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Michael Wagner, Deputy Director – Wholesale Markets
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9th October 2018

Dear Michael,

I am writing on behalf of VPI Immingham LLP in response to your recent open letter on the Five Year Review of the Capacity Market Rules and NGET's incentives.

VPI Immingham LLP (VPI) is an independent generator who own and operate a combined heat and power plant near Immingham, on the south bank of the river Humber. In January 2018, VPI also energised 50MW of battery storage projects with Enhanced Frequency Response contracts.

VPI is pursuing a diverse range of investment opportunities across the GB energy market. The Capacity Market (CM) remains a cornerstone of our financial investment decisions. In spring 2018, VPI unsuccessfully sought to level the playing field around shared connection/ private wires at transmission and distribution voltages. Although CMP345 was ultimately rejected, we were satisfied with Ofgem's common sense approach as well as guidance received to help prequalify our new-build asset within the CM rules.

VPI agree that the 2018/19 CM Rules changes should be limited to improving governance, CMU monitoring and simplification of the prequalification process.

Simplification (and rationalisation) of the CM process:

- VPI would strongly support rationalisation and simplification of the CM rules.
- In particular, the prequalification process for existing capacity could be streamlined.
- Existing CMUs that have successfully met the Satisfactory Performance Days (SPDs) during the previous CM delivery year should be able to prequalify for the next CM auction by (1) updating relevant Exhibits and declarations (2) declaring that there has been no significant changes to its operations (3) entering historic meter readings for verification.
- Where a significant change to an Existing CMU has taken place at, such as a connection agreement modification, it would be expected to participate using the default process.
- VPI believe this could dramatically reduce the workload for the EMR Delivery Body and allow them to scrutinise new build/ DSR capacity more closely.
- If necessary, the EMR Delivery Body could reserve the right to select a proportion of self-certifying existing plant [at random] and ask for further information.

Role of CM institutions:

- VPI believe that the role of CM institutions should be reviewed annually to ensure that there is enough resource available to meet the increasing demands of CM participants.
- Our perception at a high level is that (1) BEIS appear to want to take step back but is the ultimate owner of the policy and responsible for security of supply (2) Ofgem is cautious about getting too involved in the mechanics of CM process, and often asks CM participants what does the EMR Delivery Body think? (3) National Grid does not want to take on any additional CM liability, or be seen

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to be openly positioning itself as a policy/ regulatory body or provide a service that is beyond the scope of its funding arrangements.

- VPI requests that BEIS, Ofgem and the EMR Delivery Body report back to CM participants around how they can improve their interactions.
- Separately, VPI would like to highlight how poor the recent mock stress event was, which if it had been real, would have resulted in VPI and other CMUs seeking legal advice.

National Grid:

- VPI consistently hears a lot of criticism around National Grid's performance as EMR Delivery Body
- Although we agree that there is still room for improvement, we also believe that many CM participants continue to vent their frustrations with the overall process at the most visible party.
- This year we believe there has been a significant step up in the quality of National Grid guidance materials – although the 200+ pages also demonstrated how complex the CM rules have become.
- Given many CM questions are about interpretations of the rules, we believe it may be helpful for Ofgem to remain more visible during the prequalification window to offer clarification to CM participants and ensure guidance is distributed evenly across all CM participants. In the past we have received feedback that we should seek our own legal advice about how to interpret the CM rules. This in itself reflects how complex the current set of rules have become. For clarity, given the high stakes of not securing a CM agreement, no CMU ever aspires to fail prequalification or put their faith in the tier 1 or 2 disputes process. Earlier guidance from Ofgem around the interpretation of the CM rules and regulations would therefore be extremely helpful.
- From a communications perspective, we continue to believe that National Grid should not be issuing statements explaining delays to Government policy (i.e. as with battery derating consultation in 2017.)

Governance:

- VPI is aware that some CM participants are calling for the creation of an Ofgem chaired expert panel with self-governance arrangements.
- VPI values its direct relationship with Ofgem around CM Rules and Regulations. We are concerned that, although allowing industry to play a greater role may be attractive from an Ofgem resourcing perspective, it could also lead to smaller CM participants being marginalised.
- As above, although VPI was unsuccessful in passing CM rule change CMP345, direct engagement with Ofgem officials was critical in order to find an acceptable route to prequalifying our new-build CMU within the timescales required.
- If the creation of an expert panel was taken forward, VPI believe Ofgem should play a very strong role as Chair to ensure accessibility remains for smaller participants.

CM timings:

- VPI recommend that the window for new CM rules opens immediately after each prequalification window has closed. This would mean that challenges/ improvements were fresh in the minds of all associated parties and, importantly, the EMR Delivery Body has much longer lead times to reflect changes within the EMR portal and guidance materials.
- In our response to the Five Year Review, VPI requested that BEIS publish tentative dates for the next five years of auctions on a rolling basis. This would allow CM administrators to provide better advice to project directors within their respective organisations as well as manage annual workload. VPI also continue to believe that the T-1 auction should be held after the T-4. This is so that new build CMUs with shorter construction timelines can enter the T-1 auction with the knowledge that a T-4 has already been secured.

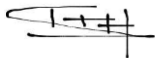
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CM rules:

- VPI would welcome progress enabling the augmentation and adaptation of existing CMUs post prequalification. We would like to highlight that this is not just relevant to battery storage CMUs but also other technologies seeking to incorporate new components to secure additional revenue streams.
- VPI support much greater granularity around unproven-DSR.
- As highlighted in our BEIS response, VPI agree with recent analysis from both Aurora and LCP which evaluated the contribution of additional interconnection to GB security of supply over the next decade. VPI support the removal of interconnection from the CM - however if it is to remain - believe a marginal derating approach should be used to better reflect likely forward flows given the changing generation mix in Europe as well as equalisation of carbon pricing. We also have concerns around unintended interactions with Cap & Floor.

If Ofgem has any questions or would like to discuss aspects of this response further, please contact me at the below.

Yours sincerely,



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