



Energy for
generations

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Mark Copley
Associate Partner, Wholesale Markets
Ofgem

3 May 2018

Dear Mark,

RE: ESB's response to Ofgem's Statutory consultation on changes to the Capacity Market Rules 2014 (the "Rules") pursuant to Regulation 79 of the Capacity Market Regulations 2014 (the "Regulations")

Sent via email to EMR_CMRules@ofgem.gov.uk

ESB welcomes the opportunity to respond to Ofgem's statutory consultation on changes to the Capacity Market Rules. We are encouraged to see proposed changes that support the inclusion of innovative technologies that will all work to achieve the flexibility to be valued in transition to a low carbon future. We have structured this response to provide general concerns (about governance and transparency of procedures) and feedback on the Capacity Market, and then our response to Ofgem's Minded-to decisions for specific rule change proposals.

ESB is Ireland's foremost energy company, with around 7,000 employees. Established in 1927 by the Irish government, and remaining 95% state owned, ESB created the first fully integrated electricity system in the world. We have been present in Great Britain since market liberalisation and for 25 years we have been powering homes and businesses across the country, investing around £2 billion. ESB was one of the first IPPs with our investment in Corby Power Station (350 MW). In 2016 we opened Carrington Power Station (880 MW), a combined cycle gas turbine power station on the site of an old coal plant near Manchester. This was the first large scale gas fired station to come on stream in Great Britain since 2013 and is one of the most flexible and efficient plants in the market.

We are supporting Britain's transition to a low carbon future by investing in flexible and renewable generation assets, including combined cycle gas turbine, wind and biomass technologies. We own 125 MW of onshore wind generation capacity, with over 400 MW in the development pipeline in Britain and recently invested in the 353 MW Galloper offshore wind project. We are constructing a new 40 MW waste wood-fired plant at Tilbury in Essex. ESB is a pioneer in electric mobility and is currently working in partnership with Transport for London to install, operate, maintain and commercialise charging infrastructure for the London taxi fleet. In 2017 we entered the GB energy supply market as ESB Energy.

General feedback on the Capacity Market

Governance

Ofgem received an unprecedented number of change proposals this year, from 79 last year to 112 this year, which cover a wide range of issues. While Ofgem allowed a six week period for consultation, ESB would like to suggest that this is insufficient time for robust analysis on the impacts of all 112 proposed changes. We would suggest that this quantum of proposals is a symptom of the need for review of the change process/governance as, with more parties able to take part in the Capacity



Market and propose changes, under the current framework for amendments, this number is only likely to increase.

Procedural Transparency and certainty

In addition to our concerns about the governance of the Capacity Market change process, ESB has significant concerns about the ability of the Delivery Body to continue to manage the prequalification and auction process.

- We believe that the portal itself, and guidance documents, are complex and opaque.
- We observe a lack of consistency in application of rules and in guidance provided which is not helpful to participants, for example, when receiving different messages from the delivery body on similar, or even identical applications.
- There is a lack of common sense on information provision which is derived from Regulation 69, and although recognised by both Ofgem and BEIS, is causing major difficulties for participants that should not be dismissed.

All these issues, and others, have led to a need for parties to seek legal support in preparing their prequalification material, unnecessary rejections and appeals, which cause inefficient use of resources, act as a barrier to entry and thus lead to poor value for the consumer. We would also like to note in this connection our disappointment that CP382 has been rejected by Ofgem, but are encouraged by Ofgem's recognition of information revision issues at the 24 April stakeholder workshop

If you would like to discuss any of the above points in more detail, we are happy to engage with you further on a one to one basis, or via our trade association membership. Please see attached our comments on the rule changes proposed.

Yours sincerely,

Kirsty Ingham

Commercial & Regulation Manager, GB
ESB



ESB's response to Ofgem's Minded-to decisions

Introduction of other technology types to the Capacity Market

(CP263 (E.ON), CP313 (Innogy), and CP314 (Innogy) – support Ofgem minded to decision

ESB welcomes several proposals that will support improved valuation of flexibility in the system, and technology neutrality. We support Ofgem's decision to consider the introduction of renewables as part of the upcoming five year review, rather than the next Capacity Market auction. We agree that more in-depth modelling and study of how best to implement this change is important in order to ensure technology neutrality and robustness. Technologies entering into the Capacity Market have to be de-rated accurately so as not to distort the results or compromise security of supply. We believe that there is not enough time in advance of the next auction for sufficient consultation on de-rating of new technology types and robust analysis to be conducted, in order for renewables participation to be effective.

