



Ofgem  
9 Millbank  
London  
SW1P 3GE

Attention: Mark Copley, Wholesale Markets

By email: EMR\_CMRules@ofgem.gov.uk

5 May 2017

Dear Sirs,

### **Consultation on changes to the Capacity Market Rules 2014 dated 23 March 2017**

Drax Power Limited ("Drax") is the operating subsidiary of Drax Group plc and the owner and operator of Drax Power Station in North Yorkshire. The 4,000MW station consists of six separate units, which together produce around 7-8% of UK generation. Three of these units have been converted to renewable biomass making Drax a predominantly renewable generator, having completed the largest single site decarbonisation project in the EU.

We welcome this opportunity to comment on the proposed consultation on changes to the CM Rules. Our comments on Ofgem's response to a number of proposals and the questions raised as part of the consultation can be found below.

#### **Proposals**

**CP190** We support the removal of the option for Applicants to defer provision of Planning Consents as this will reduce the number of applicants which fail at prequalification.

**CP233** If the demand procured by NGC is based on total grid system demand (including station demand) then we would argue that auxiliary load is irrelevant and we do not see why a deduction should be made for auxiliary load. However we agree that the current system where deduction is required but there are no rules as to how auxiliary load should be deducted introduces complexity and we therefore support a rule change to clarify how auxiliary load will be shared for sites with a number of generating units where auxiliary load is shared, such as Drax. We also support the proposal that this is done on the basis of capacity, i.e. the gross net capacity of a unit divided by CEC. As regards the provision of a volume for auxiliary load, we suggest this would need to be based on actual data and suggest an average of a number (for example, 5) of the highest volumes for auxiliary load over a 12 month period prior to pre-qualification (for example, April to March).

**CP187** We agree with Ofgem that it is not feasible for additional capacity from the refurbishment of an Existing CMU to bid into the T-1 auction for the same delivery year but we would support that such additional capacity should be eligible for secondary trading in the same delivery year.

**CP236** We support this change to prevent capacity payments flowing to potentially non-compliant participants.

**CP237, CP213** We support these changes to information on the CM Register.

**CP164** We support this additional clarity on Reserve for Response.

**CP216** We cannot see what additional information would be useful to update a CMN during the event itself.

**CP169** The change here would create a potential issue in that, if a CMU fails to deliver energy during Stress Event in 2 or more months in Summer and the second of those occurrences is in late September, a CMU will not have time to complete additional SPDs before the end of the Delivery Year and it is overly punitive that this should result in repayment of all previous capacity payments for that Delivery Year. We therefore support

the continuation of the current regime, with the requirement being retrospective if the stress events occur in the Summer. Performance requirements should operate throughout the delivery year however it is more likely that capacity will be required in Winter and therefore if a CMU doesn't have the opportunity to demonstrate satisfactory performance in Summer, looking at the previous Winter (of the same delivery year) does demonstrate that a CMU had met its obligation for that part of the delivery year where capacity is more likely to be required.

**CP171** We support this additional visibility whereby capacity providers will now be notified by NGC if they have failed to notify an SPD.

**CP162, CP184, CP208** We support the addition of EFR to the list of relevant balancing services so EFR units won't be penalized under the CM for providing balancing services during times of system stress. To prevent future rule changes if balancing service products are altered in the future, we suggest that an additional proviso be included to state that the list would include as well as the ones already listed, any agreement where a service is sold by a generating unit to National Grid whereby National Grid control physical notifications or output of that generating unit and the generator is unable to take unilateral dispatch decisions in relation to that unit without breaching that agreement.

**OF12** We do not support a change whereby DSR would be able to change components during the delivery year unless such extension of additional flexibility to DSR components is matched by additional flexibility to transmission connected generators to substitute different generation assets in a similar fashion.

**CP207** We support Ofgem's view that his change would undermine technology neutrality and could potentially increase prices.

**CP176 and CP224** We agree that durability is a key issue for batteries. Facilities where availability for the duration of a stress event is not proven should not be eligible to participate. We would welcome the additional consideration of this issue but disagree that de-rating is the only solution to deal with this issue. We would also suggest that penalties should be significantly increased for batteries that import during a stress event.

**CP191** We do not support any proposal that treats distribution and transmission connection CMUs differently.

**CP197** We support Ofgem's rejection of this proposal to give additional flexibility to interconnectors.

**CP200** We do not agree that applicants should be able to opt out during the disputes window as well as during prequalification. This shouldn't be required given that confirmation of participation in an auction is required after pre-qualification in any event.

**CP179 and CP202** We do not agree with Ofgem's rejection of this proposal, however we appreciate that the prequalification process ensures CMUs are reliable and we would propose that substitution should be possible where substituted assets have been through an equivalent process to prequalification, to ensure a level playing field is maintained.

**CP180** We agree with E.on that it would be sensible to only apply termination events to individual components in a CMU and not the associated capacity. If a CMU has been pre-qualified on the basis of a number of components and only one is at fault, it would be better to allow those components that are unaffected to continue, otherwise capacity will be lost which could put prices up.

## **Consultation questions**

### **CQ1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones? (CP229)**

Yes, we agree that financial penalties are appropriate in this instance, so as to incentivise compliance and prevent refurbishment CMUs getting out of those contracts so as to get better pricing in a T-1 auction.

### **CQ2: Should the SO be required to update the information included in a CMN and if so what should such updates include? Please clarify why participants need this information in a CMN and cannot access it readily elsewhere? (CP216)**

See CP216 above.

**CQ3: Do you think there are amendments that could be made to Schedule 4 which reduce the likelihood of future Rules changes being required if balancing service products are altered, which do not undermine the wider functioning of the Rules? (Of14)**

Yes we agree this would be beneficial – see response to CP162, CP184, CP208 above.

**CQ8: Do you agree with our conclusions with regard to our preferred testing format? (Of15)**

We do not agree that Ofgem's proposal on connection capacity testing will cure the issue which Ofgem have identified. While we support that CMUs will have the same options for determining connection capacity (TEC/CEC/historical metered output) we do not think that carrying out testing so far in advance of the delivery year (rather than during it) will deliver more accurate self-nominations of capacity. By requiring generators to nominate 3 settlement periods ahead of prequalification for the T-1 auction for the same delivery year this means there is a large time gap (up to ~3 years) between testing and (potential) delivery, so this doesn't provide any assurance that plant will be able to deliver its connection capacity in the delivery year. For example, for the delivery year 2017-18, a plant could have done its test in April 2015 for a stress event that occurs in Sept 2018. This will also potentially drive up prices, as plant would need to be maintained in order to satisfy the period when the testing is done as well as for the relevant delivery year and this could distort prices in the intervening T-1 auctions. It is also not clear how this will work for New Build Generators which are not due to be operational until the relevant delivery year and indeed until the Substantial Completion Milestone.

**CQ9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity? (Of15)**

The penalty regime is very onerous, particularly given the issues above on time between test and delivery, and this would disincentivise capacity from coming forward, which would therefore drive up prices.

If you have any queries, please don't hesitate to contact me.

Yours faithfully,

**Claire Sedgwick**

**Commercial Team**