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Mark Copley
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Ofgem
9 Millbank
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5th May 2017

Dear Mark,

Re: 2017 Consultation on Capacity Market Rules

Further to the Ofgem consultation paper of 23rd March 2017, RES is pleased to respond to this important consultation. RES' response is not confidential.

Renewable Energy Systems Limited (RES) is the UK's largest independent renewable energy developer with interests in onshore wind, offshore wind, solar, and energy storage. A wholly owned UK company at the forefront of innovation and infrastructure development around the world, RES now employs over 1000 people and has developed or constructed more than 12GW of wind/ solar power around the world.

RES is an active participant in the Capacity Market and secured a contract for a 35MW Storage project in the 2016 T-4 auction. We have also submitted Change Proposal CP162 which has been included in this consultation. We are responding as a stakeholder in the Capacity Market.

RES' comments on the consultation are attached to this letter.

RES' responses are offered in a spirit of positive cooperation to improve the Capacity Market; we would be happy to clarify any of the points raised in this consultation response.

Yours sincerely,

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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)

No comment from RES.

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)

Yes, RES believes that the SO should be required to update the information included in a CMN.

Precision in the arrangements for CMNs is imperative for participants. Ambiguity is a much greater risk for participants and for delivery certainty than is over-complication. We would argue that more specific notifications will make CM delivery simpler and clearer.

Greater precision would ensure that participants are more likely to be available when they are needed, and would reduce the possibility of participants delivering energy at a time when the system does not require it. The latter risk possibility would entail increased Balancing Mechanism costs for requiring participants to turn off generation and turn up demand, increasing costs for consumers.

Rule 8.4.6(a)(ii) [or 11.3.5(b)(ii)] requires the System Operator to issue a notice if an Inadequate System Margin "is anticipated to occur in a Settlement Period falling at least 4 hours after the expiry of the current Settlement Period". Rule 8.4.6(c)(iii) requires the warning to contain particular information "for the Settlement Period(s) for which the warning is applicable".

It is reasonable to infer from this that the Capacity Market Warning should apply to one or more specified Settlement Periods during which Inadequate System Margin is expected. However, the System Operator does not appear to be interpreting the rules that way. Instead, they are interpreting the Capacity Market Warning as applying to the first Settlement Period for which they expect Inadequate System Margin and to all future Settlement Periods until the end of time.

There are no other places for Capacity Market participants to access information on which Settlement Period an Inadequate System Margin is related to. Some larger market participants with significant resources working on this may be able to work to predict the relevant Settlement Periods, but this creates unfair information asymmetry between different market participants and discriminates against smaller participants.

Instead, it should be the case that when notices for Inadequate System Margin are issued:

1. The System Operator publishes the results of its System Margin calculations under Rule 8.4.7 each time they are updated.

2. The System Operator specifically states what settlement period(s) a Notice of Inadequate System Margin relates to.

3. The System Operator provides an update to market participants as and when that assessment has changed, but no more than once every 30 minutes.

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)

RES notes that National Grid is due to announce a new System Needs and Product Strategy in May. We anticipate that this will be followed by updates to the balancing services product portfolio procured by National Grid. This will mean that the terms of Enhanced Frequency Response and other balancing services are likely to change. We would like to see Schedule 4 written in such a way that these anticipated updates from National Grid might reasonably be expected to work with the existing wording.

We note that if the balancing services product portfolio update from National Grid is not finalised before the end of November then the new services will not be included in the Rules under the Relevant Balancing Services for at least a further 18 months. This is because a change proposal that missed that year's change proposal window would have to wait for the following year's change proposal window and then a further 6 months to be consulted on and implemented. We propose that Ofgem introduce a mechanism to update/ add balancing services to Schedule 4 outside of the normal rule change procedure/ timescales.

RES proposes two changes to improve Schedule 4 in this respect:

1) Improve the drafting of the current proposed change in Annex H to make it more flexible to incorporate future enhanced frequency response contracts

In particular, RES proposes to redraft the definitions of Declared Availability and Contracted Capacity as defined below.

Definition	**Current Ofgem proposal in Annex H**	**RES' proposed improvement to Ofgem's proposal**
"Declared_Availability$_{ij}$"	"Declared_Availability$_{ij}$" for unit "i" in settlement period "j" will be equal to: "CC_j x 0.5" Where "CC_j" (Contracted Capacity) is defined in Appendix 7 of the provider's "Agreement Relating to the Provision of an Enhanced Frequency Response Service"	"Declared_Availability$_{ij}$" for unit "i" in settlement period "j" will be equal to: "CC_j x 0.5" Where "CC_j" (Contracted Capacity) is defined in the provider's agreement with National Grid relating to the provision of an Enhanced Frequency Response

	shown in the most recent relevant "Invitation to Tender" documentation or equivalent published by the system operator.	service. *(Drafting note: i.e., is we propose to drop the reference to specific contract versions)*
"Contracted_Output$_{ij}$"	"Contracted_Output$_{ij}$" will be equal to: "$\left(\sum_s^j \text{Envelope Lower}_s\right) \times \text{Contracted Capacity} \times 0.5$" Where those terms are defined in Appendix 7 of the provider's "Agreement Relating to the Provision of an Enhanced Frequency Response Service" shown in the most recent relevant "Invitation to Tender" documentation or equivalent published by the system operator.	"Contracted_Output$_{ij}$" will be equal to: "$\left(\sum_s^j \text{Envelope Lower}_s\right) \times \text{Contracted Capacity} \times 0.5$" Where those terms are defined in the provider's agreement with National Grid relating to the provision of an Enhanced Frequency Response service. *(Drafting note: i.e., is we propose to drop the reference to specific contract versions)*

We believe that RES' proposed wording is more appropriate as using the text in for the form of *"the provider's agreement with National Grid relating to the provision of an Enhanced Frequency Response service"* does not limit the term to one specific type of Enhanced Frequency Response (EFR) contract. This allows future EFR contracts to be included as a Relevant Balancing Service without requiring drafting changes. Importantly it does require that the contract is with National Grid which ensures that the contract is a valid one.

