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GB Wholesale Markets  
Ofgem

Submitted by email to: [EMR\\_CMRules@ofgem.gov.uk](mailto:EMR_CMRules@ofgem.gov.uk)

28<sup>th</sup> May 2019

Dear Sir/ Madame,

**Re: Five Year Review of the Capacity Market Rules – First Policy Consultation – RES Response**

Renewable Energy Systems Limited (RES) is pleased to respond to this Ofgem consultation on their five year review of the Great Britain (GB) Capacity Market.

RES is the world's largest independent renewable energy company active in onshore and offshore wind, solar, energy storage and transmission and distribution. At the forefront of the industry for over 35 years, RES has delivered more than 16 GW of renewable energy projects across the globe and supports an operational asset portfolio of 5 GW worldwide for a large client base.

RES is an active participant in the GB Capacity Market and secured contracts for battery storage projects in the 2016 and 2017 Capacity Market auctions. We also submitted Change Proposal CP162 which was accepted in the 2017 rule change process. We are responding as a stakeholder in the Capacity Market.

RES' comments on this are appended 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 response.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Edd Kenney-Herbert', with a stylized flourish at the end.

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## Five Year Review of the Capacity Market Rules – First Policy Consultation – RES Response

As an overview, we would like to make the following comments:

- We would like Ofgem to make all CM related documentation easily locatable in the same location on the Ofgem website. We note that recently publications have been issued in a variety of different locations on the Ofgem website. This makes it difficult for stakeholders to keep track.
- We would like a consolidated version of the Rules to be published whenever amendments are made. We would like this consolidated version to be published alongside a 'track changed' version. (Additionally, we would like a consolidated version of the Regulations to be published. We recognise that the consolidated Regulations are probably a BEIS responsibility.) This would significantly ease the burden of CM participants.
- We would like Regulation 69(5) to be removed/ amended to allow submission of information/ evidence in reconsideration of a pre-qualification decision. By far the biggest challenge/ regulatory burden at prequalification for participants is that if something has been omitted from the prequalification application through an administrative error or similar, there is no mechanism to correct this and the prospective applicant is unable to prequalify.

### Consultation Questions

#### The objectives of the Rules

#### **Question 1: Do you have any views on the interactions between the CM and other wholesale markets; such as forward markets, the balancing market, and markets for ancillary services?**

Fundamentally, we think that the design of Capacity Market stress events is at odds with the requirements of the Environmental and Energy Aid Guidelines (EEAG)<sup>1</sup>. Recital 225 of the EEAG makes it clear that the Capacity Market compensation should be for GBP/MW, not GBP/MWh. This is reiterated in recital 154 of the European Commission's invitation to submit comments (2019/C 109/02)<sup>2</sup> which points out that the design of the Capacity Market Stress Events is based on a "delivered energy" model.

There is clearly an interaction between the CM and other wholesale markets not least because stress events have effectively been designed as a GBP/MWh ancillary service. We believe that this conflicts with the European Commission's requirements and should be corrected.

That said, if there is not going to be a wholesale change to the stress event design then we believe that the concept of relevant balancing services seem appropriate. We would like to see an improved (fast track) mechanism for adding services to the list of relevant balancing services.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>

<sup>2</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C\\_.2019.109.01.0003.01.ENG&toc=OJ:C:2019:109:FULL](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2019.109.01.0003.01.ENG&toc=OJ:C:2019:109:FULL)

**Question 2: Do you have any evidence that design choices in the CM are driving inefficient outcomes in other markets?**

Our view is that operational needs of the electricity system should take precedent and thus any instruction given by National Grid ESO ("the ESO") to a capacity provider outside of the scope of the CM must be prioritised without penalty. This stands to reason as ESO instructions will be given for system security. Thus a CMU following the instructions of the ESO should be recognised as providing security and not incur penalties.

**Question 3: Do you have suggestions for how these markets can be better aligned and how any inefficiencies can be mitigated?**

As per our answer to question 1, we would like to see an improved (fast track) mechanism for adding services to the list of relevant balancing services. This will be increasingly important as new services come through from project TERRE and other ancillary services reforms.

**Ofgem's Rules change process**

**Question 4: Do you have any views on whether the proposed membership of the CM Advisory Group is appropriate, the form of participation from industry, along with any further points regarding meeting frequency and function?**

We are opposed to the proposal to introduce a Capacity Market Advisory Group (CMAG). We think that this simply introduces further bureaucracy and barriers to fast implementation of changes. We are particularly concerned by paragraph 2.17 which says *"...publishing proposals for industry comment to gain wide consensus for proposals ahead of submission..."*. This is simply another form of consultation and, rather than reducing the resourcing requirement for smaller entities, will increase the burden.

Indeed, we feel that the entire CMAG simply makes the resource requirements for small participants more onerous as there is yet another forum that they need to engage with to get their voice/ options heard.

Should the CMAG concept go ahead then we think all capacity providers must be represented. This should include technologies such as wind and solar that have not yet been allowed to participate in the Capacity Market.

