



**The Transitional Capacity Auction for Delivery
in 2017/18 - Auction Monitor Report**

24 March 2017

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1 Assurance Report

ISAE 3000 Independent Assurance Report on Compliance of National Grid Electricity Transmission Plc (“NGET”) (as Electricity Market Reform Delivery Body) with selected requirements of the Capacity Market Rules, Regulations and the Auction Guidelines.

1.1 Scope

We have performed assurance work over the extent to which the Delivery Body (“DB”) has complied with the requirements of the Chapter 5 of the Capacity Market Rules, Regulations and the Auction Guidelines (together the “Rules and Guidelines”) as at 1 March 2017. In particular, we have considered the rules included in Chapter 5 of the Capacity Market Rules as listed in Appendix A.

A consolidated version of the detailed Capacity Market Rules is available here:

<https://www.ofgem.gov.uk/publications-and-updates/decision-statutory-consultation-amendments-capacity-market-rules-0> with the subsequent amendment at the time of writing available here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/569552/Capacity_Market_Amendment_No3_Rules_2016.pdf. In the context of this Report the actions of the DB in performing the Transitional Capacity Auction for Delivery in 2017/18 (“TA 2017/18”) is the “Subject Matter” and the above sections of the Capacity Market Rules form the “Criteria” against which the Subject Matter has been evaluated.

1.2 Respective Responsibilities

The DB as the Responsible Party is responsible for delivering the process and requirements for the TA 2017/18 in accordance with the Capacity Market Rules.

Our responsibility, as agreed with the DB, is to assess the actions performed by the DB in performing the TA 2017/18 against the requirements of the Capacity Market Rules and to independently express a conclusion as to whether the process and actions undertaken by the DB comply with the requirements of the Capacity Market Rules. Other than as defined in our assurance procedures, we did not audit or otherwise test or verify the information given to us in the course of the Services.

1.3 Work Performed

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our work to obtain appropriate evidence about the subject matter of the engagement sufficient to support an opinion providing reasonable assurance.

An outline of the work we performed is included in Appendix B. Except to the extent expressly stated above, we did not subject the information contained in our Report or given to us by the DB to checking or verification procedures. The procedures we performed were not designed to and are not likely to reveal fraud.

1.4 Basis of Opinion

We believe that our work performed and evidence obtained provides a reasonable basis for our opinion. Our assurance report has been produced under our letter of engagement with the Responsible Party dated 1 June 2016.

1.5 Opinion

In our opinion the actions performed by NGET, in its role as the Capacity Market Delivery Body for Electricity Market Reform, has in all material respects, complied with the relevant sections of the Rules and Guidelines as detailed in Section 1.1 above in respect of the TA 2017/18 held between 09:00 and 15:30 on 22 March 2017.

A list of the Bidders and corresponding Capacity Market Units ("CMUs") to be awarded Capacity Agreements following the TA 2017/18 is included in Section 3.

1.6 Independence

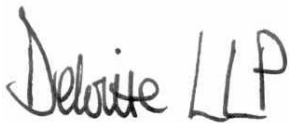
In conducting our engagement, we have complied with the Code of Ethics issued by the Institute of Chartered Accountants in England & Wales.

1.7 Quality Control

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

1.8 Use of Report

Our Report has been prepared for the exclusive use of NGET in accordance with the scope agreed within our engagement letter dated 1 June 2016. Our work has been undertaken solely for the purpose of assessing NGET's compliance with the Rules and Guidelines outlined in Section 1.1 above. Our work was not planned or conducted with any other objective in mind and so cannot be relied upon for any other purposes. Save that a copy of our report may be provided to the Secretary of State for Business Energy and Industrial Strategy and the Gas and Electricity Market Authority and may be published on the Department of Business Energy and Industrial Strategy website, our Report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NGET for this report or for the conclusions we have formed.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly stylized font.

