



Joint DECC, Ofgem, National Grid, ESC Event  
Capacity Market Stakeholder Workshop

**Discussion Summary**

**7 January 2016**

## Capacity Market Stakeholder Workshop – Discussion Summary

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## Executive Summary

Following the publication of the second Capacity Market T-4 auction results on 22 December 2015, the Department of Energy and Climate Change (DECC), Ofgem, National Grid and Electricity Settlements Company (ESC) held a joint workshop on 7 January 2016. The event was held with the following objectives in mind:

- To provide a reminder to stakeholders of the role of each organisation;
- To seek views from participant companies on the second T-4 auction;
- To seek views from wider industry stakeholders in relation to the Capacity Market and EMR;
- To gather detailed feedback on the framework governing and facilitating the Capacity Market.

The event was attended by fifty stakeholders of various parts of the industry. The event included, a Q&A panel with a representative from each of the organisations and chaired by an independent facilitator . three rounds of table discussions on four topics; and then one to one sessions for stakeholders with the representatives of each organisation were available.

The majority of stakeholders found the event either very useful or usefu and most ost participants stated that the event covered a wide but useful range of topics and that similar events should be convened in the future.

The content of this document reflects the views and experiences caught from the event attendees and not necessarily the views of the key Capacity Market institutions (Ofgem, DECC, ESC and National Grid - EMR Delivery Body). Please note it is not intended as a formal record of discussions.

## Key Messages by Topic:

Overall, the key message from stakeholders was the need for certainty – of the frameworks, deadlines, & timelines. Simplicity, clarification, & guidance were other strong themes.

### 1.0 Eligibility & Prequalification

- A staged approach to both the application & dispute processes.
- Further system changes are required to improve user experience
- More of the same as the help is brilliant; but there needs to be an improvement to the amount of guidance and the flow.

### 2.0 Auction Process

- A review of the window & round durations.

### 3.0 Rules & Regulations

- A consolidated version, published prior to prequalification, of both Rules & Regulations to provide certainty of framework
- To allow the frameworks to be become embedded, no significant changes should be proposed & if they are, sufficient time to allow for their implementation to be given
- Treatment of storage as a technology type should be examined
- The Capacity Market Register should include price maker / taker status; secondary trading parties; fuel types; but not agent names.
- The Connection Capacity and Auxiliary Load calculations need to be reviewed.

### 4.0 Future Issues & New Capacity

- The impacts from the European Commission investigations, the “low carbon grouping”, and “other revenue” services ought be reviewed and monitored, so as the CM does not function in isolation.

## 1.0 Eligibility & Pre-Qualification

The topics of eligibility and prequalification were discussed by three groups of stakeholders. The stake holders focused on the following areas:

- 1.1 Application process.
- 1.2 Improvements needed to the prequalification system.
- 1.3 CM rules.
- 1.4 Timelines.
- 1.5 Dispute process.
- 1.6 Stakeholders also looked at the positive aspects of the eligibility and prequalification process and how things can be improved for the next T-4 auction to be held this year.

### 1.1 Application process

- 1.1.1 A more iterative approach would be useful
- 1.1.2 It would also be helpful to have an opportunity to correct admin errors in a first stage process before submitting the final application.
- 1.1.3 Early sight of timetables & other documents would be helpful.

### 1.2 Improvements needed to the prequalification process

- 1.2.1 Portal idea was good in principle, but issues need to be ironed out.
- 1.2.2 Make it more sequential, currently not a logical flow that can lead to errors.
- 1.2.3 There are plenty of minor changes that could be made that would equal a big increase in user satisfaction, for example the summary table “scrolling”. It would also be helpful to freeze the CMU ID so it is visible across the table.

### 1.3. CM rules

- 1.3.1 There needs to be greater clarity around the rules as they can be difficult to understand.
- 1.3.2 There was a suggestion that the rules could be codified. Sometimes there appears to be a disconnect between the rules and the process for pre-qualification. All the information in one place is essential.

#### **1.4 Timelines**

- 1.4.1 A firm calendar of stakeholder workshops in advance would be helpful to planning.
- 1.4.2 Timelines can't continue to shift as much as they do, as it makes it impossible to plan.

