

5 May 2017

Dear Sir or Madam

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

National Grid Interconnector Holdings (NGIH) welcomes the opportunity to respond to the above publication. NGIH is the ring fenced division within National Grid responsible for interconnector development and the management of National Grid’s interest in existing interconnectors.

We have commented on the rule change proposals in the first section of this document in Appendix 1. Appendix 2 shows our responses to the specific consultation questions highlighted in Annex G of the consultation document.

If you have any questions, please contact me on 07874 010 307

Yours faithfully,

Josh Coomber

Senior Regulatory Analyst (Interconnectors)

Appendix 1 – National Grid Interconnector Holding’s comment to specific proposals

CP190 (National Grid) | CP197 (National Grid Interconnector Holdings)

We note Ofgem’s decision to reject our proposal CP197 and accept the NGET proposal to remove the ability to defer planning consents in its entirety.

We understand that this approach has been taken because of resourcing constraints on the Delivery Body and also because the majority of parties that deferred their planning consents subsequently did not provide these, potentially skewing the results of prequalification.

We continue to believe that our approach in CP197 is an appropriate way forward to address our original concerns and those that we have subsequently learnt. We believe that an ability to defer planning consents until after the auction, provided this deferral is secured with credit cover, would place planning consent on a consistent basis with the financial commitment milestone, the provision of distribution connection agreements and other items that may be deferred.

We also believe that the reasons leading to the minded to position on CP190 are also mitigated by CP197. Allowing an extended period of time to provide planning consents will reduce the administrative burden on the Delivery Body so that it does not have to process deferrals shortly ahead of the auction. Requiring credit cover for a deferred planning consent will ensure that the current “free option” of deferral that may be leading to over optimistic applications would be removed. Credit cover also provides protection for consumers if planning consent is ultimately not achieved and as it would be flagged in advance of the relevant T-1 auction allows any terminated capacity to be replaced.

CP233 (EC)

We believe that there may be a small error in the drafting provided for CP233. The new clause 3.6.1 (d) requires information for “an existing generating CMU where auxiliary load **IS NOT** metered separately...” We believe that it should read “an existing generating CMU where auxiliary load **IS** metered separately...” It is our understanding that the proposed additional information for auxiliary loads is where there are separately metered auxiliary loads in place at a generating CMU and these need to be apportioned over multiple CMUs.

We also note that the drafting only permits fixed multipliers to be applied to the auxiliary load. We believe that this could leave to inaccurate metering. For example, in the case of a two unit power station with a common separately metered auxiliary load. In this case the multiplier would normally be 0.5 with both units operating, however when only one unit operating the full auxiliary load should be applied to the remaining in service unit. This cannot be achieved with the proposal under CP233.

CP196 (National Grid Interconnector Holdings Ltd)

We think that the specific requirements for each Exhibit (DA and DB) remains unclear, and the wording very similar. We continue to believe that simplification is possible in this area.

Of12

We agree with the principle of this proposal. One area that we believes need further examination is the process where a DSR component that is proposed to be added to a DSR CMU already exists in another DSR CMU. There needs to be an appropriate system of checks and balances to ensure that resources are not “double counted”. However they also need to be flexible enough to allow a resource that has genuinely moved providers to not be “blocked” from being added to a new DSR CMU simply because the previous provider has not removed it from their CMU.

CP195 (National Grid Interconnector Holdings)

We are pleased that Ofgem are minded to take this proposal forward. This creates a level playing field between interconnectors and other CMUs and provide more consistency in the rules.

CP170 (RWE)

Whilst we appreciate timescales are tight for the Delivery Body to deliver detailed information about the Prequalification Decision notice during the disputes window we do see the benefit of obtaining this to ease understanding. This could also potentially reduce the number of CMUs failing to prequalify as a result of acting on specific feedback during the disputes window.

CP199 (National Grid Interconnector Holdings)

This proposal seeks to change the Rules so that New Build Interconnectors are eligible for five year agreements, and existing Interconnector CMUs undergoing significant refurbishment work are eligible for three year agreements.