Deloitte LLP
Chartered Accountants
Edinburgh, United Kingdom

24 March 2017

2 Background and Context

2.1 Background

Electricity Market Reform ("EMR") is intended, inter alia, to promote investment in low-carbon electricity generation and ensure security of supply. The Capacity Market will support achieving security of electricity supply by providing a payment for reliable sources of capacity. This will supplement generators' electricity revenues, to ensure they deliver energy when needed. This is designed to encourage the investment needed to replace older power stations, provide backup for more intermittent and inflexible low carbon generation sources and support the development of more active demand management in the electricity market.

EMR has been implemented through the Energy Act 2013 and the Electricity Capacity Regulations 2014 (as amended) ("the Regulations"). The Capacity Market Rules 2014 (as amended) ("the Rules") provide the technical and administrative detail for implementing the operating framework set out in the Regulations. As such, the Capacity Market Rules provide a description and procedures regarding the operation of the Capacity Market.

As per Chapter 11 of the Capacity Market Rules, the Transitional Arrangements have been "...put in place to facilitate the delivery of DSR CMUs and smaller Non-CMRS Distribution CMUs during Delivery Years prior to the Delivery Year for the First Full Capacity Auction." (11.1.1)

Unless otherwise specified herein, words and expressions used in this Report have the same meaning as defined in the Regulations and Rules.

2.2 Requirement for the Auction Monitor

In its role as Delivery Body ("DB") for EMR, National Grid Electricity Transmission plc ("NGET"), pursuant to Chapter 5 of the Capacity Market Rules 2014 (as amended), is required to appoint a third party to monitor the conduct of each Capacity Auction, referred to as the Auction Monitor.

Under the Rules the Auction Monitor is required to provide a report ("Report") to the Secretary of State for Business Energy and Industrial Strategy ("the SoS") with a copy to the Gas and Electricity Markets Authority ("the Authority") which:

- Confirms the list of Bidders that should have been awarded a Capacity Agreement;
- Sets out whether or not the Auction Monitor considers that the Capacity Market DB and/or the Auctioneer has conducted the Capacity Auction in accordance with the Regulations and the Rules;
- If applicable, identifies any actual or potential breach of the Regulations or the Rules or other actual or potential irregularity in the conduct of the Capacity Auction by the Capacity Market DB and/or the Auctioneer; and
- If applicable, includes a review of the calculations made and the Auction Monitor's assessment as to the likely consequences of such actual or potential breach or irregularity.

Under Rule 5.14.3(a) the Auction Monitor is required to provide the Report to the SoS. This will be achieved through the Auction Monitor providing the Report to the DB who will send it to the SoS and copy the Report to the Authority. We understand the SoS intends to publish this Report.

2.3 Basis on which work performed

Deloitte LLP has been engaged by NGET to perform the Auction Monitor role and report on the performance by NGET (in its role as Delivery Body for the TA 2017/18) by providing a reasonable assurance opinion under the International Standard on Assurance Engagements ("ISAE") 3000 in respect of the requirements for the Auction Monitor.

Our independent opinion has been prepared under the International Standard on Assurance Engagements ("ISAE") 3000, which provides the structure and internationally recognised framework for

undertaking the engagement, leading to a formal assurance opinion which is provided in Section 1 of this Report.

2.4 Structure of this Report

Our independent opinion has been prepared under the International Standard on Assurance Engagements ("ISAE") 3000 which provides the structure and internationally recognised framework for undertaking the engagement, leading to a formal assurance opinion which is provided in Section 1 of this Report.

Our Report of Observations has been documented in Section 3 which sets out those matters relating to the DB's compliance with relevant parts of the Chapter 5 of the Capacity Market Rules and the Data and Auction sections of the Capacity Market Auction Guidelines dated 1 March 2017 (the "Auction Guidelines") identified during the course of the engagement. They do not represent issues of material non-compliance but we have included this section to provide transparency to readers of the report. Our opinion should be read in conjunction with the Report of Observations but is not qualified in respect of matters contain therein.

