

05 May 2017

Dear Mark,

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

The Electricity Settlements Company (ESC) is responsible for managing the Capacity Market settlement process. Amendments to the CM Rules create impacts on the ESC and we welcome this opportunity to respond to Ofgem’s consultation of 23 March 2017.

In general, ESC faces challenges in implementing any further change in 2017/18 as our budget for this period has already been set, with all settlement releases already full. There are several changes in this consultation that create a high impact on the ESC. These will require a lead time of 12 months from design to go live and this year’s resource constraints mean work on these changes cannot start until 2018/19 meaning delivery in 2018 is unlikely.

Summary of key messages

- CP237: Auction-acquired Capacity Obligations (AACO) - ESC would need to recover these overpayments but this requirement is not clearly reflected in the proposed CM Rules. This will be a high impact change and a minimum lead time of 12 months is required to deliver the required functionality.
- DSR Component Reallocation (Of12): This will be a high impact change and a minimum lead time of 12 months is required to deliver the required functionality. Storage facility output calculation change (Of13): This will be a high impact change. If this is introduced for prequalification in 2017 it will put at risk the delivery of the current programme of work at ESC for 2017.
- Frequency response services changes (Of14) as proposed will have multiple impacts on ESC settlements functionality Rules. ESC could deliver these changes for the 2019 delivery year if funding and resource is in place for this work with a sufficient lead time.

ESC has also identified issues on cumulation of state aid data collection following CM Rule changes in November 2016. We are working with the Delivery Body (DB) to identify a solution ahead of the start of the first report to BEIS scheduled for Summer 2018.

A detailed response to the consultation questions can be found in the attachment to this letter. I confirm that this response can be published on Ofgem’s website.

Yours Sincerely,

Omer Ahmad

**Capacity Market Policy Delivery Manager
Strategy & External Relations, LCCC and ESC**

Attachment: Ofgem CM Rules 2017 - ESC Response to consultation

In addition to the consultation questions, ESC has identified additional issues on data collection and cumulation of state aid that will require clarification by Ofgem as part of the 2017/18 CM Rule change programme of work. These are set out below.

Cumulation of state aid data collection following Rule changes in November 2016

ESC supports the implementation of this change in the CM Rules. The first in scope CM auctions took place (T-4 auction) in December 2016. We are working with the Delivery Body (DB) to identify a solution to ensure all the required data is captured in the report ESC will need to send to BEIS. The first reporting requirement for the CM cumulation data will arise in Summer 2018.

We note however, that under the CM Rules for 2016, there was no provision made for the collection of cumulation data at pre-qualification due to the timing of its implementation by the European Union from 1 July 2016 onwards and there being no associated CM Rule changes until November 2016.

In practice, the first opportunity for the DB to collect the CM cumulation related data as part of the funding declaration from a prospective CMU could be up to 16 months after the relevant Auction Results Day (or 3 months for the Early Capacity Auction). The form for CM cumulation data will be appended to the Financial Commitment Milestone (FCM) data. This will include information on monies received from the Enterprise Investment Scheme (EIS) or Venture Capital Trusts (VCT) schemes.

Consultation proposals and questions

CP237: Auction-acquired Capacity Obligations (AACO)

CP237: Auction-acquired Capacity Obligations (AACO) - ESC supports this change which will minimise the risk of overpayments by ESC to capacity providers should their capacity go above their AACO. ESC would need to recover these overpayments but at present it is not clear if this is permitted under the CM Rules as the CM Register will not retain the original AACO value when it is updated. ESC will need a minimum lead time of 12 months from the date of the CM rule change being implemented to test and implement changes to all areas of the system where the AACO is used.

DSR Component Reallocation (Of12)

ESC can deliver this proposal for changes to DSR, however, it will be a high impact change and will require automation of aggregation rules and controls in the settlement system and established business processes. If Ofgem is minded to make this change then ESC will need a minimum lead time of 12 months from the date of the CM rule change being implemented to deliver the functionality needed for implementing this change.

Question 1: Do you agree with the introduction of a financial penalty under Rule 6.8.4 for failing to meet refurbishment milestones? (CP229)

No comment.

Question 2: 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)

No comment.

Question 3: 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)

ESC has assessed the proposals on amending schedule 4 in Of14. We have concluded that these proposals will have multiple impacts on settlement due to major proposed changes to the CM Rules.

