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25th May 2016

Statutory Consultation on changes to the Capacity Market Rules pursuant to Regulation 79 of the Capacity Market Regulations 2014

Response from VPI Immingham

VPI Immingham welcome the opportunity to respond to the consultation on changes to the capacity mechanism rules, dated 29th April 2016. VPI Immingham is a combined heat and power (CHP) plant near Immingham, on the south bank of the river Humber. It is one of the largest CHP plants in Europe, capable of generating 1240MW – about 2.5% of UK electricity peak demand and up to 930 tonnes of steam per hour, which is used by nearby Humber and Lindsey oil refineries to help turn crude oil into products, such as gasoline. We are also an active participant in the capacity mechanism.

We are broadly supportive of Ofgem's proposals regarding the rule changes and certainly support the proposal to limit changes this year given the complexity of all of the other changes and shorter timescales than might usually be expected. In addition to our responses to the specific consultation questions below, we would like to make comment on the following proposals:

- **CP101, CP110, CP156 – Specification of CMU's Generation Type and Fuel Type**
  - We recognise that Ofgem have rejected these proposals on the basis that DECC has proposed making similar changes. However, we would urge Ofgem to ensure that these changes are in fact made by DECC and to implement them should they not be included for some reason.
- **OF1 – Definition of Defaulting CMU**
  - Whilst we support the principle behind this proposal, we request that Ofgem revisit the wording to remove "is suspected of engaging". Actions should only be taken once prohibited behaviour has been proven.

Our answers to the specific questions can be found below.

Q1. 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?

On the face of it, this would appear to be a change that favours interconnectors over transmission connected generators who also have a requirement to hold TEC. We believe that, wherever possible, there should be a single set of rules for all participants, with variations only allowed when clear evidence is presented that a derivation is required.

Given the proposed changes to connection capacity for transmission connected generators, we would suggest that the same proposals be applied to interconnectors. This would mean that should interconnectors choose to use their connection capacity instead of their TEC, they must be able to

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demonstrate full import delivery to that connection capacity under normal market operation, i.e. import based on market fundamentals and not SO to SO trades. Whilst interconnectors can deliver over their TEC, so can thermal generators, yet the proposed changes would only apply to interconnectors which would appear to be an unlevel playing field.

Also, on the face of the information available on the National Grid website, there is only one interconnector that does not hold a TEC equivalent to its CEC which would suggest that this proposal is to the advantage of that sole interconnector, the proposer of the change, whereas all other interconnectors seemingly comply. We therefore believe that this is not a material change and is not required.

As a result, we believe that Ofgem should further consider this proposal and reject it, particularly the requirement to hold sufficient TEC. However, should it go ahead, then we would agree that de-rated capacity should be capped at TEC.

Q2. 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)

Others are better placed to comment.

Q3. CP95 (reallocating DSR components): Do you agree that the combination of CP124, CP129 and CP130 would be a better solution to the issues that CP95 seeks to address?

Others are better placed to comment.

Q4. 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?

We would encourage as much alignment as possible between system warnings without any material changes to the timeframes associated with the various warnings, i.e. the four hour warning for a system stress event. At the very least, it would be useful for all warnings to be displayed in one place without the need to search through multiple websites.

Q5. 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?

Others are better placed to comment.

Q6. 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?

We agree with Ofgem's analysis and proposed solution.

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Q6. CP124 (portfolio testing): Do you agree with our assessment of the benefits and risks with CP124?

Others are better placed to comment.

Q7. 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?

Others are better placed to comment.

Questions on connection capacity

Q9. Do you agree with our analysis and conclusions in relation to connection capacity?

Without detailed overview of the analysis, it is hard to critique Ofgem's analysis in detail. However, we remain unconvinced regarding the scale of the issue with our own analysis suggesting a slightly smaller impact. However, we agree that using TEC as the basis of the analysis is likely to overstate the size of the issue due to the ability for plant to generate over and above their TEC. This is particularly true of a CHP, such as ourselves, that might only export a proportion of its total power generation whilst sending the remainder to local customers via private wire.

Whilst maximum MEL is a better proxy, we still believe that this could overstate the size of the issue due to the fact that a MEL does not directly reflect the operating parameters of a power station. Where multiple units exist under one BMU (such as multiple gas turbines, steam turbines and auxiliary boilers), the MEL may not always reflect the maximum capability of the plant and so, again, the size of the issue may be overstated somewhat.

We are pleased that Ofgem appear to have recognised the complexity of the issue and are taking their time in finding a suitable resolution. We agree that no changes should be implemented for Winter 17 T-1 and Winter 2020/21 T-4 auctions and instead a robust solution be put in place.

Whilst we continue to favour the status quo, if changes are going to be made, we support the proposals that Ofgem are making – in that plant should have the ability to choose their connection capacity themselves, whilst implementing a suitable and sensible testing regime around this.

Q10. 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?

In theory, the satisfactory performance days should remain appropriate provided that CMUs must only demonstrate delivery of their de-rated capacity obligation. However, in practice, should testing up to the

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full connection capacity be required, we believe that some leeway is required. Plant degrades over time and also performance depends on the ambient conditions at the time. Should the same ambient conditions not be met in the delivery year as in the two years ahead of prequalification, then the plant may not be able to demonstrate satisfactory performance to the full connection capacity, despite prequalifying in good faith and whilst still able to deliver the required de-rated capacity. This may be as little as a few MW.

In addition, for a CHP generator, local steam and power requirements may change over time, impacting the ability of plant to deliver. It would seem highly unfair and potentially expensive to exclude a large plant on the basis of a few MW when all rules had been followed and complied with. Furthermore, this could result in additional costs to consumers as plant become ever more conservative with their connection capacities, meaning that excess volume that is not really required is procured – the opposite of the issue that the proposed solution is trying to resolve.

Therefore, we believe that a pro-rata approach under such circumstances would be appropriate.

Q11. 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?

Yes, we have concerns that the proposed approach could result in genuine capacity being excluded as a result of not having sufficient TEC. We are not convinced that having short term TEC to allow generators to increase their TEC would solve the problem, as the short term TEC may not be available in the first place, recognising that some areas of the Transmission system are more constrained than others. There is also no guarantee that purchasing the short term TEC would be a worthwhile investment if the forecast clearing price of the capacity mechanism is less than the cost of the additional TEC. Furthermore, there is no guarantee that this short term TEC would be available in the delivery year and this may cause issues with delivery of satisfactory performance days.

Q12. 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)?

No, we do not believe that there is any risk associated with plant withholding capacity if given a free choice of connection capacity. Plant is incentivised to maximise their revenue from the capacity mechanism and it is in an owner's interests to do so. With connection information provided at the prequalification stage, we find it highly unlikely that anyone would even try, let alone be able, to second guess the outcome of prequalification and hence the overall outcome of the auction. Therefore we do not see the need for additional measures or justifications.

Should Ofgem have genuine concerns in this area, we would endorse an evidence based approach to designing new rules, once an issue has been identified.

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We would be happy to discuss the content of the above response in further detail if required. For further question regarding any of the above, please contact:

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