We appreciate that this is an issue that covers rules and regulations. We note that BEIS' consultation mentioned that there was a lack of quantitative or analytical evidence to support longer agreements¹. BEIS also mentioned that "due to the interim nature of this solution" and the difficulties of de-rating interconnectors in the long-term there were no workable suggestions on how to approach the challenge of de-rating interconnectors for longer agreements; however, did not completely rule this out.

CM revenues form part of the business case for new projects and there is a real risk of interconnector projects not progressing if the CM revenue cannot be counted on.

The European CM market design is more medium to long term with regards to supporting GB generation adequacy. The current GB arrangements are significantly more advanced than countries like France who have pushed timelines back and still do not have a 'trial' framework for cross-border participation. Interconnectors should be able to obtain longer term contracts so that we are more aligned to other capacity providers and then transition into EU arrangements when this becomes further developed.

We are keen to work with Ofgem and BEIS to formulate a possible solution. We also support continued consistency in the CM rules for all capacity providers.

CP198 (National Grid Interconnector Holdings Ltd).

We are disappointed that this proposal has not been taken forward. Prospective Interconnectors face largely the same construction risks as Prospective Generating CMUs and take on equivalent responsibility to obtain the relevant permissions and demonstrate that construction progress is being made in accordance with a submitted construction plan.

Under the current arrangements *all* capacity providers are given 18 months grace (to the end of the delivery year plus 6 months for delays outside of the developer's control) in achieving completion (Rule 6.7.7).

While the treatment applies and is equivalent in all other respects, Prospective Interconnector CMUs are the only category of CMU that have two connections with two separate network

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/396505/Government_Response_to_CM_Supplementary_Design_Consultation_v.pdf

owners, and under the current rules only delays caused by one of those network owners based in GB are allowed for even though the delay may be caused by exactly the same issue just at the other end of the cable.

As highlighted in our original proposal, we believe this to be an undue discrimination, and also note that it could see costs rise for consumers, where a short delay to a network operator's construction programme could see an otherwise competent capacity market agreement being terminated. This would erode short term security of supply and then potentially capacity may have to be replaced by more expensive sources of capacity in subsequent auctions (Rule 5.3.2(b)).

CP213 (Scottish Power)

We support this amendment. The ability to view information on the Capacity Market register regarding the Generating Technology Class and Primary Fuel Type will be useful.

CP169 (RWE)

We note that the rules around satisfactory performance are quite complex given that the aim of this process is to ensure that for each delivery year of a capacity agreement the provider is physically capable of delivering its capacity.

We would suggest simplifying the satisfactory performance process such that an existing CMU must demonstrate its satisfactory performance at any point in 12 months prior to the delivery year in order for payments to be received. This would bring the treatment of existing CMUs into line with New Build and DSR CMUs. The complexities of within year proving of performance and the interactions with system stress events can then be removed.

Appendix 2 – National Grid Interconnector Holding's Response to specific 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)

We acknowledge the need for CMUs to provide a true reflection of their plant's status (as a refurb or otherwise) in order to protect the intent of the Capacity Market. However, there may be genuine reasons for reducing the length of a refurbishment or cancelling the refurbishment altogether.

As mentioned in the consultation, banning CMUs altogether from the T-1 auction would reduce auction liquidity, increasing the clearing price at the detriment of the consumer especially if there is a genuine reason for a refurbishment not going ahead and that capacity remains practically available to the consumer. We believe that it could in some cases be important for a CMU to change their status in light of changing operational circumstances without necessarily incurring penalties or being excluded from future auctions. We would welcome further analysis in this area before Ofgem commit to a decision in this area.

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)

We support the need for additional information to be incorporated into a CMN. For a CMN to be triggered the available generation in any given settlement period (4 hours out) is less than Demand + Operating Margin + 500MW margin tolerance. Although a CMN is not a dispatch/operational tool it would be useful to obtain the SOs calculations in each CMN per half hour period to determine whether the situation is improving or not over the course of a CMN period. This will provide a signal to show the extent/scale of the situation to drive efficient behaviors in the market. Under the present rules, only the calculated figures for the very first period in a CMN period are published, with the only further information being that the margin has not recovered sufficiently to cancel the warning.

This means that important information about whether the margin situation is getting worse or better is not available to CM participants. This could be crucial in determining a CMU's and the wider markets reaction to a CMN.

