

EP UK Investments Response to Capacity Market Code Modifications CMC 12 24: Proportion of Delivered Capacity in Respect of Incremental New Capacity

EP UK Investments (EPUKI) welcomes the opportunity to respond to this consultation on 'Proportion of Delivered Capacity in Respect of Incremental New Capacity'. EPUKI supports the modification in principle and would like to add some points that might be useful to consider before the approval of this modification.

EPUKI acknowledges that with Intermediate Length Contracts (ILCs) there arises the need for such a code modification, as the frequency of Existing Capacity and New Capacity associated with the same unit being awarded contracts for the same year in different auctions is more likely.

This modification is necessary to ensure that existing capacity with a de-rating factor appropriately maintains the de-rating factor that applied at the time of capacity award, and that this is not retrospectively modified by adding incremental New Capacity, thus inadvertently applying a lower de-rating factor for the total capacity. This is of particular importance given that the current de-rating factors for New Capacity are already disproportionately low. The low derating factors damage the future investment case for capacity and put an upward pressure on Unit/MW price, resulting in less efficient auction outcomes at cost to the consumer.

Disproportionately low derating factors already serve as a negative investment signal for New Capacity, based on lower returns compared to other jurisdictions. Failure to address this misalignment in treatment between New and Existing Capacity will also serve to disincentivise refurbishments, particularly where a significant difference exists between de-rating factors across multiple auctions.

EPUKI would reiterate and support the comments made by other participants that a non-zero INCTOL (Increase Tolerance, as defined in the Initial Auction Information Pack) and unit specific derating factors are a necessity and should be implemented as a matter of urgency in future Capacity Auctions. To ensure future investment and Security of Supply, and with the large fleet of generators on the island that all have a large variance of age, it is essential that units have some mechanism to obtain a more accurate derating factor, making a non-zero INCTOL essential.

Further, the current methodology discourages participants from carrying out refurbishments and building incremental capacity, as the derating factor of these units does not reflect their improved performance. This removes a potential incentive for Existing Capacity to seek to deliver better performance and increased capacity. For instance, a unit considering an upgrade that increases their Initial Capacity by >10 MW will have its derating factor revised downward for not just the incremental New Capacity but for the entire capacity of the unit including the Existing Capacity. There is no reason to further derate the Existing Capacity where incremental New Capacity is added as there should be no detriment to the availability or reliability of the Existing Capacity. This issue becomes very stark when one considers increasing capacity of Gas Turbine by conversion from an OCGT to a CCGT, particularly considering that the units may well still be available in open cycle mode through the use of a bypass damper and stack.

EPUKI also support the comment made by a participant that it is worthwhile clarifying the methodology for derating factors and explaining with worked out example the reason for variance between derating factors between auctions. Additionally, EPUKI suggests the SEMC to take a broader approach and publish an Information or Decision Paper to addresses the key issue of the black box

approach to derating factors and openly consult industry on the methodology and appropriateness of the factor. Both these suggestions would work to improve the transparency around the auction and thereby lead to a more competitive auction outcome, in the future.

In summary, while EPUKI is in support of this modification, it does not see this as a long term, fix-all solution but a short-term necessity, to ensure that revenue risks and risks of Substantial Completion are avoided by participants. EPUKI is utilising this consultation process to highlight to the SEMC the underlying issue of a lack of transparent methodology and non-zero INCTOL in the Capacity Market Code that requires an urgent review and consultation from industry participants. These are more significant issues which have a detrimental impact on the Capacity Market and result in less efficient outcomes for consumers and for Security of Supply.