Statutory consultation on changes to the Capacity Market Rules (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

Response from ENGIE

Background

ENGIE (previously known as GDF SUEZ) in the UK is the country's largest independent power producer by capacity with interests in 5,015 MW of plant in operation in the UK market made up of a mixed portfolio of assets – coal, gas, CHP, wind, OCGT distillate, and the UK's foremost pumped storage facility. Several of these assets are owned and operated in partnership with Mitsui & Co. The generation assets represent approximately 6% of the UK's installed capacity. The company also has a retail business supplying electricity and gas to the Industrial and Commercial sector.

ENGIE welcomes the opportunity to respond to Ofgem's consultation on changes to the Capacity Market Rules.

Question 1 - CP136 (interconnector capacity): Do you agree that de-rating from CEC rather than TEC is a more appropriate way to measure the De-rated Capacity of Interconnector CMUs? Do you agree with the suggestion to cap Interconnector de-rated capacity at TEC, or should the requirement for interconnectors to hold sufficient TEC be removed altogether?

Whilst Ofgem highlights that one reason to support this the Rule change is that interconnectors can exceed their TEC, generators can as well if they receive a Maxgen instruction. Generators cannot however receive capacity payments for this additional generation either through the auction or through over delivery. ENGIE therefore supports the current arrangements for interconnectors - limiting payments to TEC (regardless of the CACM Guidelines) gives equivalence of treatment for generating CMUs and interconnector CMUs.

Question 2 - CP129 (adding DSR components): Do you agree there are overall benefits to creating a bespoke process for adding new DSR CMU components? (Please provide evidence to support your answer).

Ofgem highlights that one reason for allowing new DSR components to be added is that the use of secondary trading could be burdensome and inflexible. This equally applies to other CMUs.

ENGIE supports this CP on the proviso that the ability to add new components is extended to all CMUs. If this were allowed then obligations could be moved between CMUs at a generating station where some CMUs have contracts and some do not (but remain open).

Question 3 - CP95: Do you agree that the combination of CP124, CP129 and CP130 would be a better solution to the issues that CP95 seeks to address?

ENGIE agrees with this but believes the solution should be extended to all CMUs not just DSR CMUs.

Question 4 - CP108 (CM warnings): Do you think there is a need to align Capacity Market Warnings with other existing system warnings? If so, how would you suggest this is done? Are there any associated risks?

Aligning Capacity Market Warnings (CMW) with operational system warnings (such as NISMs) would be beneficial. However, they measure different things. The CMW is triggered automatically when the operating margin (the margin of demand to supply falls) below 500MW. NISMs are issued (usually at a later point) in a subjective fashion by National Grid after the Operating Margin has been fully depleted. National Grid at the most recent Capacity Market forum on 18th May 2016 highlighted that there can be 1-1.2GW difference between the two.

The 4 hour warning must remain as Capacity Mechanism contracts were entered into on the basis of there being a 4 hour warning. Therefore, if the two were aligned, then in order to preserve the 4 hour CM warning, the issuance of NISMs would have to be under the same terms as the CMW. This would mean that there would be more NISMs.

ENGIE considers that it would be better to adopt a 'wait and see' approach that would establish whether having the scarcity signals appearing at different times does create problems.

Question 5 – CP128 (LFCO formula): Do you agree that the LFCO formula will not scale delivery obligations appropriately during the first TA Delivery Year? Is this issue significant enough to require changes before first TA Delivery Year (starting in October 2016)? If so, how should the formula be amended?

We agree that the formula will not scale delivery obligations in the first TA Delivery Year appropriately. We agree that this issue does not warrant attention for the first delivery year - this formula was known as the time of pre-qualification for the TA so those with contracts would have had the opportunity to acquaint themselves with the requirements.

With 800MW of contracts in the TA auction, the problem will happen in all months not just low demand months as RfR is greater than the 800MW procured in the TA. It would be helpful if DECC communicated that in order to avoid CM penalties, those with TA acquired contracts need to deliver the full contractual obligation in any stress event.

Question 6 - CP115 (volume reallocation): Do you agree there is an issue with Rule 10.4.1 (c)(ii)? If so, would our suggested addition to this Rule fix the problem? If not, how should it be amended?