The final drafting of changes to the CM Rules for 2017 once published will allow ESC to assess the scale of work needed to deliver this change. ESC could plan to implement these changes for the 2019 delivery year if funding and resource is in place for this work with a sufficient lead time. See below for further details.

a. 'Declared Availability' and 'Contracted Output' to be defined for Enhanced Frequency Response and Frequency Control by Demand Management services under Schedule 4.

- This will impact the files delivered from the DB to ESC.

b. Introduction of a cap on the volume of capacity registered by frequency response providers set at the value of the positive (low frequency) element of the component's 'declared availability', as stated in the relevant balancing service contract.

- This will require an update to the system calculations for Frequency Response providers and new interface with the DB to identify those participants.

c. Introduction of a new baselining methodology proposed for DSR providers of dynamic frequency response services, applies for the testing and delivery arrangements.

- This will require an update to system calculations for new baselining methodology and a new interface with the DB to identify DSR providers of dynamic frequency response services.

d. Amendments to the output calculation for frequency response providers who have exited their contract or failed to provide frequency response, ensures only low frequency response is rewarded up to the 'declared availability' cap.

- This will require an update to the settlement system for new Eij calculations and a new interface with the DB to identify those who have exited their contract or frequency response.
- There will also be a time lag from when an EFR contract is exited and when this is updated into the system calculations.

e. New prequalification information requirements and ongoing reporting requirements for frequency response providers.

- This will not have an impact on ESC settlement functionality as the DB will need to collect this new prequalification information.

Question 4: Do you agree that this is an appropriate solution to the issue identified with the storage output formula under Rule 8.6.2? (Of13)

This proposal will require a system change to the metered output (Eij) calculation for Storage Facilities. The final drafting of changes to the CM Rules for 2017 will allow ESC to assess the scale of work needed to deliver this change.

ESC already has a full programme of changes to deliver ahead of the start of the 2017 Delivery Year for example implementing system changes and testing to deliver secondary trading. If prequalification for 2017 is when Ofgem decides to introduce this change to the storage output formula under Rule 8.6.2, it will put at risk the delivery of the current programme of work for 2017.

Question 5: Do you agree this approach allows DSR providers of frequency response the ability to participate effectively during the testing regime? (Of14)

As stated in ESC's response to Question 3 above, this is a substantive change to the CM Rules and to ESC settlement functionality.

The use of a different baselining methodology to enable effective participation of DSR during the testing regime will involve additional system build and testing to ensure the DSR baseline requirements can function alongside the existing testing regime for non-DSR capacity market participants.

The final drafting of changes to the CM Rules for 2017 once published will allow ESC to assess the scale of work needed to deliver this change. ESC could plan to implement these changes for the 2019 delivery year if funding and resource is in place for this work with a sufficient lead time.

Question 6: 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)

ESC supports the proposal 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.

However, as stated in our response to Question 3 above, to ensure only low frequency response is rewarded up to the 'declared availability' cap will require an update to the settlement system for new Eij calculations.

The final drafting of changes to the CM Rules for 2017 once published will allow ESC to assess the scale of work needed to deliver this change. ESC could plan to implement these changes for the 2019 delivery year if funding and resource is in place for this work with a sufficient lead time.

Question 7: Do you agree that the current metering arrangements are suitable for DSR providers of frequency response services? (Of14)

ESC supports the approach for Of14 in Annex E of the consultation. However, we wish to highlight that the current metering arrangements for DSR do not support validation for a second by second variation of output. We therefore would advise that it is highly risky to attempt to implement this change in parallel with existing 2017 releases.

As highlighted in Annex E of the consultation, where the dynamic service is required 24-hours a day, the current baselining methodology, which samples half-hour periods, is inappropriate.

ESC also requires clarity on whether this will be for a T-4 or T-1 auction as this will impact budget allocation and delivery of the functionality and testing needed to implement this change. We would advise that this is implemented for a T-4 auction to allow for adequate time to implement this change.

The final drafting of changes to the CM Rules for 2017 will allow ESC to assess the scale of work needed to deliver this change.

Question 8: Do you agree with our conclusions with regard to our preferred testing format? (Of15)
No comment.

Question 9: Do you think our proposed approach to setting incentives (threshold and penalty) will effectively reduce instances of overstating capacity? (Of15)
No comment.