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Dear Philippa,

### Capacity Market Rules: 2016 proposed changes

Calon Energy is the owner of 3 gas-fired power stations, Severn Power and Baglan Bay which are located in South Wales and Sutton Bridge which is located in Lincolnshire.

We have commented below on the proposed Capacity Market rule changes, but where we have not commented we are in agreement with Ofgem's proposals.

**Of1** – Calon Energy does not support this change as we do not believe Ofgem should not put any party into default based on only suspicions with no facts, inquiry, etc. We believe that any default of rules should be supported by evidence to establish fact. Suspicion is too low a burden of proof for credible regulation and increases regulatory risk unnecessarily. We propose that in the definition the wording in (b) is also altered to remove the word suspicion.

We believe that Ofgem should robustly investigate any parties that it does have reasonable cause to believe are in breach of the rules and those parties in breach must be declared in default. However, the principle of innocent until proven guilty should remain sacrosanct.

**CP146 and CP158** - We support these changes being made, as a two stage pre-qualification process would allow more parties to qualify and increase the competition in the market. With the changes in the Regulations made by DECC, disallowing further information to be provided on appeal, there is a serious risk that not all of the available CMUs that want to prequalify will be successful. This is not a process with a good track record and it is subject to human error. We would welcome some form of initial process with the Delivery Body checking applications so that by the end of the prequalification window the vast majority of potential CMUs will be qualified. This seems a sensible suggestion. We do not share the view that it would cause a noticeable reduction in the standard of applications – this seems to underestimate the diligence and professionalism of the individuals and companies concerned.

We believe that practical measures to ensure that more parties that want to participate can prequalify do so should be encouraged. We note the concern of Ofgem for the Delivery Body in this matter and agree that the industry should maintain standards which we are confident it will.

**Of6** – For clarity, we think Ofgem should tighten the use of planning permission language in this context. For example, permission is not required after the CMU has been built as it is a prerequisite. Therefore, the expectation to have a planning permission expiry date that must go beyond the whole of the capacity obligation would seem unreasonable.

**Of7** – We disagree with the wording in the consultation document although we agree with the general intent. An "application" does not necessarily have to have been successful therefore we believe the exclusion of the capital expenditure in the Total Project Spend should only be included where a capacity agreement has been awarded previously.

**CP108** – We think there is a clear requirement to align the communication of Capacity Market Warnings with other system warnings and that this should be done via the BMRS. The need to standardise electricity market communications into common platforms is essential for transparency and efficiency.

**CP136** - Calon Energy is concerned about the broader treatment of the interconnectors and the way that they are de-rated. As each has a specific de-rating, the way they declare their capacity seems somewhat

immaterial as DECC will know the allocation of obligation based on the capacity and the de-rating they are given. What may be more important is the way that the interconnectors are de-rated (given the possibility they will not deliver due to relative energy prices between interconnected markets in a stress situation) and then how they are accounted for in the capacity margin assessment that NG undertakes for DECC.

**CP119 and CP 133** - Calon Energy would support the inclusion of a flag that parties are willing to trade. We agree with Ofgem that in an ideal world a different trading platform would develop. However, the secondary trading rules are such that a liquid market is highly unlikely to develop and even if it does that is likely to be some years from now. It would be an efficient, and relatively easy, way to allow parties to identify others willing to trade with them and make contact to ensure that the parties able to deliver obligations can take those on more easily from parties who cannot. This would add to security of supply.

**CP145** - Calon Energy does not disagree with Ofgem's proposed decision, but want to note that there is a need to see how the CM Warnings (CMWs) work in relation to other system warnings and whether the rules currently correctly identify potential stress events. CMWs will be critical in flagging to the market that response is required, but we are unclear how often the formula will incorrectly notify an issue and how that CMWs will interact with NISMs. For the SO there must also be some concern that they do not know how the market will react to a CMW.

We note the new system NG propose to use to notify CMWs, using SMS and e-mail, but we would like to see NG also putting CMWs onto the BMRS. The new system is well targeted at smaller parties who do not watch the wholesale market in the way that larger parties do. We are not proposing that NG's current proposals are altered, but for those watching for all other system warnings, putting the CMWs on the BMRs alongside other warnings would be more efficient.

**CP127 and CP132** - Calon Energy fully supports extending the window for trading and would urge Ofgem and DECC to resolve all the details around secondary trading so that the market can effectively manage the risks associated with plant failures, etc. Parties remain extremely concerned that secondary trading cannot currently be used as a risk management tool. We firmly believe that trading will allow for the most economic delivery of the capacity that is being purchased. We would encourage Ofgem to encourage a concerted effort to establish an environment conducive to obligation trading and view that too little effort has gone into element relative to other facets of the capacity market. That said, we do support the view that trading should represent a genuine risk management tool rather than a means of simply avoiding an obligation.

**CP115** – Calon Energy agrees that rule 10.4.1 could be clarified and 10.4.1 (c) (ii) does seem to restrict trading. We think that Ofgem's proposed changes does make it clear that the transferor should not end up with an under delivery volume.

**CP140** - We agree with Ofgem that this proposal should be rejected as it would limit competition in ITEs and expand NG's role unnecessarily. However, it may be useful if ITEs can elect to go on a list on the EMR Delivery Body's web-site to help parties locate experts.

**Connection Capacity** – Calon Energy does not believe that it is appropriate to require parties to be able to deliver their full capacity while the de-rating rules remain in place. We would like to see this addressed by removing de-rating and allowing all parties to offer the capacity that they are comfortable that they can achieve (which may be more or less than any of the current connection rules allow). If the parties were selecting their own capacity obligation then it would be reasonable to test that they can deliver it, or require evidence to support that number (such as meter reads).

We disagree with Ofgem that the parties have to provide "headroom". Under the CM there is no obligation on parties to hold headroom or offer to deliver it at any time. We agree that having headroom may be useful, but the CM rules require de-rated capacity is what must be deliverable. There is no evidence that parties are taking on obligations they cannot meet and there is no evidence that parties will not deliver as much energy as they can in a stress event; prices/opportunity costs should be high.

We are concerned that Ofgem is using CEC to identify a "gap" which we do not believe exists; NG is buying the de-rated volume not the CEC. If a genco was built at 800MWs it will have that CEC, but over time the plant may degrade and its actual output fall, hence the de-rating. However, it may still be capable of delivering the capacity of its CEC that has been de-rated in a stress event. A genco may also have reduced TEC, to reduce costs, but still be capable of delivering CEC in a max gen event.

The use of MEL is also not necessarily a robust delivery figure. MELs could be lower as parties do not want to be called for additional output for other reasons (e.g. physical plant risk) but they could MEL up at a system stress event. There is also no MEL for embedded plant or DSR so different criteria would be applied to larger generators compared to smaller parties, which we feel is discriminatory.

We would urge Ofgem to discuss with DECC allowing parties to select their own obligations and then be tested up to them.

We hope that these comments are helpful and would be happy to discuss any of the issues raised with Ofgem.

Yours sincerely

Phil Robinson  
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