The diagrams below illustrate an example of an improving situation vs. a situation that is worsening regarding system margins in GB. In both cases the CMN would remain in force, but the two circumstances could require radically different actions from CM participants.

Accurate calculations, updated every half hour throughout the duration of an active CMN, indicating the amount of MW under (or over) the 500MW margin tolerance for a CMN to be triggered should be published. This would be useful for market participants enabling them to act accordingly depending on the situation (*represented by the blue arrows*), whilst also utilising other market signals such as Electricity Margin Notices.

Figure 1: Decreasing shortfall in margin

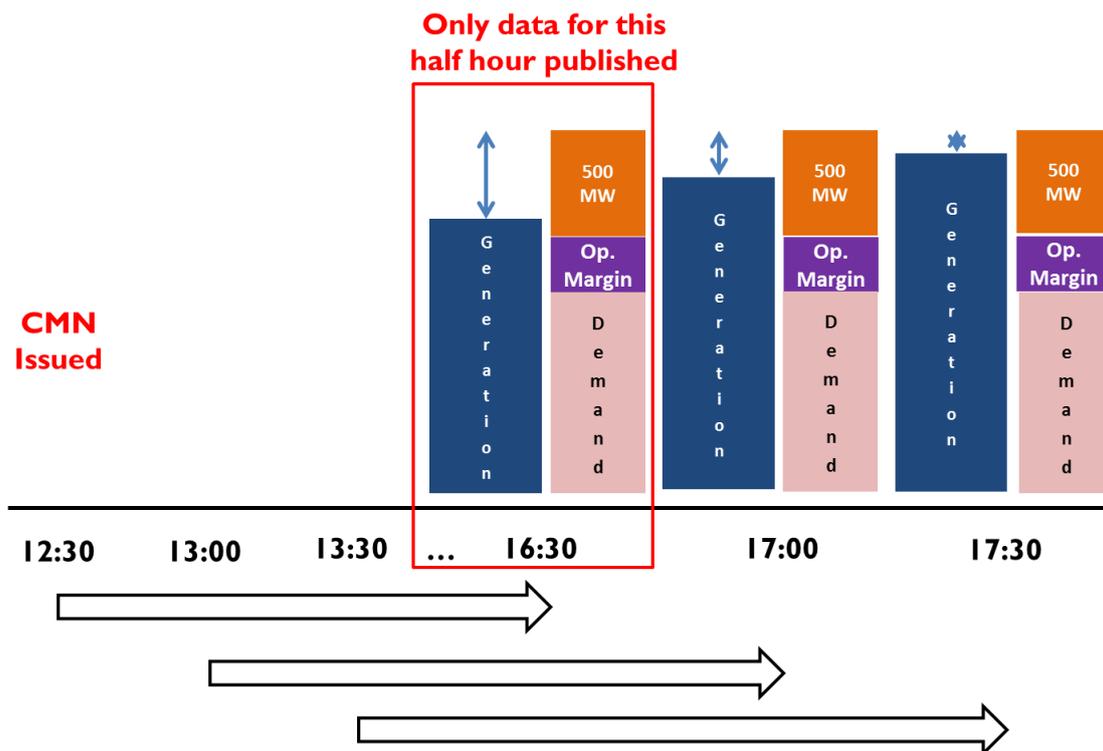
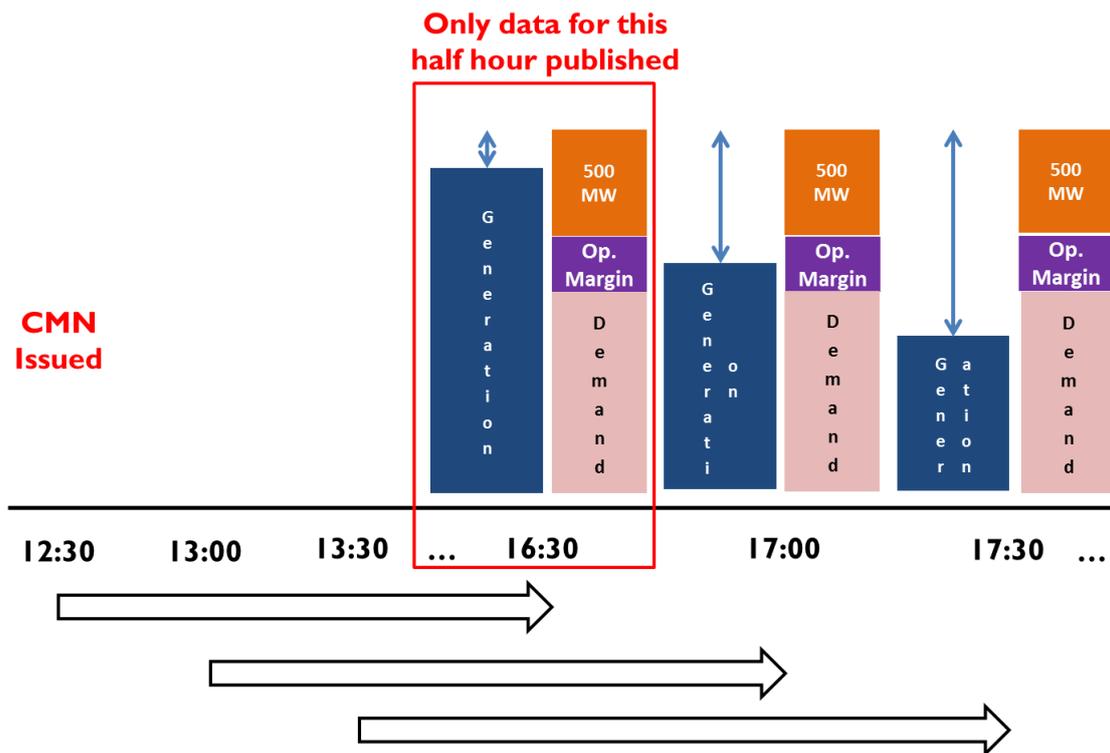