From the Rules it is not clear that the restrictions also apply to Transferees.

Question 7 - CP124 (portfolio testing): Do you agree with our assessment of the benefits and risks with CP124?

Whilst aggregated CMUs are subject to a 50MW size restriction we do not agree that this restriction is a disadvantage that justifies limiting this change just to DSR CMUs. DSR CMUs have the ability to aggregate in the first place; an option not available to other types of CMUs. ENGIE believes that if this CP is approved, the ability to reallocate Satisfactory Performance Testing should be extended to all CMUs.

Question 8 - CP98 and CP148 (FFR): Do you agree with the solution put forward in these proposals to ensure the participation of dynamic FFR in the CM? If not, what changes to the DSR test and volume calculation are necessary to achieve this?

The CM tests and rewards the delivery of energy. We therefore agree with Ofgem that the proposed solution is not appropriate as it could reward dynamic FFR when it is increasing demand. We do not in any case see the testing requirement as a problem for this type of dynamic FFR - providers can be tested on energy delivery outside of their contract window.

Question 9 – Do you agree with our analysis and conclusions in relation to connection capacity?

ENGIE fully supports participants being able to choose their connection capacity provided it does not exceed the unit CEC and they can demonstrate sufficient TEC across the sum of all CMU connection capacities at a station to deliver it.

Until this is put in place, we do not see that any of the options proposed by Ofgem in their November 2015 Open Letter would be an improvement over the current options for determining connection capacity.

Question 10 - Would the satisfactory performance requirements remain appropriate if we test up to connection capacity? In particular, would it be appropriate to demonstrate satisfactory performance on three separate days, and for CMUs to lose all capacity payments if this is not met?

The satisfactory performance tests should remain even if tested up to connection capacity. Clearly the connection capacity cannot exceed the overall station TEC. Without the tests, and without a stress event taking place in a delivery year, there is no proof that a generator can actually deliver against its capacity obligation. There is in any case, very little difference between connection capacity under the rules and that capped by TEC. It would seem unlikely that Ofgem's proposed change would lead to a noticeable increase in out of merit running.

Question 11 - Would market rules around exceeding TEC result in genuine capacity being excluded under this approach? Does the ability to purchase short term TEC help address this? If not, is this a significant enough issue for concern?

The Rules require participants to demonstrate at pre-qualification that they have sufficient TEC to deliver their capacity obligation. If participants are given free choice of connection capacity (subject to testing), then the issue of exceeding TEC should not arise. The Rules allowing participants to purchase short term TEC do not help as TEC needs to be in place at pre-qualification.

Question 12 - Do you consider that there is a significant risk of capacity withholding if generators are given a free choice of connection capacity? Would any additional measures be needed to help mitigate this risk (e.g. minimum capacity thresholds or supporting justifications for going below certain thresholds)?

ENGIE does not see there is a risk of significant capacity withholding. For this to be beneficial it would have to happen on a large scale (i.e. with market collusion) to have a positive effect on those that strategically withdrew capacity. The Rules protect against this type of collusion through the preventions on market manipulation that Directors have to sign.

We do not believe that requiring parties to supply supporting justification where they seek a connection capacity below a certain threshold would work. A judgment would need to be made as to whether the justification was credible.

Further comments

In addition to the above questions, ENGIE has does not agree Ofgem's decisions on the following proposed amendments:

OF1

ENGIE supports this amendment where there is clear evidence of engagement in Prohibited Activities but not where there is suspected engagement. As well as the possibility that a CMU could be wrongly excluded (which would have to be addressed so that payments that would have been made are preserved and also the ability to take part in future next auction), there will be reputational damage that will remain even if no evidence of engagement in a Prohibited Activity is found.

CP131

ENGIE considers that a variant of ESC's CP is needed. If interconnector flows for the purposes of determining non-delivery are based on the Interconnector Scheduled Transfer (IST) then interconnector reliability issues that occur after the IST is set will not be captured. Interconnector flows should be based on the lower of the IST and the actual flow. With this reliability can be reflected and also any subsequent SO to SO trades that reduce imports into the UK.

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