3 Report of Observations

The following observation on the independent checks was identified as part of our work with regards to the TA 2017/18.

Observation	Related CM Rules and Regulations	Effect	Recommendation
CMUs on the system compared to the capacity market register.			
<p>The auction system included two CMUs that were not prequalified to participate in the TA 2017/18.</p> <p>The capacity register was updated on the morning of the auction to change the prequalification status of two CMUs that had been identified as being prohibited from participating in a Transitional Capacity Auction in accordance with Rule 11.3.2 (b).</p> <p>Given the timing at which the CM register was updated the auction system was not updated to remove the two affected CMUs prior to the start of the auction.</p>	<p>Rule 5.3.1 (a), Rule 11.3.2 (b) and Rule 5.3.3 (b)</p>	<p>None</p> <p>Prior to the start of the auction, the DB removed access to the auction system for the Authorised Individuals for the two CMUs. In line with Rule 5.3.3 (b) the DB also submitted bids at the Bidding Round Price Cap in the first round for the two CMUs.</p>	<p>The DB should undertake checks of the CM register in respect of the qualification eligibility of all CMUs in advance of the auction. In particular this should include checks in respect of the qualification status of CMUs based on the capacity agreements they have been awarded in previous auctions.</p>

Aside from the matter detailed above we have no further observations to report relating to the DB's compliance with relevant parts of Chapter 5 of the Capacity Market Rules and the Data and Auction sections of the Capacity Market Auction Guidelines (the 'Auction Guidelines') dated 1 March 2017.

4 Confirmation of the list of Bidders to be awarded Capacity Agreements

The TA 2017/18 started at 09:00 on 22 March 2017 and the Clearing Round was round 6, which closed at 15:30 on 22 March 2017.

The Clearing Price of the TA 2017/18 was equal to £45.00, with the aggregate Bidding Capacity of Capacity Agreements of 312.171MW.

Based on the outcome of the TA 2017/18 and the Capacity Market Rules 2014 published on 1 August 2014 (as amended), we confirm that the following list of bidders and corresponding CMUs¹ to be awarded Capacity Agreements were successful in the TA 2017/18.

Bidding Company / Group	Name of Applicant per CM Register	CM Unit Name per CM Register
BOC Ltd	BOC Ltd	TLGUK
E.ON UK Plc	E.ON UK Plc	EON026
	E.ON UK Plc	EON027
	E.ON UK Plc	EON028
	E.ON UK Plc	EON029
	E.ON UK Plc	EON030
EDF Energy Customers plc	EDF Energy Customers plc	EDF Energy Smart Response CMU 5
	EDF Energy Customers plc	EDF Energy Smart Response CMU 6
	EDF Energy Customers plc	EDF Energy Smart Response CMU 7
	EDF Energy Customers plc	EDF Energy Smart Response CMU 8
Energy Pool UK limited	Energy Pool UK limited	EPO009
EnerNOC UK Limited	EnerNOC UK Limited	ECMU57
	EnerNOC UK Limited	ECMU58
	EnerNOC UK Limited	ECMU59
	EnerNOC UK Limited	ECMU60
KiWi Power Ltd	KiWi Power Ltd	CMU - Unproven DSR KIWI90
	KiWi Power Ltd	CMU - Unproven DSR KIWI91

¹ Bidding Company/Group information is taken from the CM auction system.

	KiWi Power Ltd	CMU - Unproven DSR KIWI93
Limejump Ltd.	Limejump Ltd.	DSR_04
	Limejump Ltd.	DSR_05
	Limejump Ltd.	DSR_06
	Limejump Ltd.	DSR_07
	Limejump Ltd.	DSR_08
	Limejump Ltd.	DSR_09
	Limejump Ltd.	DSR_10
	Limejump Ltd.	DSR_11
SmartestEnergy Limited	SmartestEnergy Limited	SmartestEnergy DSR 3
	SmartestEnergy Limited	SmartestEnergy DSR 4
Tata Steel UK Limited	Tata Steel UK Limited	2015_2
	Tata Steel UK Limited	Multi Site_16 Other
	Tata Steel UK Limited	Multisite_16
UK Power Reserve Limited	UK Power Reserve Limited	AGPR01

Appendix A – In-scope Capacity Market Rules (Chapter 5)

The following rules included in Chapter 5 of the Capacity Market Rules were considered in performing the assurance work.