Figure 2: Increasing Shortfall in Margin



The information and the way it is processed by the System Operator in generating the CMN are not publically available and so could not be recreated by CM Participants. It is important therefore that the SO's calculations are made public. As can be seen in the examples described by Figures 1 and 2 above, the more benign scenario of a decreasing shortfall in margin appears to be worse than the more sinister scenario of increasing shortfalls, when only the first half hour period is published. This could lead to inefficient market reactions to a CMN.

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?

We agree with this proposal

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)

We have no comment on this proposal.

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

We have no comment on this proposal.

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

Our only comment on the proposal is that the legal drafting places a requirement to identify for every CMU (proposed rule 3.4.10) whether that CMU is providing a Relevant Balancing

Service, to submit this information at prequalification (alongside a copy of the contract) and to update this information within 10 working days should it change.

We note that information about the provision of Relevant Balancing Services is only relevant during a Delivery Year, and then only if a stress event occurs. This information is gathered and sent by the System Operator to the ESC under rule 14.4.2.

Given that the System Operator collects this information already it seems an overly burdensome requirement for capacity providers to also have to provide and maintain this information from prequalification. We therefore disagree with this element of Of14.

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

We acknowledge that the notion of CMUs setting their own connection capacity has been an issue in the past (pre- 2014) and it is difficult to obtain a solution that works for all.

We note that Ofgem's proposal seeks to deal with the over-statement of capacity which at the Ofgem Stakeholder Event held on April 28th was put at between 1-1.5GW. However the proposal does not address the under-statement of capacity, an issue that BEIS (then DECC) examined throughout 2013 and 2014 as Capacity Market rules were developed.

We also note that the proposal aims to confirm capacity in a period ahead of the delivery year, for the Delivery Year commencing 1 October 2021, this would be between 1 April 2019 and 31 March 2020. However the physical capabilities of the assets providing capacity while perfectly capable of delivering capacity in a delivery year may not be able to do so this far in advance. For example:

- The unit may be on a major outage
- The unit may not have TEC for the testing period despite having secured it for the delivery year
- The provider may be converting an OCGT into CCGT and thus be unable to deliver the higher output.

We think that there may be benefits of further industry liaison facilitated by Ofgem to set out objectives for the industry to comment, before finalising proposals in this area. .

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

See above comment.