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Sent by email to: EMR_CMRules@ofgem.gov.uk

Dear Michael,

Please find below the Centrica response to the Ofgem Open letter on the Five Year Review of the Capacity Market Rules and NGET's incentives

We welcome Ofgem's letter on the Five Year Review of the Capacity Market Rules. We support Ofgem's proposal to run a limited Ofgem Rules change process and we welcome that Ofgem will still allow urgent Rules changes and will address Rules changes that have been earmarked for delayed implementation.

We would happily share our response to the BEIS consultation on the Capacity Market five year review where we address the areas noted by Ofgem as of particular interest. Additionally, we would happily meet with the Ofgem team to take you through the key areas.

We support the priority areas identified by Ofgem in the open letter.

We believe that the Rules change process could be improved by improving the coordination of this process between with BEIS, Ofgem and National Grid. Ofgem needs to ensure that the Rules are available to industry well in advance of pre-qualification.

This review is a good opportunity to reduce burden to Capacity Market participants and we welcome that Ofgem will look to address this. We have identified below several areas that can easily and quickly reduce burden:

- We believe it is unnecessary for Legal Owners to sign declarations, where the Capacity Market applicant is a third party.
- It is administratively onerous to require director signatures to be listed on Companies House; this requirement should be removed.
- The signature of the exhibits required for the Capacity Market should not follow a pre-determined annual template; this would allow these exhibits to be signed at any point during the year, rather than waiting for pre-qualification.
- We do not see the benefit for the applicant or the Delivery Body of an Independent Technical Expert to demonstrate the progress of a New Build project.

We support the need to improve the secondary trading market. We have recently completed a secondary trade and we have noted some improvements that we believe could be made in the short term. These include reducing the time to confirm a secondary trade and developing a simple platform for buyers and sellers of capacity to identify potential trades.

Changes should be made to ensure that National Grid is appropriately incentivised to ensure that it has the resources to facilitate pre-qualification, as well as systems changes to allow for continuous improvement of the mechanism. National Grid should be encouraged and empowered to strive to ensure successful pre-qualification of assets first time, rather than rejecting applications on minor discrepancies.

We have developed our views to Ofgem's priority areas in the pages below; please do not hesitate to contact me, if you would like to discuss any points raised.

I confirm that the responses to the consultation questions are not commercially sensitive and may be published on your website.

Yours sincerely,

Jack Abbott

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Responses to the priority areas identified by Ofgem in the Open Letter

1) Improving the efficiency of assessing and implementing changes to the Rules

We support the industry-led Rules change process. However, the Rules change process should be run at a time that does not overlap (either submission or consultation) with pre-qualification process or the auctions.

We believe that ideally the Rules change process should move away from an annual process, potentially a biannual process. However, it may be hasty to do so now, considering the number of Rules changes received in 2018.

The Energy UK response proposes that an expert panel or working group with self-Governance should be established. Whilst in principle this could be a useful filter, a wide range of industry views must be represented to ensure that it does not lead to a forum in which specific viewpoints are ignored, due to certain industry participants having more resources available for this process.

We have shared the following points in our response to the BEIS Call for Evidence, which we believe would improve the Rules change process:

At present, the Rules change process that Ofgem runs regularly encounters issues with Rules changes, due to these Rules being unable to be changed because of required regulation changes or as it relates to policy intent, which requires BEIS' input. This is inefficient. BEIS and Ofgem should – on an annual basis – ensure that rules and regulations can be amended and BEIS has the resource available to advise on policy intent. If BEIS is required to consult on policy intent on the Capacity Market, this should be done at the same time as the Ofgem Rules change process.

The need for Regulations changes should not be used as the sole reason to not take forward a Capacity Market Rules change. Ofgem should provide a view, with reasoning, whether such a Rules change would ensure better operation of the Capacity Market. If so, Ofgem should indicate how it has, and will continue to, work with BEIS to ensure the Rules change is implemented in a timely manner.

