Statutory Consultation on Changes to the Capacity Market Rules 2014

Consultation by Ofgem

Response by E.ON

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

1. E.ON does not agree with the introduction of a financial penalty for failing to meet refurbishment milestones under Rule 6.8.4. We believe the sanctions outlined under Rule 6.8.4 (a) and (b) whereby the Capacity Agreement is reduced to a one-year duration and the Capacity Obligation is re-set by reference to the de-rated capacity of the pre-refurbishment CMU are sufficient and proportionate.

2. To avoid needlessly limiting or restricting refurbishment projects, if financial penalties were to be introduced, they should only apply for projects over a certain MWe threshold. Similarly, penalties should only apply to any additional MW the refurbishment would bring.

3. Introducing onerous penalties with few additional incentives is likely to deter investors for little overall benefit, particularly those investors in smaller scale capacity projects who often work in very constrained capex environments.

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)

4. We believe that the SO should be required to update the information included in a CMN.

5. Currently in a CMN participants are given a start time and are notified when the CMN is cancelled (when it is no longer applicable). A more dynamic CMN where start times and affected settlement periods are updated more frequently would be a better signal, particularly for certain providers that are not able to respond quickly to changes.

6. Currently it is not clear if the start time has changed once the original notice has been issued. This could result in Capacity Providers providing capacity before it is required. For industrial customers, participating as turn down DSR (often aggregated with other industrial companies), as much notice as possible is needed as to which are the affected settlement periods. This is because the process of turning down is not necessarily an instant activity; it can take time to be fully effective. DSR providers are often looking to manage operational considerations against a planned operations timetable and may look to take advantage of a shut-down to do maintenance work. Having the clearest possible guidance for start times would allow them to

optimise their production, minimise disruption to normal operations and, above all, provide the maximum amount of capacity at the time it is most needed.

7. We do not believe it is always possible to use other market signals such as EMNs to detect when a CMN will materialise. This is because, although an EMN is needed for a stress event to be valid, it can be issued with no lead time. For generators that can respond quickly, it may be a useful signal. However, for CMUs with a longer lead time the additional warning from a more dynamic CMN improves efficiency of dispatch.

8. Finally, long lasting CMNs with no updates as to probable start times, such as the CMN issued on 31st October 2016, make dispatch decisions more difficult. This can be crucial for CMUs that are unable to deliver baseload capacity. If CMNs are issued earlier than necessary and are not updated dynamically, a unit's ability to produce stable capacity at a later point may be compromised.

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)

9. We agree that this issued should be explored. At the very least we believe there should be a process to speed up rule changes in the event of a balancing service being added or changed. Waiting for the annual rule change process increases regulatory risk substantially for participants who wish to participate in an auction before the rule change process has run, as has been the case for EFR providers in the 2016/17 auctions.

10. We also believe consideration should be given to the inclusion of other services in Schedule 4 such as DSR services provided to distribution network operators for managing network loads. This is important for DSR CMUs as participation in DSR services that are not classed as Relevant Balancing Services has the potential to impact on performance as measured under current Capacity Market Rules, acting as a barrier to participation. This could manifest in a number of ways; for example a DSR CMU could see reduced provisional baseline demand for settlement periods where it is dispatched for services; and through the Pre-CMN adjustment where, if a DSR CMU were dispatched in the 3 hours prior to a CMN being issued, the Pre-CMN adjustment could cancel any DSR capacity delivered.

CQ4: Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2? (Of13)

11. We agree that the proposal outlined in Of13 is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2. It is important the Rules fairly reflect the capacity that storage providers can actually provide and that over-delivery by manipulating the

baseline is avoided. As batteries can simultaneously import and export, there is a risk of storage being rewarded twice. Setting "B" in the formula to a 6 week baseline would remove opportunities for baseline manipulation and more accurately reflect the usual consumption behaviour of the unit. It would also align storage baselining with DSR to allow more consistency between technology types.

