FAO: Mark Copley

Ofgem
9 Millbank,
London,
SW1P 3GE

5th May 2017

RE: Low Carbon Response to Ofgem's statutory consultation on changes to the Capacity Market Rules 2014

Dear Mark,

Introduction to Low Carbon

Low Carbon is a focused utility-scale renewable energy and infrastructure investor with an experienced team of professionals. Our ethos is about making positive contributions to both climate change and energy systems.

Based in London, Low Carbon has been active in the UK energy market since its inception in 2010 and has a proven track record in the financing, development, construction and operation of energy and infrastructure assets. This track record includes:

- financing and developing more than 300MW of UK solar PV projects and 50MW of battery storage projects from greenfield origination through development, construction and into commercial operation;
- arranging construction project finance packages from Investec Bank, Macquarie Bank and Vitol in excess of £220 million to construct solar and battery storage projects;
- owning in excess of 100MW of operational renewable energy projects on balance sheet with a dedicated asset management team that provides technical and financial asset management services to over 250MW of our own and third party assets.

We are actively developing an advanced pipeline in excess of 350MW of energy projects. Our portfolio of investments is focussed on proven technologies including utility-scale battery storage, onshore wind, gas engine (including CHP), anaerobic digestion and concentrated solar power.

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The current focus of our development pipeline and strategy is flexible distributed generation as we believe that flexible generation and storage capacity, located close to sources of electricity demand, will represent an increasingly important and beneficial component to the UK electricity system and thus will ultimately deliver value for money to consumers.

We are therefore responding to the following specific proposals which we believe will have a material impact on our business.

Response to Planning Requirements (CP190)

- There appears to be confusion / an inconsistency between the proposal (and the proposed amendment to 3.7.1 of the Rules) and Ofgem's explanation in their "Proposed Decision" on page 7 of the consultation.
- The proposal under CP190 and the proposed amendment to 3.7.1 of the Rules appears to now require Relevant Planning Consents to have been **secured** at the point of pre-qualification.
- However, Ofgem's explanation in their "Proposed Decision" on page 7 of the consultation talks about the merits of **having submitted the applications** to secure Relevant Planning Consents at the point of pre-qualification.
- This is a crucial distinction and is one that is absolutely critical for our business.
- We strongly object to a proposal requiring Relevant Planning Consents to have been **secured** at the point of pre-qualification – using the 2016 key dates, this effectively moves the key date for securing planning consent from 4th November to 31st August.
- This would have a very detrimental impact on our development business because we established a development programme many months ago that set a target timetable for securing planning consents by end October 2017 at the latest – i.e. in time for the 2017 CM auction.
- We clearly aim to secure consents well in advance of the target date but we are not in full control of the planning process because once an application has been submitted, we are in the hands of the Local Planning Authorities in terms of how long they will take to determine applications.
- Proceeding with such a change would materially reduce the number of possible sites that we could bid into the auction – i.e. we are likely to have many sites that might

just miss securing planning consent by end August but will have secured planning by end October.

- However, if the intent of the proposal is in line with Ofgem's explanation – i.e. at the point of pre-qualification Applicant must have **submitted** the planning applications (as opposed to have secured planning consent) – then we are fully supportive of this amendment.
- We think the "**submission**" requirement is a good compromise because it demonstrates that the Applicant is seriously committed to a project at the point of pre-qualification (because the costs associated with submitting a planning application are material). This should therefore limit the speculative bidding that the proposed amendment seeks to curtail, but will allow sites, particularly distribution connected projects with a realistic chance of being developed in the next year, to enter at the earliest possible opportunity and not delay their progress unnecessarily.

Response to De-rating Proposals (CP176 and CP224)

- Low Carbon currently has two battery storage projects (Glassenbury and Cleator), totalling 50MW, in construction and due to reach commercial operation by October 2017. The investment decision on these projects has therefore been made and the capital committed.
- The investment case for the Glassenbury and Cleator projects assumes that the prevailing storage de-rating factor (96.63%) remains in place (i.e. grandfathered) for the lifetime of the 15 year Capacity Market contracts they have secured.
- The investment case for these projects also assumes that the prevailing storage de-rating factor (96.63%) will apply to the Glassenbury and Cleator projects when they are submitted into the 2018 and 2019 T-1 Capacity Market auctions.
- Any de-rating factor reduction affecting the Glassenbury and Cleator projects would materially and adversely impact the investment case for these two projects.
- This proposal therefore gives us significant cause for concern as it may relate to the Glassenbury and Cleator projects.
- We propose that for projects such as Glassenbury and Cleator, where investment decisions have already been made and 2016 T-4 contracts secured, the de-rating factor is grandfathered – both for the T-4 contract secured and for the two T-1 auctions that will take place ahead of the T-1 delivery year . This is because investment decisions have been made on this basis.

- In terms of new battery storage projects, while we understand and appreciate the rationale for revising de-rating for battery storage assets based on their energy duration, we hope that there is no "knee-jerk" reaction resulting in very steep de-rating reductions because we believe that shorter duration batteries can provide a very meaningful contribution to UK system security.
- In your response to the statutory consultation, you note that "the System Operator is currently carrying out analysis to develop a new de-rating methodology and BEIS will consider amendments in this area following completion of the relevant analysis." While we appreciate that the election announcement and accompanying purdah period has delayed timelines, we would be reassured to understand broadly what the scope of this analysis is, and your indicative conclusions, so that the industry can appropriately prepare for the resulting business environment.

Response to references to "new pre-qualification information requirements for frequency response providers"

- We note a number of references in this consultation to proposals to introduce new information requirements for frequency response providers. In particular we note the following references:
    - Pg 32 and pg 47 – "*New prequalification information requirements and ongoing reporting requirements for frequency response providers*."
    - Pg 50- "*We propose that for all types of technology, providers of frequency response will provide information during the prequalification process detailing their balancing services obligations, including on the type of service they provide and the key terms of their contract*. "
    - Pg 55 – "*Additionally, we propose changes to the Rules to capture information on participants providing frequency response services*."
- It is unclear to us why these information requirements are being proposed and we have some concerns around the practicality of such a request, in particular:
    - Why are these information requirements only limited to potential providers of frequency response services – as opposed to potential providers of other ancillary services (e.g. STOR, Fast Reserve etc)?
    - At the point of pre-qualification it is unlikely that a provider will have secured a frequency response contract. And at the point of 2017 CM pre-qualification

we are unlikely to even have full details on the structure of the frequency response products even being tendered by National Grid. Even if some detail does exist, we may not have identified which of the services we intend to tender for or over what timescale.

  - Frequency response contracts are short duration contracts – and may even become shorter duration – the extreme being close to a day ahead auction system for frequency response. So requiring detailed frequency response contract information at the time of pre-qualifying for up to a 15 year Capacity Market contract does not seem to make sense of be practical.

- In short, the proposal seems to be requesting information that simply won't be known or available at the point of pre-qualification.

Yours sincerely

Ian Larive