We believe that as part of this review, BEIS should consider whether there are sections of the Rules that are better placed to be in the Rules rather than the Electricity Capacity Regulations. For example, we believe the regulations regarding termination fees, credit cover, Capacity Market register, would be better placed in the Rules, rather than in the Regulations where they currently sit. BEIS should publish a consolidated version of the Regulations which include all the subsequent amendments since 2014.

2) Whether the objectives of the Rules could be achieved with less burden on participants.

We believe there are several Rules that could be removed or simplified to reduce the burden on participants.

Legal Owner director signatures where the applicant is the Despatch Controller

From our experience of Capacity Market pre-qualification, the Capacity Market Rules have been written in a way that makes it much simpler for assets where the applicant is also the Legal Owner. We have offered to discuss this further with BEIS and would be happy to do so with

Ofgem. We would welcome the opportunity to explain the issues that we have encountered where we have made applications on behalf of a different Legal Owner, compared to those applications we have made when Centrica PLC is the Legal Owner. We believe that we are one of the few companies that operate in the Capacity Market with multiple pre-qualification applications where we are the Legal Owner and applicant; and multiple applications where Centrica is the Despatch Controller (i.e. applicant), but the Legal Owner is a 3rd party. Centrica supports a customer-centric energy system and, in line with BEIS and Ofgem's Smart Systems and Flexibility Plan, we believe that changes need to be made to enable customer assets to better participate.

We believe that where the applicant is not the Legal Owner of the CMU (i.e. it is acting as the 'Despatch Controller'), applicants should not have to submit declarations signed by directors of the Legal Owner of the CMU components. The applicant takes on the responsibility of dispatch and therefore they take on the responsibility for penalties; the terms by which these payments and penalties are passed through from the applicant to the Legal Owner is contractually determined between those two parties. We do not believe that declarations with signatures from the Legal Owners of the CMU provides any additional reassurance compared to the declarations signed by the Despatch Controller applicant.

These declarations are unduly onerous as they require director signatures every year, and especially so where contracts have been signed between Capacity Market applicants and Legal Owners on a multi-year basis.

We believe these requirements are too burdensome and hence are reducing the amount of capacity being brought forward by Despatch Controllers.

A solution to this is that instead of requiring Legal Owners to sign annual declarations, the applicant should be required to sign a declaration confirming that it has entered in to contractual arrangements with the Legal Owner of the asset that is participating in the Capacity Market. If an asset were bid in to the Capacity Market where these contractual arrangements had not been made, it would fall foul of both provisions in the Capacity Market (e.g. Rule 4.4.3A. and 5.13.1.) and also contract law; we believe that this is a sufficient deterrent.

Declaration signatures – Companies House listing requirement

For declaration signatures, we believe that the requirement for directors to be listed on Companies House introduces unnecessary burden for pre-qualification and it is unnecessary. Whilst we understand that Companies House provides a publicly accessible record to confirm the directors of the Legal Owners of capacity, we think this it is unduly onerous (on both the applicant and National Grid) and does not provide any additional assurance. We can think of no other situation where it is checked via Companies House that the director of the company has been the signatory.

It also leads to the undesirable situation where directors of large multi-national companies are required to sign on an annual basis for Capacity Market pre-qualification for very small potential revenue streams (e.g. for a 2 MW gas asset in the last auction clearing a £6/kW, we are seeing a director at a multi-national company having to sign off on a £12,000 annual revenue stream). In most companies of a certain size, there are multiple people with the delegated financial authority (at different revenue levels) to approve projects.

Therefore, we believe that the requirement for Directors should be listed on Companies House should be removed.

Also, there is a lack of clarity on the process regarding companies that are not Limited or Public Limited companies (e.g. hospital trusts). There are also cases where companies are listed on Companies House where there are no directors listed and this is not catered for.

