

27 May 2016

Dear colleague,

Statutory consultation on amendments to the Capacity Market Rules

The Electricity Settlements Company Ltd (ESC) was established by the Department of Energy and Climate Change to oversee settlement of the Capacity Market (CM), including metering systems assurance and the administration of credit cover. ESC plays therefore a central role in the delivery of the CM. Amendments to the CM Rules, invariably impact on ESC and we welcome this opportunity to respond to Ofgem's recent consultation of 29 April 2016.

ESC is presently in the final phases of developing its settlement system to perform the functions necessary for the forthcoming delivery year, commencing 1 October 2016. ESC is committed to implementing CM policy as currently set out in the Rules and regulations. ESC cannot, however, commit to delivering any further changes which are not currently in regulations or the Rules if there were to be any impact on ESC. Doing so would have an opportunity cost, i.e. ESC not developing the aforementioned core functionality, which will put at risk the effective delivery of the first delivery year. ESC has nevertheless assessed the 38 proposals which Ofgem has decided either to 'take forward' or 'consider further' and we welcome further discussions with Ofgem on our assessment.

1. A number of the 38 proposals do not impact ESC in their current form. This response considers only those proposals which potentially impact on ESC if implemented.
2. Proposals CP100, 109, 113, 131, 139, 142, 144, 150 and Of 6 and 8 impact ESC in terms of systems and processes. ESC considers that it is able to implement these proposals as set out within the consultation document and ahead of their being required in accordance with the Rules. ESC welcomes the opportunity to work with Ofgem on the detail of these proposals should it remain of the view that it wishes to proceed with them.
3. ESC's main concerns surround proposals 129, 130 and 141 which involve adding and removing Demand Side Response (DSR) components to or from DSR Capacity Market Units (DSR CMUs). Where any component is added (or removed) from a DSR CMU it will have an impact on the management of aggregation rules¹ in the EMR Settlement System, i.e. the metering entity identifiers would change and an update to the aggregation rule would have to be performed.

¹ Before metered data from Elexon and other data providers can be used to calculate payments, it must be further aggregated by the EMR Settlement System. This process changes metered data for metered entities meaningful to the metered data providers (such as BM Units, Metering Systems and Meter Point Administration Numbers) into metered data for Suppliers and CM Units in a way that complies with all appropriate legislation, regulation, rules and contract terms.

Currently, aggregation rules are constant for and within a delivery year; changing this to provide for a variable set of data, i.e. allowing aggregation rules change within a delivery year, has a significant impact to the EMR Settlement System and its operation. The impact is, to some extent, dependent on how many components are changed. However, even a small number of updates to the aggregation rules is a fundamental change to how the EMR Settlement System operates. Given that ESC is currently building this system within tight deadlines, to enable the first Transitional Arrangements Auction delivery year and with further releases to introduce further functionality for the first T-1 delivery year, changes of this level of impact cannot be considered until late 2017.

4. It should also be noted that DSR components introduced within a delivery year have an impact on ESC metering assurance obligations and the associated validation of metering system information provided by the Capacity Provider. This impact has associated volume dependent cost.
5. Further, it is unclear from the proposed Rules amendments how ESC would handle an additional component within a DSR CMU with respect to the six weeks of data required by ESC to perform a baseline calculation. The Rules amendments do not place any restrictions as to when a Component can be added. If, for example, a component is added and a stress event occurs within six weeks of the addition, we will not have the necessary data to perform the full baseline calculation. This could potentially impact the settlement process and impact the determination as to whether a DSR CMU has met its Capacity Obligation.
6. CP129 refers to Rule 13.2.12 and suggests a DSR Test is not required, i.e. that the proposal 'does not affect the validity of an existing DSR certificate'. However, Rule 13.2.12 states the DSR Test Certificate will only be valid if the details of the configuration as detailed in 13.2.5 remain valid. 13.2.5 (a) requires details of the MPANs/meters and would therefore have to be amended if components were added. Moreover, 'configuration' isn't a defined term and it isn't clear exactly what it means.
7. The proposals would also impact on the metering assurance regime, i.e. where an additional Component requires a Metering Test. Even if it doesn't require a metering test, a new Metering Test Certificate will have to be issued, all of which has an associated cost.
8. ESC does not however consider these issues to be insurmountable and welcomes further engagement with Ofgem should it wish to consider these proposals further. ESC reiterates that it will be unable to implement changes relating to CPs 129, 130 and 141 ahead of the forthcoming delivery year.
9. ESC welcomes Ofgem's decision to consider further CP115 relating to volume reallocation. ESC is responsible for administering the volume reallocation process, any change to which will likely result in system or process changes. ESC would welcome the opportunity to engage with Ofgem on this and the other issues covered by this response, including a discussion on the timings associated with the delivery of any proposals Ofgem wishes to take forwards.

Regards

Nick Skates

Policy Delivery Manager, Low Carbon Contracts Company / Electricity Settlements Company