F +44 (0)1923 299 299
E info@res-group.com www.res-group.com

Mark Copley
Associate Partner, Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

3rd May 2018

Dear Mark,

Re: 2018 Consultation on Capacity Market Rules

RES is pleased to respond to this Capacity Market rule change consultation paper of 22nd March 2018. RES' response is not confidential.

Renewable Energy Systems Limited (RES) is the UK's largest independent renewable energy developer with interests in onshore wind, offshore wind, solar, and energy storage. A wholly owned UK company at the forefront of innovation and infrastructure development around the world, RES now employs over 1,000 people and has developed or constructed more than 13GW of wind/ solar power around the world.

RES is an active participant in the Capacity Market and secured a contracts storage projects in the 2016 and 2017 Capacity Market auctions. We also submitted Change Proposal CP162 which was accepted in the 2017 rule change process. We are responding as a stakeholder in the Capacity Market.

RES' comments on the consultation are attached to this letter.

RES' responses are offered in a spirit of positive cooperation to improve the Capacity Market; we would be happy to clarify any of the points raised in this consultation response.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Edd Kenney-Herbert', is written over a light blue horizontal line.

Edd Kenney-Herbert
Energy Storage Project Manager
E edward.kenney-herbert@res-group.com
T +44 (0) 1923 299 276

Consultation questions:

We invite your views as to whether you agree with our minded-to decisions, set out in Annex B:

RES has responded in this document to specific rule change proposals and included our comments.

CP263 (E.ON), CP313 (Innogy), and CP314 (Innogy)

RES suggests that Ofgem's decision to consider these proposals further is unnecessary. We argue that renewables can easily be included in Schedule 3.

RES has three key high level points on this topic:

- 1) Excluding subsidy free renewable energy from the Capacity Market is clearly at odds with the stated intention for technology neutrality. We note that Glen Kyllachy Wind Farm (CMU ID: INON01) was rejected at pre-qualification from the 2017 T-4 auction. Continued exclusion of renewable technologies is clearly discriminatory and likely to result in a legal challenge.
- 2) RES does not think that the fact that a project has historically received a subsidy should make a difference. Many existing power stations were, for example, built under a nationalised system, others have received significant tax breaks. These varied forms of historical support do not prevent them from Capacity Market participation and nor should expired ROC or FiT subsidies. Extending the delivery from aging renewable generators can be costly in operation and maintenance. These assets can help deliver supply security but need to be rewarded through the Capacity Market in the same way that other technologies are.
- 3) RES supports Innogy's proposal to allow applicants to self-nominate de-rating value where the Delivery Body is unable to define the Technology Class Weighted Average Availability. This has the advantage that differences in load factors based on location, asset performance characteristics and hybridisation can be easily accounted for. We suggest that these self-nominated de-rating factors could be brought in line with actual performance of the project as data becomes available. There is precedent for creating unique project factors from real data in the calculation of project specific Annual Load Factors (ALF) for TNUoS tariffs. Because we propose that the de-rating defaults to a value calculated from real data we see no need to change the current penalty regime.

RES notes that it is probable that stand alone (as opposed to hybrid) sites are likely to represent the vast majority of renewable projects coming forward anyway.

As an alternative to self-nomination of de-rating factors it would be possible to use the Equivalent Firm Capacity, that is already calculated for wind and solar, to calculate initial de-rating for a technology. We would suggest that these default de-rating factors, as we have suggested above, could be brought in line with actual performance of the project as data becomes available.

CP260 (E.ON) and CP332 (RWE)

RES argues that interconnectors should demonstrate Satisfactory Performance Days at an output equal to or greater than their Capacity Obligation. We are concerned that, in the proposed decision Ofgem says "*This is not applicable for Interconnectors as they do not have control over the direction of their flow.*" This statement would imply that interconnectors may not be able to control flow during a system stress event.

RES believes that the current Rules are ineffective in ensuring Interconnector CMUs can fulfil their Capacity Obligations and are discriminatory against Capacity Market participants that are not Interconnectors. We agree with the drafting suggested in CP260 (E.ON) for the Rule change and propose that this is applied.

