

Mark Copley
Associate Partner
Wholesale Markets
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

EMR_CMRules@ofgem.gov.uk

3rd May 2018

Statutory consultation on amendments to the Capacity Market Rules 2014

Dear Mark,

SmartestEnergy welcomes the opportunity to respond to Ofgem's consultation on the proposed new licensing arrangements.

SmartestEnergy is an aggregator of embedded generation in the wholesale market, an aggregator of demand and frequency services and a supplier in the electricity retail market, serving large corporate and group organisations.

Please note that our response is not confidential.

We respond to selected proposals below in the order in which they appear in the consultation document.

CP242 (ADE): Allow small CHP participation by establishing alternative to DSR baseline

We support this proposal. We feel Ofgem should approve this change in order for National Grid and consumers to realise the full benefit of assets able to provide benefits during a CM event. Furthermore, we would suggest that this could be extended to any CMU, again in order to fully realise both value in the UK market and security of supply.

CP243 (ADE): Allow high load-factor onsite generation to qualify as generating CMUs

We support this proposal. Again, we feel Ofgem should approve this change in order for National Grid and consumers to realise the full benefit of assets able to provide benefits during a CM event.

CP245 (ADE): Facilitate Secondary Trading by allowing partial transfer of Capacity Obligation

We support this proposal. Secondary trading in the CM has failed to provide a genuine market for trading obligations under the current arrangements. Whilst we would support this proposal, the fundamentals of secondary trading must first be addressed to enable both industry and consumers to realise the full value of transferring obligations.

CP246 (ADE): Reduce impediments on STOR providers offering Capacity to CM

Once the necessary infrastructure is in place (as outlined by Ofgem) we would support this proposal. Full ability to deliver and contribute to security of supply must always be recognised in the CM.

CP247 (Alkane): Add acceptable transferees to extend secondary trading eligibility

Once a genuine market for secondary trading has been established, we would subsequently support this proposal.

CP248 (Alkane): Allow transfer of agreements any time after T-4

We strongly support this proposal. Allowing the transfer of agreements any time between the T-4 auction and real time helps government reach its procurement targets and minimise the risk of capacity providers reneging on contracts.

As a wider point, more polluting plant tend to gain more T-1 contracts than T-4 as they are willing to bid in at the lowest possible price. Whilst this realises value for consumers, coal plants for example do not fit with Government's stated decarbonisation aims. As the narrative of the CM is now moving towards renewables (CP263), allowing transfer of agreements (and therefore reducing opportunity for Greenhouse Gas emitting plant) could be a realistic, market-based way of helping decarbonise the energy system.

CP252 (Centrica) & CP285 (EnergyUK): Rationalise number of documents required where applicant is not legal owner

We support this proposal. Previous pre-qualification applications made by SmartestEnergy have been unnecessarily rejected on the grounds of insufficient documentation. Wherever possible, the process should be simplified.

CP253 & 347 (Centrica) CP348 (Restore): Relax rules on previous settlement period performance for existing generating CMUs

We welcome the added flexibility offered by this proposal. The salient point regarding all metering change proposals is that they should allow capacity providers to evidence delivery requirements without the need for unnecessary box-ticking exercises.

CP254 (Centrica): Incremental capacity from sites with T-4 contracts to be allowed to bid into the subsequent T-1

We support the intent behind this proposal. If changes are difficult, then the proposal should be placed on hold or 'partially taken forward' rather than rejected. National Grid should be able to call upon any asset able to provide a net benefit to the system during a CM event.

CP255 (Client Earth): Make generation units comply with EPS from 2022

We do not support this proposal. We support efforts to decarbonise the UK energy system. However, we agree with Ofgem that this is a matter for government to decide.

CP257 (Client Earth): Allow all CMU types to bid for contracts up to at least 3 years long, potentially up to 15 years (max)

We support this proposal. Greater revenue certainty for unproven assets could bring forward much more flexibility and/or generation, whilst approval of CP248 would provide an adequate safety net in the event of unforeseen changes. Ofgem may not be able to amend regulations but given the regulator's decision to refer other CPs to BEIS (CP299 & CP309), we would suggest this CP warrants similar consideration.

CP259 (EON): Allow DSR testing 30 days after prequalification results

We support this proposal. We are disappointed by Ofgem's minded-to-decision to reject this proposal. Approving this CP not only gives 'unproven' DSR the chance to become 'proven' DSR (increasing security of supply) but also provides a platform for proper secondary trading to occur where capacity providers fail to evidence the ability to deliver on their obligation.