Exhibit templates

Declaration signatures can only be obtained once the exhibit templates have been published, along with the Rules. These exhibits therefore were not available for signatures until four days prior to the pre-qualification window opening in 2018. This is unacceptable as it means where we have signed up customers for the Capacity Market in advance of the pre-qualification window, we cannot proactively sign the Capacity Market declarations. This results in Capacity Market applicants having to get director signatures over summer holidays, which is challenging, meaning pre-qualification submissions are pushed to the end of the pre-qualification window, increasing the chance for small errors to creep in to the process, and also increasing the burden on National Grid. Therefore, the Capacity Market Rules for a specific Capacity Auction must be provided to industry with as much notice as possible. Additionally, the exhibits templates should not be linked to the publication of the Rules.

Other changes:

CMUs are required to provide the last 24 months of data when that same asset has passed SPDs in recent delivery years; this is unnecessary as the Delivery Body already has assurance that this CMU can deliver to its Capacity Obligation.

We believe that Ofgem and the Delivery Body have sufficient assurances from the required declarations at pre-qualification and therefore, there is scope to remove the role of an Independent Technical Expert (ITE) when also considering the benefits of the ITE alongside costs. The need for an ITE for New-Build CMUs disproportionately affects smaller projects bidding in to the Capacity Market, as the cost of contracting with an ITE remains constant and is therefore proportionally higher for a small new build project, compared to a larger project. To date, we have not seen evidence that these reports are of use to the Delivery Body and we have found that established and accepted ITEs do not have the expertise for newer technologies such as battery storage.

To ensure that suppliers can appropriately charge customers the CM Supplier Charge, we require the following to be published in advance of each delivery year: Total money suppliers need to recover for a delivery year; the forecast demand base that this is charged over; and therefore, the CM charge per unit.

3) The appropriateness of the secondary trading arrangements

We are very interested in being involved in discussions on improving the secondary trading market. We have recently gone through the secondary trading process and we have noted some improvements that we believe could be made in the short term. We encourage Ofgem to engage with BEIS and National Grid on this.

Currently, the Rules for obligation trading pre-event are too restrictive and therefore it is unlikely that obligation trades will occur over a short timeframe. This needs to be rectified to ensure that renewables are encouraged to participate and have the facility to trade out the obligation, if forecasts suggest that the capacity will not be available. The requirement for a trade to be initiated five days in advance restricts the liquidity and therefore needs to be reduced. We believe the reason that the five days' notice is in place is because the secondary trading process is manual. Therefore, this could be automated to allow closer to real-time secondary

trading between pre-qualified secondary trading applicants, provided the secondary trading recipient does not already have an obligation.

Furthermore, secondary trading should be better facilitated, currently it is time-consuming and relatively ineffective. CMUs looking to secondary trade must send multiple speculative emails to secondary trading contacts listed on the Capacity Market Register. Instead, a simple platform should be procured to ensure that participants can easily see the volumes available to be traded either pre-event via obligation trades, or post-event via volume reallocation. We would be happy to discuss our Cornwall Local Energy Market platform with BEIS, which could provide a basis for a platform to facilitate trading, in the short to medium term.

4) The appropriateness of NGET's incentives for exercising its functions in delivering the Capacity Market to ensure that they remain fit for purpose. We believe it would be desirable to review NGET's incentives on dispute resolution, DSR prequalification, demand forecasting, and customer and stakeholder satisfaction for 2019/20.

The Delivery Body must ensure that it is appropriately resourced and the team is trained to the required level. This year has seen an improvement with the guidance documents being especially useful, but the slow response to bespoke queries remains disappointing.

For pre-qualification, we believe that National Grid should be empowered to ensure that as many units are pre-qualified as possible, rather than being forced to reject pre-qualification applications based on small errors. National Grid should 'sense-check' applications and informally feedback where there are clear errors. We note that National Grid implemented such an approach mid-way through this year's pre-qualification process - this should be formalised. There must also be a process for applicants to secure a definitive view on the interpretation of the Rules. It is, for instance, unacceptable for National Grid to provide no view and advise participants to gain legal advice. Additionally, we believe the pre-qualification portal should have clear checkpoints embedded within the application process which reduces the likelihood of administrative errors occurring.