We believe that the removal of *"Schedule 7"* is important as different EFR contracts could have the calculation in another Schedule. We do not believe that specifying the Schedule provides benefit here, but does risk that valid contracts will not be adequately addressed by the drafting.

2) Introduce a mechanism for adding balancing services to Schedule 4 as services are announced by National Grid. We think that this should fall outside of the normal rule change procedure/ timescales. This is important as it removes industry uncertainty.

RES notes that there is already the option to fast track Change Proposals, one option would be to automatically fast track Change Proposals that apply to Schedule 4.

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)

RES can understand the idea behind the Change Proposal. However, we think that there should be flexibility for providers to propose an alternative methodology in the case that the use of six weeks of historical consumption data is not appropriate (e.g., where there has been a seasonal change of operational strategy for the storage facility in the previous six weeks).

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

No comment from RES.

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)

RES agrees 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)

No comment from RES.

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

RES makes no comment on this for the T-1 auctions. RES does not agree that this testing format should apply to New Build CMUs participating in a T-4 auction.

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

No comment from RES.

General Comments on Selected Change Proposals

Please note that we have taken these in the order that they come up in the Consultation.

CP176 and CP224

RES welcomes Ofgem's proposals to reject these CPs. We note that there has not yet been a System Stress Event and thus we have not seen any evidence that shows that an Energy Storage device would be unable to meet the requirements of a System Stress Event. We believe that the industry should be given time to review any analysis on this issue provided by the System Operator and that there should be industry consultation on any proposed de-rating methodology.

Lastly, in order to remove uncertainty from the Energy Storage industry, we believe it essential that if any future de-rating rule changes are applied then assets with existing capacity market contracts at that time are given the benefit of grand-fathering; otherwise investor confidence would be severely undermined.

CP238

RES welcomes Ofgem's proposal not to split the Storage technology class.

CP190

RES does not welcome Ofgem's position to remove the option for Applicants to defer provision of Relevant Planning Consents until after Prequalification. Allowing a deferral of planning permission allows additional CMUs to participate in the Capacity Market Auction. This increases competition in the Auction and should lower the Capacity Market clearing price and reduce the cost that will ultimately be borne by the end consumer.

We question whether *"the costs of deferral outweigh any benefits"* is really evidence based. We request that evidence be provided to support this claim so that industry can comment on it before any rule change is made.

RES notes that in CP190 it says *"If these Applicants had not applied during prequalification, the Delivery Body expects to have saved in excess of 500 hours work. This cost will ultimately be borne by the end consumer."* RES suggests that this could be costed at £75/hr so a total of:

£75/hr x 500hrs = £37,500

We note that if the Capacity Market clearing price (through increased competition form additional participation) is reduced by just £0.01/kW/year then the annual saving to the consumer (assuming 50GW of Capacity is procured) is:

50GW x £0.01/kW/year = £500,000/year

We suggest that this provides evidence that the potential savings from increase participation potentially significantly outweigh the cost of retaining the deferred planning option.

CP192

RES agrees in principle with Ofgem's minded to position. It should however allow for the scenario of outstanding variations to connection offers which are under discussion between the DNO and connecting party as long as an offer had been previously accepted. Capacity Market qualification should be mindful of the variation of connection offer terms under discussion (e.g., the target connection date may be under discussion).

CP170

RES does not agree with Ofgem's decision to reject this proposal, we think that it is reasonable *"that where a decision is made not to Prequalify a CMU the Delivery Body would have to provide detailed information in the Prequalification Decision notice as to why the decision has been made."*

CP201

RES welcomes Ofgem's proposal to accept CP201.

CP213

RES welcomes Ofgem's proposal to accept CP213.

Of13

Captured in CQ4.

CP216

Captured in CQ2.

CP163, CP164, CP204, CP209, CP210, CP211 and CP212

RES welcomes Ofgem's decision to reject these CPs.

CP162, CP184 and CP208

RES welcomes Ofgem's proposal to include Enhanced Frequency Response as a Relevant Balancing Service in Schedule 4 of the Capacity Market Rules.

Of14

We have provided an answer to CQ3 above; in addition RES notes that *"New prequalification information and ongoing reporting requirements for frequency response providers"* would appear to be discriminatory to frequency response providers.

RES does not believe that the following text should be required: *"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. This will enable the Delivery Body and Settlement Body to verify capacity volumes, testing and output appropriately"*. RES has the following questions/ comments:

1) We are not sure what problem (if any) this is trying to address. It would also lead to a significant administrative burden (and therefore cost) on frequency providers. Evidence of the problem must be provided so that industry can comment on it before any rule change is made.

2) Frequency contracts are unlikely to completely coincide/ overlap with the CM term, this could lead to confusion and again more administrative cost.

3) New Build Storage intending to provide frequency response is likely to take part in the T-4 auction. In most cases these assets will not yet have frequency response contracts in place at the point of pre-qualification for the T-4 auction; it is not clear how this will impact their participation in the capacity auction.

4) If there is a legitimate requirement for a mechanism such as this, then why is it not required for all Relevant Balancing Services? RES' view is that applying it just to frequency response but not to other balancing services creates a discrimination against frequency response providers.