- Rule 5.3 on the ability of qualified parties to participate in the Capacity Auction
- Rule 5.4 on CMUs excluded from the Capacity Auction
- Rules 5.5.1 to 5.5.4 and 5.11 on the scheduled timing and duration of the Capacity Auction
- Rules 5.5.5 to 5.5.9 on the Capacity Auction format and starting price
- Rule 5.5.10 on the publication of pre-auction information
- Rules 5.5.11 to 5.5.13 on Demand Side Response CMUs and Bidding Capacity
- Rules 5.5.14 to 5.5.17 on the consistency of the register with the pre-qualified parties
- Rules 5.5.18 to 5.5.20 on the information provided in each round by Auctioneer
- Rule 5.5.21 on the use of backup systems during the Capacity Auction
- Rules 5.6 to 5.9 on the calculation of the Capacity Auction results
- Rule 5.10 on the list of bidders to be awarded Capacity Agreements
- Rule 5.14 on the Auction Monitor role

Appendix B – Outline of Work Performed

The specific procedures performed were as follows.

Ref	CM Rule clause	Independent checks
1	n/a	Check that the version of the Auction System used in the Auction is the same version accepted following User Acceptance Testing (UAT).
2	n/a	Check that security controls are in place to prevent unauthorised access to the Auction System. <ul style="list-style-type: none"> • Confirm that UAT included consideration of security processes. • Confirm that all users are required to have a password and PIN. • Confirm from the audit log that all authorised individuals that viewed the CMUs of an organisation were associated to that organisation.
3	5.3	Check that those Bidders and CMUs that were allowed to participate in the Capacity Auction had the correct access and information loaded on to the IT Auction System by: <ul style="list-style-type: none"> • Obtaining a register of qualifying CMUs, with their relevant features, which intend to participate in the Capacity Auction. • Comparing the register to the list of CMUs on the Auction System and confirming that there have been neither additions to nor omissions from the list. • Liaising with the Auctioneer throughout the Auction as to whether they have identified any disqualified CMUs and, if so, confirming that these have been treated as required by clause 5.3.3.
4	5.4	Check that excluded CMUs do not have access to the IT Auction System by: <ul style="list-style-type: none"> • Obtaining list of CMUs that have been withdrawn from a Capacity Auction and register of qualifying CMUs. • Comparing the register to list of CMUs on the Auction System and confirming that those CMUs that have been withdrawn are not included in the Auction System, or that their ability to submit an Exit Bid has been withdrawn.
5	5.5.1 – 5.5.4 5.11 (if applicable)	Check on the timing and duration of the Capacity Auction by: <ul style="list-style-type: none"> • Confirming that the Capacity Auction was held on the date specified in the Auction Guidelines, with minimal delays. • If the Auction was not completed within 5 working days of the first Bidding Window, confirming that the Secretary of State was notified by the Auctioneer.
6	5.5.5 – 5.5.9	Check that the Capacity Auction was run in line with Rules 5.5.5 and 5.5.9 by: <ul style="list-style-type: none"> • Confirming that the Capacity Auction was run in a manner aligned with the Rules: on a descending clock basis, with a series of price spread Bidding Rounds of decrements as specified in the Secretary of State’s letter on 6 July 2016 as amended 27 October 2016, concluding only once the Capacity Auction clears. • Confirming that these spreads are expressed as a range from the Bidding Round Price Cap to the Bidding Round Price Floor, and that the Bidding Round Price Cap of the first round is equal to the Price Cap for the Auction. • Confirming that the price cap for round n+1 is equal to price floor to round n for all rounds as per rule 5.5.7. • Reproducing the calculation of Clearing Price and the aggregate Bidding Capacity at the Clearing Price.
7	5.5.10	Check that, at least 15 Working Days before the first Bidding Round, the Delivery Body published the date and time on which the Capacity Auction would start, the identity and De-rated Capacity of all Prequalified CMUs, and the identity of the Auction Monitor.
8	5.5.11 – 5.5.13	Check that, for each Demand Side Response CMU (DSR CMU), Bidding Capacity equals De-rated Capacity unless the DSR CMU nominated a lower capacity at least 10 Working Days before the first Bidding Window.

