

Response to Ofgem's statutory consultation: Changes to the Capacity Market Rules 2014

Background to ENGIE

In the UK, ENGIE employs 20,000 people in a number of activities across the energy value chain, as well as through its extensive services business.

In generation, ENGIE owns First Hydro, with a total capacity of 2088MW, this are the UK's foremost pumped storage facilities and over 70MW of renewable generation. In supply, ENGIE operates an Industrial and Commercial (I&C) and Small and Medium Enterprise (SME) B2B electricity and gas supply business, and has recently entered the domestic electricity and gas retail markets through its Home Energy business.

It owns the country's largest district heating business, providing district energy solutions to the public, commercial, industrial and residential sectors. A key site is the Olympic Park District Heating facility in London. It is also one of the top five service companies in the UK, subsequent to the acquisitions of Balfour Beatty Workplace, Lend Lease FM and the Keepmoat regeneration business.

ENGIE's views on the proposed amendments

CP293

Currently a CMU that is unsure about whether or not it will be operational in 4 year has two choices:

- 1) It can state that it is staying open but will not take part in the auction; or
- 2) It can state that it is closing.

Neither of these options is ideal when there is genuine uncertainty over the future viability of the CMU – the 'don't know' option. This is a consequence of having an auction 4 years ahead of delivery. The most sensible option for the CMU would be (1) as this does not limit future participation in the capacity mechanism. Depending on the assumptions the EMR DB applies, option (1) may affect the demand curve and hence the auction clearing price. Option 1 was available to Eggborough in the 2019 T-4 auction. To now allow Eggborough the opportunity to circumvent their closure declaration would be unfair to CMUs that have now closed having taken this option. Rather than correcting one shortcoming of the CM rules with another one, a wider review is needed to allow a 'don't know' option in pre-qualification

ENGIE does not agree that the rules and regulations are sufficient to prevent gaming for this particular situation. Ofgem should demonstrate how they ensure this.

If despite these comments, this change is to be implemented, having satisfied itself that gaming can be avoided (which may require consequential changes to the rule and regulations), Ofgem should only apply this to future opt out decisions.

CP349

De-rating to address this issue may not be the best right approach for CMUs with a non-firm connection to the distribution system. Export capability from the CMU with a non-firm connection will be dependent on the 'density' of other connections in the vicinity, the extent to which these are firm and also local load to absorb the generation. The use of deratings to address this would appear to be a judgment increasing the risk of a system stress event. It would also fail to recognise the disparity between transmission connected generation which can only have a firm connection to take part in the capacity mechanism and distribution connected generation which can opt for a lower cost non-firm connection.

CP353

ENGIE supports this. Given that there is a mechanism in place to 'test' storage delivery, this could easily be extended to DSR CMU and indeed all CMUs. To limit the security of supply impact of behind the meter storage and ensure that there is not a rush to develop this type of CMU for the next auction before the loophole is closed, this change should be implemented this year using the same methodology for as has been adopted for storage.

CP269

ENGIE has first-hand experience of the need to change the holding company. It completed the sale of its thermal assets between pre-qualification and the auctions held in January and February 2018. Following extensive discussion with BEIS and the EMR Delivery Body (EMR DB), the EMR DB allowed ENGIE to provide a side letter as part of pre-qualification explaining that upon the sale, there would be a change of holding company. Without this pragmatic approach by the EMR DB, the sold assets could not have taken part in the auction and consequently, the sale would not have taken place during this window – effectively 4 months of the year when these types of transaction cannot take place. Clearly, this places a major constraint on asset sales.

Getting the agreement to allow the change of holding company was not easy, it took up a lot of management and other resource and should not be seen as a potential way around the restrictions in the CM Rules. If ENGIE's side letter had not been allowed, an alternative solution would have been to establish a new holding company that would not change with the sale. Stamp duty costs would have been incurred as well as legal fees. In all we estimate that this would have cost both sides to the transaction £500k. This is also not a suitable solution.

The very fact that the EMR DB did allow the change of holding company suggests that this piece of information is superfluous. It is still unclear to ENGIE why it is relevant. ENGIE strongly urges Ofgem to reconsider and remove the requirement to state the holding company.

CP 279, 289 and 290

Having raised CMP2 289 and 290, ENGIE welcomes Ofgem's minded to position to take forward these changes. Ofgem proposes deferring implementation until 2019 as the changes are complex. ENGIE did provide extensive drafting in its proposals that we believe sets out the required changes.

Ofgem identifies that as the rules stand, the Settlement Body cannot correctly calculate a Capacity Obligation. It is not clear what will happen in meantime if there is a stress event. Without these corrections, how will the Settlement Body establish obligations and hence penalties? This decision should be reconsidered.

Of13

Without formulae to enhance the text, ENGIE cannot establish whether or not this Rule change works. In particular, the text in section 3.1 of Schedule 2A is not sufficiently clear on how these adjustment volumes are being derived. The 'Pre-CMW Adjustment' in sections 3.3 and 3.4 would seem to apply a random adjustment depending on the metering of the CMU pre the stress event. ENGIE believes that the baseline may work without any 'Pre-CMW Adjustment'.

General comments

Within this suite of rule changes are those that relate to the participation of interconnectors. They highlight the carve outs that apply to interconnectors:

- Interconnectors can meet their satisfactory performance tests by delivering an output greater than zero. All other CMUs must prove their de-rated obligation (CPs 260 and 332)
- Performance in a system stress event is based on the flow notified at gate closure rather than actual metering as is the case for other CMUs (CP 294)
- Interconnectors are relieved of their delivery obligations when output falls below the IST (CP 331)

These Rules as they stand were put in place because interconnectors, unlike all other CMUs, cannot control their output (this is set through trades across the interconnectors and SO-SO actions). This is despite interconnectors having derating factors of around 65% on 6.9 GW of capacity for Delivery Year 2021/22. This interconnector capacity is substituting for domestic capacity rather than be in addition to this domestic capacity. With increasing reliance being placed on interconnectors to flow at their de-rated levels to ensure security of supply, the participation of interconnectors and the rules that measure their performance urgently need reviewing.

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