DSR change proposals

CP277 (Endeco) and CP344 (ADE) – support Ofgem minded to decision

CP244 (ADE) and CP276 (Endeco) – support Ofgem minded to decision

OF12 (Ofgem) – support Ofgem minded to decision

Component changes

CP272 (EDF), CP281 (Energy UK), CP306 (WWA), CP284 (Energy UK), CP308 (WWA), CP287 (Energy UK), CP340 (UK Power Reserve), CP310 (Green Frog Power) – we support a degree of flexibility to the capacity market register after prequalification and we support Ofgem's minded to decision concerning changes to configuration.

ESB supports the retention of Rule 4.4.4. In principle, an element of flexibility with regard to amending plant components after prequalification is welcome, so long as the changes are reasonable and do not result in unintended consequences. We believe that this allows for the most efficient market solution to be applied and supports competition.

ESB is supportive of Ofgem's minded to decision to think further about amendments to Rule 4.4.4 that allow changes to:

- Primary fuel Type; or
- Elements of the physical configuration of the unit, such as relative sizes of generating units on a site.

We are supportive of changes to physical configuration of the unit, such as relative sizes of generating units on a site so long as it meets the MWs that were prequalified.

While Ofgem has stated that it does not think that changes should be allowed to technology class, ESB believes that it should consider this, so long as the appropriate related changes are made in parallel, i.e. the correct de-rating factor and agreement size are applied.

We note that there has been significant interest from industry supporting changes to configuration, and believe that this is an area where more work and analysis should be done, potentially within the five year review.



Connections

CP345 (WWA), CP350 (Saltend Cogeneration) – support original change proposal

There are several proposed rule changes regarding private wire connections and the ability of such plant to participate in the Capacity Market. Of these changes, ESB supports WWA's proposed change, CP345, because we believe that this capacity can contribute to security of supply and the existence of a private wire does not impede that capability. This principle carries into the other change proposals regarding private wire connections, which ESB also supports. CP350 would allow a site which is connected to a Private Network and which is not connected to a distribution network, to prequalify. ESB is supportive of changes that allow genuine capacity to compete in the Capacity Market.

CP349 (ENGIE) – not supportive of original change proposal, support Ofgem's minded to

ESB does not support the original CP349 proposal, which allows only distribution connected generation that is in receipt of a firm connection agreement to take part in the Capacity Market. While we understand the concerns raised by the proposer, that where a number of generators have interruptible connections it may affect their ability to generate simultaneously in a System Stress Event, on competition grounds we do not consider that this should preclude them from participating in the Capacity Market. In addition, the Capacity Market is a non-locational auction therefore potential constraints in the system should not be taken into consideration.

Ofgem's minded-to decision is to de-rate these plant appropriately, and while we consider this option preferable to the original proposal, we see that there are numerous issues with this: non-firm connection agreements are growing in number compared to firm offers. These non-firm connection offers are bespoke and varied, as seen through the work being undertaken by the Open Networks Project, which attempts to categorise the connection agreements offered under the non-firm bracket. Considering this, each plant that has a non-firm connection agreement may have to be de-rated specifically according to its bespoke agreement conditions, which would put unnecessary strain on the Delivery Body and its systems. ESB supports further analysis and an impact assessment of how this change proposal may be carried out in the future.

Storage baseline

OF13 (Ofgem) – support Ofgem's minded to decision

ESB supports the proposed revision of the methodology used to derive the baseline demand for storage. We believe that this is necessary to provide a truer reflection of consumption at a storage site comparable to the System Stress Event, taking into account seasonality.

We are supportive of increasing the period for assessment of baseline demand, in order to reduce the potential for manipulation and simultaneous increased pressure on the system. To decrease opportunities for manipulation, Ofgem should reconsider if the last 6 settlement periods should be included. This is close enough to an event for it to be anticipated (the previous 6 weeks and last 10 days would be still be taken into account).

We believe that it is necessary that Ofgem provide reassurance to industry that the monitoring indicated by Ofgem will be transparent and robust, and that there is no scope for manipulation of the testing period.



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Participation in T-1 auction after opting out of T-4 for same delivery year

CP293 (EP Invest) – not supportive of Ofgem’s minded to decision

ESB does not support Ofgem’s minded-to decision on CP293 (the proposal to remove the prohibition on existing CMU’s, which opted out of the T-4 Auction on grounds of closure, from the T-1 auction for the relevant delivery year). The current exclusion of capacity entering a T-1 auction in the T-4 delivery period provides some certainty to the market and aids investment decisions. It will also support fleet renewal, thereby increasing reliability of the system for the consumer.