#### **1.5 Dispute process**

- 1.5.1 Has an 'odd' feel to it as honest mistakes can be made so the process needs to be depersonalised.
- 1.5.2 The length of time taken to review applications is too long and applicant left unsure of the status of the application.
- 1.5.3 The dispute process could be renamed to ease fears from applicants

#### **1.6 Improvements mentioned for the next T-4 auction**

- 1.6.1 There could be different workshops for different types e.g. one for existing, one for Demand Side Response (DSR) and one for New Build Capacity Market Unit (CMU)
- 1.6.2 The events/workshops happened too early in the process for those who were new as they didn't know what was significant to them until they had begun the process.
- 1.6.3 A consolidated guidance is essential. A single owner of rules and regulations would be useful with one consolidated document.
- 1.6.4 There needs to be better communication of what help and tools are available.

#### **1.7 Positives**

- 1.7.1 The fact that CMUs remain static unless you want to change them is helpful.
- 1.7.2 The training meant that once you were in the system it went fine. Next time it should only have minor tweaks as those who have used it know it ,and don't want to have to relearn a new system
- 1.7.3 The support from National Grid was really valuable and contact staff were extremely efficient.

## 2.0 Auction Process

The topic of the auction process was discussed by three groups of stakeholders. The stakeholders focused on the following areas:

- 2.1 Pre-auction
- 2.2 During auction
- 2.3 Post auction
- 2.4 Timings
- 2.5 General

### 2.1 Pre-auction

- 2.1.1 Pre-auction training was good, but maybe a bit too extensive for those who had done it before. There could be a ‘refresher’ training course for those that have already done it and a longer course for new bidders.
- 2.1.2 Where a participant has multiple accounts for the auction system, it was suggested that there may be able to find a means for participants to have one login which would allow them to access all of the sub accounts
- 2.1.3 It was suggested that participants do not need to wait until D-10 to confirm entry, as they know what they are doing a long time before this and that it creates unnecessary panic to have to wait until the D-15 to D-10 window to make such declarations
- 2.1.4 Auction reports were well communicated. New information, for example helpful to know the provisional results report was going to be published at 7am

### 2.2 During auction

- 2.2.1 Mid-round reporting was not widely known especially the graph which was really good, but there is a need to promote this information better.
- 2.2.2 Get rid of price maker/price taker thresholds.

## 2.3 Post Auction

- 2.3.1 National Grid's post-auction reporting was very good and quick. It would be also helpful to have data which could be extracted (e.g. excel spreadsheet) rather than just PDF.
- 2.3.2 Participants liked the updated results reports and felt they were an improvement over last year. They also liked the transparency with the reporting timetable and the publishing of an excel file of the results
- 2.3.3 Why not announce provisional results immediately? Not a big trading risk and good to know when, rather than waiting; participants wished portal could be as good.

## 2.4 Timings

- 2.4.1 The ninety minute windows are helpful and allow enough time to get it right (e.g. some companies might change their bidding strategy during this window). However, some feedback suggested that shorter windows would be preferable in the first few rounds. In contrast to this some stakeholders suggested that there should be a longer window at the start of the auction to get the log in process correct
- 2.4.2 Timing of auction, it would be better if it was held in November
- 2.4.3 One company was against shortening the round length, as the current length is useful for internal decisions
- 2.4.4 There were suggestions for a one day auction (this was not supported by all stakeholders).

## 2.5 General

- 2.5.1 Use of portal, the layout can be improved



### 3.0 Rules & Regulations

The following areas were discussed by three groups of stakeholders:

- 3.1 Formal consolidation of rules after changes
- 3.2 Rule change process
- 3.3 Secretary of State's proposed call in power
- 3.4 Timing
- 3.5 Annual cycle
- 3.6 Treatment of storage
- 3.7 Capacity Market register
- 3.8 Connection capacity calculations
- 3.9 General

#### 3.1 Formal consolidation of rules after changes

- 3.1.1 There was an acceptance that this can take time as rule changes need to be laid before Parliament to be formalised
- 3.1.2 A consolidated version of the rules was still said to be crucial, and an informal consolidation was unacceptable. Every time there is a change there should be a new manual.
- 3.1.3 The rules and regulations are hard to find. Useful to have latest consolidated version at an easy to find location.