CP260 (EON): Require interconnectors to demonstrate Capacity Obligation, not just delivery for satisfactory performance

We support this proposal, but it does not go far enough. The wider issue of interconnector participation in the CM requires further investigation by Ofgem/BEIS. The reality is that interconnectors are fundamentally neither generation nor demand, they simply provide access to this from other markets. If it is decided that Interconnectors should stay in the CM, then they will require not only appropriate de-rating factors, but also a distinct, potentially more punitive penalty regime. This is because it cannot be correct to compensate interconnector CMUs if they are exacerbating a Capacity Market Event. Baselineing for interconnector CMUs is another option which could yet be explored. The key element is making sure that interconnectors are appropriately rewarded/punished for the action they are having on the system during a CM event.

CP261 (EON): Allow generation units which do not export to distribution network to qualify as CMUs

We support this proposal. We consider this change should be approved as soon as possible to ensure that National Grid are able to use the full range of assets available to them during a Capacity Market event. This will also bring consumer benefits as a wider pool of CMUs will drive down the price in CM auctions. Other changes proposed (For example de-rating changes and re-baselineing) will enable the true benefit brought to the system by these assets to be measured.

Potential inconsistencies between rules and regulations should not be a barrier to implementing changes. Whilst parliamentary timescales are unlikely to allow for changes to be made easily in the context of the UK leaving the European Union, changes such as this which have genuine merit should be placed on hold, rather than rejected outright.

CP263 (EON): Allow renewables not in receipt of subsidies to compete in CM:

We strongly support this proposal. Whilst reservations are held over the ability of renewables to deliver in a CM event, appropriate de-rating factors can ensure an accurate reflection of the benefits brought to the system of intermittent generation.

Beyond this, renewables co-located with storage assets should also be allowed to enter the CM. If an asset can help provide power during a CM event, it should be considered.

CP268 (EON): Require NGET to publish specific applicable dates for key milestone reporting and independent technical expert progress reports

We support this proposal and welcome the prospect of greater information and clarity for CM participants.

CP272 (EDF): Amend Capacity Market rule 4.4.4 to allow reconfiguration of Generating Units or DSR CMU Components as long as the physical assets are unaffected

We support this proposal. We welcome Ofgem's acceptance that balancing market identifiers and other relevant IDs could change over the life of a CM contract. Consequently, we feel some flexibility should be allowed here.

CP273 (EDF): Amend excess capacity volume for T-1 auctions to 1GW

We oppose this change. Widening the excess capacity volume makes it more difficult for participants to decide whether to remain in the auction or not. If the logic of this proposal held true, then CM auctions should be completely blind in order to avoid the possibility of "gaming" which we would consider to be not unreasonable forecasting of the outcome. We consider the T-4 auction's excess capacity volume should reduce to the level of the T-1 auction in order to provide greater certainty to bidding parties.

CP276 (Endeco): Clarify the process for providing DSR Alternative Delivery Period data to NGET

We support this proposal. As with all proposals relating to provision of data and metering requirements, we welcome any proposal which allows for greater flexibility and removes unnecessary hurdles to meeting obligations.

CP277 (Endeco) & CP344 (ADE): Permit the demonstration of Satisfactory Performance Days from data gathered by Balancing Services Metering

We support this proposal. As with all proposals relating to provision of data and metering requirements, we welcome any proposal which allows for greater flexibility and removes unnecessary hurdles to meeting obligations.

CP282 (Energy UK), CP311 (Green Frog Power): Remove the Capacity Obligation of Distribution CMUs in periods when they are subject to an interruption by a DNO

We support this proposal. We are disappointed to see Ofgem's minded-to-decision to reject this proposal. It is difficult to justify an argument whereby there can be punitive measures for a CMU capable of delivering its obligation but is unable to due to DNO actions. This is before the issue of transmission-connected generation receiving compensation in the event of constraints is even addressed. Non-BM distributed generation does not receive such compensation.

Moving into the new world of DSOs and a more flexible system also has implications for this proposal. If networks are actively managed, National Grid could lose access to lots of capacity providers if there is no recognition of the need to be flexible with regard to delivery obligations.

CP292 (Engie): Prevent Double Charges on storage importing during storage stress events

We support this proposal. We welcome the clarity provided by Ofgem, who have confirmed this cannot occur.