Ref	CM Rule clause	Independent checks
9	5.5.14 – 5.5.17	<p>Check that the correct information for Prequalified New Build CMUs, Refurbishing CMUs and DSR CMUs has been correctly uploaded to the IT Auction System by:</p> <ul style="list-style-type: none"> • Confirming that the register provided for Rule 5.3 only includes those Prequalified New Build CMUs, Refurbishing CMUs and DSR CMUs that confirmed their intention to participate in the Capacity Auction between 15 and 10 Working Days before the first Bidding Window. • Confirming that the features contained in the register include the duration of Capacity Agreements at the Price Cap for New Build CMUs and Refurbishing CMUs. • Confirming that the system has recorded both the Refurbishing CMU and the Pre-Refurbishment CMU for any Applicant which confirmed that it wanted to participate with its Pre-Refurbishment CMU.
10	5.5.18 – 5.5.20	<p>Check that the running of the Auction was in line with the Rules, namely:</p> <ul style="list-style-type: none"> • For each round that is not the first bidding round, the Auctioneer announced the Bidding Round Price Spread, the Clearing Capacity at the Bidding Round Price Floor, and the Excess Capacity to the nearest 1 GW in a T-4 Auction or 100MW in a T-1 Auction (or if the Excess Capacity is below 1GW in a T-4 Auction or 100MW in a T-1 Auction, the Auctioneer announced that the Excess Capacity is below 1 GW or 100MW respectively) at the start of the round. • For each round Excess Capacity at price floor was calculated and displayed correctly on the Auction system for each round in line with 5.5.18. • For each round the Auctioneer specified in advance the time that the Bidding Round would begin and end.
11	5.5.21	<p>Check that backup systems are in place to submit bids and that these include safeguards to ensure that the correct bid is submitted. Observe and confirm with the Auctioneer whether the backup systems have been used to submit bids during the Capacity Auction. Review log of calls made/received by the Auctioneer during the Auction.</p>
12	5.6 – 5.9	<p>Independently reapply the relevant Capacity Market Rules to calculate the Capacity Auction clearing price and confirm the identification of each CMU to be awarded a Capacity Agreement.</p> <ul style="list-style-type: none"> • Obtain full details of Exit Bids and Duration Bid Amendments from Delivery Body. • Independently reapply the auction rules, as detailed within the Capacity Market Rules 2014 (as amended), and compare the results to those calculated by the Delivery Body. To minimise differences, use the random number generated by the Delivery Body in the case of a tie-break. If differences are identified in the results, review with the Delivery Body and obtain explanations for these differences. • Review Auction System UAT to check the random number process that is applied for the Auction.
13	5.10	<p>Confirm that the DB has notified Bidders and the SoS of the provisional results. Confirm that the DB has published the provisional clearing price and the provisional aggregated Bidding Capacity of Capacity Agreements awarded within 24 hours of the auction clearing. Compare the results provided by the DB to the Bidders and the SoS and published to the results of our independent reapplication of the auction rules from the previous procedure. Obtain explanations for any differences.</p>
14	5.14	<p>Confirm read-only access has been provided to the Auction System for the Auction Monitor throughout the Capacity Auction. Document details of any discussion with Delivery Body of any potential breach identified by the Auction Monitor. Document details of any views expressed by the Auction Monitor following a request by the Delivery Body.</p>



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