#### 3.2 Rule change process

- 3.2.1 Rules changes should be tracked into a master document, so that is easy to see what changes have been made for those following the process.
- 3.2.2 It was also noted that DECC can only act in situations where there is a problem with how rules and regulations are written/drafted but cannot interpret them for companies .
- 3.2.3 Rounds of iterations on the rules complicate the process, now the rules are embedded only changes that simplify or solve a crucial problem should be made.

#### 3.3. Secretary of State's proposed call in power

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- 3.3.1 That this power was broadly sensible to avoid conflict with policy changes, but some questioned whether it was really necessary and likely to be used.

### 3.4 Timing

- 3.4.1 The timing of the change process should provide more time for companies to digest and review the changes, but also for National Grid to make changes to their systems.
- 3.4.2 Timing of rule changes could be that they only come into effect at a certain point.
- 3.4.3 The timing of the consultations this time round meant that there were two versions of the rules circulating, which led to greater confusion.

### 3.5 Annual cycle

- 3.5.1 Rule changes should be implemented as soon as possible once identified and agreed.
- 3.5.2 Rules changes should be less frequent than the current annual cycle.
- 3.5.3 Rule changes should remain synced with market cycles.
- 3.5.4 Could there be a cycle for urgent versus non urgent modifications?

### 3.6 Treatment of storage

- 3.6.1 Storage should be treated consistently like DSR. Storage is only treated as Generation under current regime but when it is charging, it should be treated as DSR. The methodology to calculate storage output is too simplistic.

### 3.7 Capacity Market register

- 3.7.1 Price Maker/Taker status should be included on the Register.
- 3.7.2 Details of parties interested in secondary trading should be included.
- 3.7.3 Fuel type should be included.
- 3.7.4 Agent names should be excluded.

### 3.8 Connection capacity calculations

- 3.8.1 Annual changes to de-rating factors make it harder for New Builds to calculate de-rating capacity correctly.

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- 3.8.2 The connection capacity calculations could be simplified.
- 3.8.3 Auxiliary load calculation is not very clear.

### **3.8 General**

- 3.9.1 The impact of the European Commission was a concern for some, and whether an EU wide solution would be implemented which would yet again affect how the Capacity Market is currently run in the UK.
- 3.9.2 It would be helpful to have a greater degree of feedback on proposals, to explain why some recommendations haven't been implemented.

## 4.0 Future Issues & New Capacity

There was also a discussion on the topics of future issues and new capacity by three groups of stakeholders. These topics included:

- 4.1 Barriers to new capacity
- 4.2 Impact of coal phase out announcement
- 4.3 Not a level playing field
- 4.4 Small scale generation
- 4.5 Regulatory stability
- 4.6 Interaction between the CM and Contracts for Difference
- 4.7 General

### 4.1 Barriers to new capacity

- 4.1.1 Some participants felt that the CM should be scrapped altogether and that it was actually making it harder for new projects to come forward, as it created extra hurdles to go through, felt we should trust the market to deliver; particularly now cash-out reforms are in place.
- 4.1.2 Some participants disagreed with scrapping the CM but felt that it could be amended to better target new capacity (for example by holding a separate auction for new build).
- 4.1.3 Some participants felt that the capacity price was the main barrier to new capacity. New capacity might come forward when further existing capacity closes - the immediate conclusion shouldn't be that the CM isn't delivering.
- 4.1.4 Some participants felt it was important that the CM is not looked at in isolation when considering barriers to new capacity. Outside factors (e.g. network charging) were probably driving the observed CM outcomes rather than the CM itself
- 4.1.5 Some participants considered that new storage and new DSR did not face a level playing field in the CM. In particular because they do not have access to 15 year contracts like new build generation. The participants felt a price duration curve (PDC) might be needed to address this. Also the complexity of the CM arrangements, and also requirements around historical performance, create barriers for new DSR and storage companies.