RES also notes that interconnectors already benefit from cap and floor pricing and no transmission charges. We consider these to be subsidies, yet projects with ROC and FiT subsidies are not eligible for participation in the Capacity Market. We would like a review to be undertaken, perhaps as a part of the Capacity Market

five year review, into all technologies, their subsidies/ market support structures and their participation in the Capacity Market.

CP265 (E.ON)

RES supports this change proposal from E.ON and opposes Ofgem's decision to reject it.

RES believes that the decision to separate the storage technology class into multiple categories with different durations was discriminatory towards storage. We believe that singling out one technology and attribute in isolation introduces a distortion to the Capacity Market.

RES believes that, if the decision to separate storage into different durations must stand, then it should be applied to all technologies including DSR and interconnectors. Making storage demonstrate duration is a cost that is inequitable and should be the same for all technologies. There is some concern that recip participants have enough fuel stored to deliver for four hours and DSR, like storage, is a time limited technology.

As per our response, above, to CP260 and CP332 we would argue that Interconnectors should not only have to demonstrate an output equal to or greater than their Capacity Obligation, but also that they are able to meet the four hours duration (or be de-rated appropriately).

CP312 (Green Frog) and CP325 (NGET)

RES would like to support these change proposals and Ofgem's minded to position. Simplifying reporting requirements helps both capacity providers and the capacity market delivery body.

RES agrees that amending the dates for the construction reports to be submitted by 1 June and 1 December simplifies the process. RES also welcomes the proposal to limit the requirement provide an ITE update to circumstances where the information in the report has changed. The ITE updates are expensive and can be time consuming to schedule. It is not clear that the ITE reports add value to the delivery body.

The one point in Ofgem's minded to position that RES disagrees with is the decision not to remove the required 3 and 9 month reports specified in 12.2.1B. RES cannot understand why the additional construction reports 3 months and 9 months after the auction date are required. We do not see that they make it easier for the delivery body and they are burdensome for the capacity provider and thus a barrier to participation.

CP328 (NGIH)

RES supports this change proposal from NGIH and opposes Ofgem's decision to reject it.

RES agrees with NGIH that the over-riding aim of the prequalification process should be to determine eligible participants for the auction. It should not be designed to exclude otherwise perfectly eligible capacity for an administrative error in pre-qualification. Clearly the more Capacity Market participants competing against each other in the capacity auction the better. That will lead to lower clearing prices and lower costs to consumers. Excluding participants for an error or omission in the application form reduces participants and drives up the cost to the consumer.

RES thinks that the argument from Ofgem that they are minded to reject this proposal as it would not be possible without changes to the Regulations is unhelpful. RES thinks that Ofgem should be pushing for Regulation 69 to be amended appropriately.

CP353 (Scottish Power)

RES supports this change proposal from Scottish Power and opposes Ofgem's decision to reject it.

As we note in our response to CP265, RES believes that, if the decision to separate storage into different durations must stand, then it should be applied to all technologies including DSR and interconnectors.

Making storage demonstrate duration is a cost that is inequitable and should be the same for all technologies. There is some concern that recip participants have enough fuel stored to deliver for four hours and DSR, like storage, is a time limited technology.

This is a particular concern as in the 2017 auctions Limejump secured a T-1 contract for a 10MW (non de-rated) battery in Spalding as DSR (CUM ID: DSRLJ4). This meant that, without a duration test, this battery was de-rated at 86.34%. This is clearly at odds with the intention of the storage duration de-rating.

Similarly, in the 2017 T-4 auction Veolia UK Limited secured a Capacity Market contract for 2MW (non de-rated) battery project de-rated as DSR (CMU ID: VES002).

Obviously these are just two, relatively small, projects (there may be more but they were the ones that RES was easily able to identify in the CM register). It should be remembered, however, that at pre-qualification in 2017 storage was still de-rated at 96%. It seems probable that for the 2018 pre-qualification nearly all storage participants will try to pre-qualify as DSR unless this loophole is closed.