Finally, we disagree with paragraph 2.16 which says: *"...proposing to update the change proposal form to require justification by the proposer against the relevant CM objectives."* We feel that this is simply another barrier to the facilitation of change.

**Question 5: Do you believe the proposed framework and function of the CM Advisory Group is appropriate and would better facilitate the efficient operation of the CM Rules change process?**

As per our response to Question 4, we are opposed to the proposal to introduce a Capacity Market Advisory Group (CMAG).

If the CMAG is introduced, then we would like to make the following comments:

- At a high level the CMAG must act as a useful tool to ease the Rule change process, rather than to act as a further layer of bureaucracy and delay
- Consideration needs to be given to the resourcing requirements for the CMAG (presumably determined by the frequency and length of meetings)
- There will need to be a dedicated, independent, secretary/ secretarial service to ensure minutes and agendas etc are published appropriately.

**Question 6: Do you have any feedback on our proposal to move to an 18-month implementation timescale; consulting on rule amendments which would subsequently be implemented the following Delivery Year?**

We do not think that slowing down the implementation of rule changes is beneficial to Capacity Market participants, indeed no evidence of how this helps Capacity Market participants has been provided. The key justification seems to be making it easier for NGESO and ESC, we feel that this is not a good reason for increasing the time for implementation of rule changes. Instead we would propose that appropriate resource is made available by Ofgem, NGESO and ESC to maintain the existing rule change timetable.

If the proposal is going to be adopted, we would like to make the following comments:

- We would like a consolidated version of the Rules to be published whenever amendments are made. We would like this consolidated version to be published alongside a ‘track changed’ version. This would significantly ease the burden of CM participants.
- There needs to be a better process for selecting urgent changes. We note that to date there have been very few urgent changes (and even fewer, if any, requested by industry rather than BEIS or Ofgem).
- We would like to see an improved (fast track) mechanism for adding services to the list of relevant balancing services

**Regulatory burden – Prequalification**

**Question 7: Do you have any views on the proposed process, the implications of the change to the Prequalification procedure and whether it would be a positive change in removing an administrative burden?**

We welcome the proposal by Ofgem to reduce the administrative burden of prequalification for Capacity Market applicants. Unfortunately, the proposals do not seem to make a material changes to the prequalification procedure. We believe that existing CMUs should only be required to prequalify once, recognising that updated declarations may need to be provided each year, along with any amendments if required.

The biggest single improvement to prequalification would be the removal/ amendment of Regulation 69(5) to allow submission of information/ evidence in reconsideration of a pre-qualification decision. This is by far the biggest challenge/ regulatory burden at prequalification for participants since if something has been

omitted from the prequalification application through an administrative error or similar, there is no mechanism to correct this and the prospective applicant is unable to prequalify. We cannot see the benefit to excluding participants for administrative errors and fewer participants is likely to lead to a higher Capacity Market clearing price (and thus a higher cost to the consumer).

**Question 8: Do you believe the current length of the Prequalification window is appropriate and if allowing Prequalification submissions to take place throughout the year would be beneficial?**

We do not have a problem with the current eight-week window for prequalification.

**Question 9: Do you have any feedback on the options presented in relation to the submission of planning consents and if there are any alternative options that we have not yet considered?**

We support the proposal to halt the coming into force of the end of the deferral option for planning consents (CP190). Further, we support the proposed “Option 1” to remove the requirement to provide planning consents at the Prequalification stage but rather submit a declaration that states that the project will have the relevant planning consents by the time of the Financial Commitment Milestone (“FCM”).

**Question 10: Do you have any feedback on the amendments to the Prequalification data items listed in Table 1?**

We do not have any comments on the specifics in the table except that, as a general point, we support any action to reduce the requirements for prequalification.

**Regulatory burden – Reporting requirements**

**Question 11: Do you believe that removing progress reports and the associated ITE assessments in all cases except those outlined, alleviates the regulatory and administrative burden, while still providing the necessary levels of assurance?**

We support the proposal to remove the progress reports and the associated ITE assessments. This would significantly reduce the regulatory and administrative burden, particularly for smaller participants.

We would like to highlight that the requirement for additional three and nine month reports in Rule 12.2.1B should be removed. It was never clear what the benefit, if any, of these reports was. These reports are identified in paragraph 4.4 and we support their removal.

## **Secondary trading arrangements**

### **Questions 12 to 24:**

We do not have any comments on these questions, but welcome the aims expressed in the consultation to make the secondary trading mechanism simple, fair and to maximise participation.

## **Other changes to the Rules**

### **Question 25 to 31:**

We have chosen not to answer these questions.

## **NGESO's incentives and role in the CM**

### **Questions 32 to 40:**

We have chosen not to answer the questions in this section. We would however like to make the following general comments:

- We welcome the review of the role of National Grid Delivery Body ("Delivery Body") and its incentive framework. We think that this function could be improved.
- We note that the Delivery Body is often slow responding to queries and responses are not always sufficient. It seems that there is a view in the Delivery body that they cannot/ should not advise participants. We think that this is unhelpful, and more support should be offered to participants.
- We think that since the separation of National Grid ESO the Delivery Body could benefit from more resource from National Grid ESO at peak periods of workload.