CP293 (EP UK Investments): Remove the prohibition on Existing CMUs which opted out of the T-4 Auction from the T-1 Auction for the relevant Delivery Year

We do not support this change. We are concerned this could provide coal generators with an arbitrary extra opportunity to bid into CM auctions. This would go against government's decarbonisation narrative.

CP305 (ESC): Oblige Capacity Providers to permit ESC to visit generator offices and sites and provide information

We support this necessary change.

CP 309 (First Utility): Consider “Maximum Credit” and “Credit Assessment Score” in the credit cover calculation

We support this change.

CP328 (NGIH): Create a new category of "conditionally prequalified" pending the applicant remedying its error or omission in the prequalification application form

We support the intent of this change having had experience of pre-qualification rejections on the basis of errors/omissions in pre-qualification forms.

CP334 (RWE): Allow New Build CMUs to use a letter from a Private Network owner to Prequalify for a T-1 Auction

We support this change and believe that it should be taken forward as this would bring the rules in line with the T-4 auctions.

CP338 (UKPR): Allow Capacity Providers of Distribution connected CMUs to aggregate CMRS CMUs as part of a CMU Portfolio for the purposes of Satisfactory Performance Days

We support this proposal. As with all proposals of this type, we support changes which allow proof of delivery by removing unnecessary red tape.

CP343 (Welsh Power): Allow recently commissioned, non-contracted existing CMUs to register for secondary trading once delivery ability is proven.

Once a genuine market for secondary trading has been established, we would subsequently support this proposal.

CP349 (Engie): Require a Distribution Connection Agreement for a New Build Generating CMU to be firm

We strongly oppose this proposal. In a DSO co-ordinated, locally-managed system, it is possible that many new distributed generators may have

agreements which would fall foul of this rule. De-rating generators with interruptible connections would be a better method of addressing this than a blanket ban. Banning CMUs with non-firm Distribution Connection Agreements not only lowers the options available to National Grid and therefore the competitiveness of auctions, but unjustifiably swings provision of capacity in favour of transmission connected generation.

CP350 (Saltend CoGen): Allow an Existing Generating transmission CMU to pre-qualify for the Capacity Market in circumstances where its TEC is zero and it is intending to generate and export to a Private Network

We support this proposal as this would still provide a net benefit to the system in a CM event.

CP353 (ScottishPower): Create new Demand Side Response (DSR) Technology Classes with different minimum durations, and apply the extended performance testing to these newly created Technology Classes

We do not support this proposal on the basis that DSR is too flexible to fit into pre-defined de-rating bands. Whilst we appreciate the need to address behind-the-meter storage posing as DSR, this would be better achieved by requiring declaration of the make-up of a CMU and applying appropriate de-rating at this point.

Whereas batteries have a defined technological limit regarding duration, DSR on its own (turn-down) can provide different durations of flexibility from one day to the next dependent on a number of signals from various different markets. For example, a DSR asset could provide maximum value to National Grid by providing 8 hours of flexibility on one day and by only providing 30 minutes the next day. This is of course also dependent on the market they operate in and price signals which may supersede that of a CM event.

We welcome Ofgem's decision to request views on more nuanced proposals before consulting on a minded-to decision in 2019.

Of12 (Ofgem): DSR Component Reallocation

We strongly support the introduction of this proposal as soon as is reasonably practicable. We also welcome Ofgem's revised stance in allowing the DSR Test Certificate remain valid for the delivery year during which components were added or removed, ahead of a new test being required for the subsequent delivery year.

Of13 (Ofgem): Changes to Storage Baseline Formula

We support the intent of this change but urge caution in taking the proposal forwards. Whilst Ofgem believe the current formula creates a perverse incentive and may allow a Storage Facility to be over-rewarded (on the grounds that it could consume more electricity just before the System Stress Event in order to increase the measurement of its capacity delivered) market signals should dictate it is too expensive for a storage asset to take such a course of action. Storage assets can realise far greater value by charging during times of excess demand and delivering during or around CM events.

Of15 (Ofgem): Changes to how connection Capacity can be set:

We support and welcome the changes set out in this proposal.

Of16 (Ofgem): Changes to the Auction Clearing Algorithm:

We do not support this proposed change. The auction process was designed by BEIS to deliver specific outcomes. Ofgem, as a regulator, should be there to administer arrangements consistent with the rules, and not interfere with the fundamental nature of the auctions. We are concerned this change is of an arbitrary nature, and as such could produce manufactured rather than genuine results from auctions.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

Simon White
smartestenergy

Regulatory Analyst
SmartestEnergy Limited.

T: 01473 234185
M: 07720 088155