## **4.2 Impact of coal phase out announcement by Secretary of State on 18 Nov 2015**

- 4.2.1 Participants felt that it wouldn't have any impact as coal was expected to close by 2025 anyway due to environmental legislation.
- 4.2.2 Some participants noted that new build projects were prequalifying; it was just the price that was too low.

## **4.3 Uneven playing field**

- 4.3.1 Several participants agreed that simplicity is very important.
- 4.3.2 However some felt that the issue of the fifteen year contracts creating an uneven playing field needed to be addressed.
- 4.3.3 CM arrangements were fine, it was other policies and factors that were creating an uneven playing field (for example triad avoidance and embedded benefits).
- 4.3.4 Differing approaches to de-rating could be disadvantaging certain providers, for example interconnectors.

## **4.4 Small-scale generation**

- 4.4.1 Diesel engines would fall away due to expected improvements in the economics for gas. It was noted that diesel engines have high resale value as there is a very liquid global market, so this transition could be relatively quick. However also noted that other companies did not take the same view.
- 4.4.2 That there are lots of combined cycle gas turbine (CCGT) projects out there, but that they are not choosing to participate in the CM because price expectations are too low. This is in part because a lot of existing capacity is still competitive.

## **4.5 Regulatory stability**

- 4.5.1 Most participants felt regulatory stability was vital for investment. They also reiterated the importance of looking at the wider market arrangements rather than jumping to conclusions about the CM

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arrangements. They felt it would be better to tackle issues at their root, rather than changing CM arrangements to try and achieve certain outcomes. Major changes to the CM should be avoided unless absolutely necessary.

- 4.5.2 Concern about security standards being applied inconsistently, feeling that this created further uncertainty (e.g., the amount of SBR procured for 2016/17 resulted in a Loss of Load Expectation (LOLE) significantly below the 3 hour government target).
- 4.5.3 One participant felt that the relatively last minute change in the demand curve for the Transitional Arrangements auction significantly undermined investor confidence.

### 4.6 Interaction between CM and CfDs

- 4.6.1 The aims of the CM ignore the de-carbonisation agenda.
- 4.6.2 It was felt that the CM and CfDs were conflicting mechanisms and questioned whether there needed to be a more cohesive, single mechanism.
- 4.6.3 Need to understand the limitations of state aid rules, more guidance and neutrality.

### 4.7 General

- 4.7.1 There should be more focus on underpinning the price for gas, using regulation rather than legislation so it comes in in time for the 2016 auction.
- 4.7.2 There needs to be a change in the criteria for eligibility e.g. carbonisation and flexibility should be taken into account.
- 4.7.3 Remove uncertainty; reduce unnecessary compliance which imposes barriers on new plants.
- 4.7.4 Revise the investment case for EPS, coal, Diesel, Interconnection.
- 4.7.5 Interconnection – identify generators and transmission – need to review how cap/floor will affect them.

### Next steps

All the organisations involved in this event would like to thank participants for attending the event. All discussion points that were raised at the event will be looked at by the individual organisations to see what improvements can be made.

## Annex- Workshop Participants

Allen & Overy LLP	Mitsubishi Hitachi Power Systems Europe
Ameresco	Multifuel Energy Limited
Calon Energy	Mutual Energy Ltd
Cargill Plc	New Stream Renewables
Carlton Power	NRG Management Consultancy
CMS Cameron McKenna	PeakGen Power
Cofely	Powersite Ltd
CRA	REA
EDF Energy	Renewable UK
Eider Reserve Power Limited	RES
EMR Settlement Limited	RWE
Energy Pool	RWE Supply & Trading
Energy Supply Ltd	ScottishPower
EnerNOC	Sembcorp Utilities (UK) Limited
ENGIE	Shell
EON / Uniper	SSE
ESB	Stag Energy
FirstGen UK Ltd	Statoil UK Ltd
Flexitricity	UK Power Reserve
Green Frog Power	VPI Immingham
Infinis	Waters Wye Associates
InterGen	Welsh Power Group
Jacob's Engineering	
Juwi Renewable Energies Limited	
KiWi Power	
Lombard North Central plc	