CQ5: Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime? (Of14)

12. No comment.

CQ6: Do you agree that no change is required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4? (Of14)

13. We agree that no change would be required to the calculation of output during Satisfactory Performance Days and Stress Event periods once all frequency response services are included under Schedule 4.
14. In relation to Ofgem's request for views on whether the failure to demonstrate satisfactory performance over winter should have additional consequences such as a financial penalty or termination event, we believe the current repercussions are sufficient and measures such as the repayment of capacity market income effectively serve as a financial penalty.
15. However, we would like to draw Ofgem's attention to a lack of clarity in the rules about which Obligation should actually be delivered for Satisfactory Performance Days and inconsistencies in the interpretation of this between Ofgem and the Delivery Body. It is crucial that Ofgem clarifies in its response to the consultation whether the obligation to be delivered in a Satisfactory Performance Day is ALFCO or the Auction Acquired Capacity Obligation (AACO) or something else.
16. In its comments on CP169, Ofgem describes testing with reference to the Load Following Obligation: *"CMUs may delay performance testing to summer when it may be easier to demonstrate a load-following capacity obligation"*. This implies that the obligation to be delivered is the ALFCO.
17. This is also reinforced within the Rules. Under the Satisfactory Performance clauses (para 13.4.1 of the CM Rules), an "Obligation" is referred to (see excerpt below):

13.4 Demonstrating satisfactory performance

13.4.1 Subject to Rule 13.4.1A and Rule 13.4.1B, if a Capacity Committed CMU has not demonstrated to the Delivery Body (in accordance with Rule 13.4.2 capacity at a level equal to or greater than its Capacity Obligation or aggregate Capacity Obligations for at least one Settlement Period (which Settlement Periods may fall within a System Stress Event) on three separate days (each a "Satisfactory Performance Day") during the Winter of the relevant Delivery Year:

(a) the Capacity Committed CMU must demonstrate three additional Satisfactory Performance Days after 1 May in that Delivery Year or at any time in any subsequent Delivery Year:

A Capacity Obligation is defined with reference to the definitions in the Capacity Market Regulations (Regulation 2):

> *"capacity obligation" means an obligation awarded pursuant to a capacity auction, applying for one or more delivery years, to provide a determined amount of capacity when required to do so in accordance with capacity market rules (and, unless the context otherwise requires, includes a part of a capacity obligation);*

18. The Regulations refer to a "determined amount of capacity"; although not entirely clear, this implies the Obligation to be met is ALFCO.

19. We do not believe this section of the rules is sufficiently clear, we believe the Delivery Body may have a different interpretation of the definition of "Capacity Obligation" in Rule 13.4.1. This should be clarified by Ofgem as the difference between ALFCO and AACO is material.

CQ7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services? (Of14)

20. We agree that the current metering arrangements are suitable for DSR providers of frequency response services and that all standard CM metering should be half hourly. FFR needs to measure active power output once per second, for dynamic services this may need to be at an even greater granularity.

21. National Grid has a metering assurance process for assets providing balancing services. To facilitate efficient participation in CM, aligning the CM metering technical assurance processes for these frequency response assets where practical would be sensible.

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

22. We agree that the use of historic metered output as a test format to demonstrate stated connection capacity aligns the treatment of transmission connected generation with distribution connected generation within the Rules and so creates a more consistent approach across technology types.

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

23. We agree that the proposed approach to setting incentives for the accurate calculation and statement of connection capacity could effectively reduce instances of over-stating capacity. A proportional reduction in capacity obligation and the resulting payments is an appropriate method for encouraging Providers not to overstate their capacity. A flat fee would be disproportionate for units just under the threshold. Those markedly under the threshold will receive appropriate and proportionate signals due to the increased level of payment reductions.

24. We also believe a threshold and proportional approach should be applied in other instances; for example, in relation to DSR testing/credit draw down and satisfactory performance days so that a unit is rewarded for the capacity it does demonstrate, particularly if it is just under an agreed threshold. The current application of a full credit cover draw down in the event a DSR test falls under the 90% threshold or the suspension of all monthly capacity payments for failing to demonstrate capacity under Rule 13.4.1 is binary and can be overly punitive for a CMU that largely delivers its stated capacity.

E.ON
May 2017