EP UK Investments response to CMC Workshop 42 Consultation Paper

EP UK Investments ('EPUKI') welcomes the opportunity to respond to this consultation titled CMC Workshop 42. This response by EPUKI is divided into two sections discussing and responding to each modification separately.

The order is as follows:

1. Provision of Information Related to Application Rejection under E.7 (CMC_01_25)
2. Separate De-Rating Factor for New Vs. Existing Capacity (CMC_02_25)

EP UK Investments response to Provision of Information Related to Application Rejection under E.7 (CMC_01_25)

EP UK Investments ('EPUKI') welcomes the opportunity to respond to this consultation and appreciates the openness that the Transmission System Operators (**TSOs**) have offered to improve ways to disclose information around rejecting qualification decisions. The proposed modification seeks to establish a provision requiring the TSOs to provide detailed explanations when rejecting a qualification application under section E.7 of the Capacity Market Code. Further, this request extends to include disclosure of any third-party reports, consultancy work, or assessments commissioned by the SOs that have influenced their adjudication of the qualification process. This enhanced transparency will support participants in understanding the basis for decisions and facilitate a more informed and fair qualification procedure.

This modification is essential to achieve greater transparency in the qualification decision process, mitigating delays in the qualification process due to limited information provided and inadequate reasoning for application rejections. This provision of information would enable participants that have been rejected to identify and address potential issues earlier in the process; thereby leading to improved fairness, transparency and competition.

Formulating investment strategies and business cases within the competitive Single Electricity Market (SEM) presents significant financial and operational challenges, requiring substantial capital commitments, protracted timelines, and complex regulatory requirements, with considerable risk borne by investors. Given these circumstances, participants should be encouraged to participate in the SEM by providing them with adequate analysis and justification around a decision to reject their qualification application. This clarity would help reduce the risk and uncertainty around investment decisions. This would foster a more predictable investment environment and in turn strengthen security of supply and facilitate long-term investment on the island.

The SEMC routinely publishes reports and consultations on pricing decisions and other structural and policy changes, which ensures the efficient and transparent functioning of the SEM. A similar level of transparency must be adopted for investment related decisions and long-term projects that are critical to ensuring security of supply on the island, it is essential that the rationale for the rejection of qualification applications is communicated clearly to participants.

<u>Responding to Comments from Industry</u>

It is promising and reassuring that the industry broadly supports the modification proposal by EPUKI. Further, it is noted that the sentiment of frustration by the lack of transparency is shared across industry.

The System Operators (**SOs**) stated on the Capacity Workshop call that there were practical considerations associated with this modification such as increased workload. However, material underpinning a qualification decision, to be shared with participants as a result of this modification, should be readily prepared and available to the TSO, thus minimising the extent to which this modification would increase workload.

The decision to approve or reject a qualification application for a ten-year New Capacity project has a potential financial value of several hundred million euros. As such, EPUKI expects that the rationale and considerations behind this position should already be robustly established and well-documented. This modification would not require the SOs to prepare new documentation, but to share documentation which already exists.

An industry participant suggested organising bilateral calls as a solution, reflecting the intent behind the proposal. However, EPUKI considers this approach to be logistically cumbersome and in fact likely to introduce delays in the qualification process. While agreeing with the underlying sentiment of the suggestion, EPUKI believes that a more efficient method would be to share the documentation underpinning the SOs rejection decisions. This would include any third-party reports, analyses, or advisory materials considered during the assessment.

Providing participants with these written materials would not only conserve resources by eliminating the need for numerous bilateral calls but also offer clear, unambiguous, tangible documentation that participants can review and proactively engage with to address issues in their qualification applications.

Moreover, sharing the relevant documentation directly addresses the complexities of the administrative process of bilateral calls and personnel availability, by delivering a comprehensive reasoning for qualification rejections, thereby facilitating a more constructive engagement between participants and the SOs.

<u>EP UK Investments response to Separate De-Rating Factor for New Vs. Existing Capacity (CMC_02_25)</u>

EP UK Investments ('EPUKI') welcomes the opportunity to respond to this consultation. The modification proposed by EPUKI aims to facilitate the introduction of critical New Capacity into the system by incorporating the age of generating units as a variable in determining derating factors. This approach allows for differentiation of unit performance based on age, thereby reflecting unit-specific characteristics. The primary objective is to enable newer units to distinguish themselves from older assets, thereby strengthening the investment case for New Capacity and ensuring there is no undue discrimination in accordance with the TSO's regulatory requirements including the CMC objectives.

Recognising the practical challenges of implementing such a comprehensive approach, EPUKI's proposal represents a pragmatic step towards introducing a degree of customisation by using unit age, which is readily available and a reasonable variable that can be incorporated into the Capacity Market Code (CMC) with relative ease.

EPUKI acknowledges the concerns raised by industry about the possible difficulty of implementing this modification and thus request that instead a separate derating factor be put in place for new vs. existing capacity, to make sure that investment case for new capacity is secured and made viable. EPUKI maintains that it is essential to have different derating factors for new and existing capacity, not particularly based on age. This approach aligns with previous industry efforts, such as advocating for a non-zero INCTOL parameter, to refine capacity assessments and better reflect asset characteristics.

EPUKI is disappointed with the minded to position of SEMC on this modification and deems the current derating process of units to be inappropriate as it is currently based on average historical availability of the technology type/class of the unit. EPUKI believes that adopting separate de-rating factors for New Capacity in the de-rating process would more accurately reflect the scope of parameters that determine unit performance in the Capacity Market.

Moreover, SEMC has previously looked at INCTOL (Increased tolerance) as a parameter to be adjusted to a non-zero value to effectively mitigate the harsh derating on new units, however, that change was never incorporated, with the SEMC mentioning operational concerns[1]. This further shows the acknowledgement from SEMC that the current derating methodology is inappropriate for new units.

While EPUKI remains committed to advancing a more customisable derating methodology, that reflects individual plant characteristics, it acknowledges that the correlation between age of unit and derating factor might not perfectly capture all performance nuances. However, it must be acknowledged that derating factors generalised over units of the same technology type undermines the investment case for New Capacity. EPUKI reiterates that assigning a derating factor for Awarded New Capacity based on the availability of older plants is inequitable and adversely affects the already poor investment case for New Capacity. It further increases consumer expenditure due to over procurement of new capacity.

Responding to Comments from Industry

1. Industry participants raised the concern around the consideration of derating factor for refurbished units. EPUKI's position is that refurbished units can address their associated costs through Unit Specific Price Cap (USPC) applications, which serve as a mechanism to adjust for their typically lower derating factors, however the overall the Auction Price Cap can still be a barrier should derating factors for existing units be further eroded.

2. It is reassuring that, despite industry concerns regarding the use of 'age of unit' as an overly simplistic method for calculating derating factors, there is broad agreement that current derating factors do not adequately reflect recent reliability performance and require reconsideration. Similar issues have been highlighted by participants in previous SEM Committee decision papers, such as SEM-24-028, voicing the need for a more accurate and transparent approach to derating that aligns with actual unit performance.

3. EP UK Investments ('EPUKI') does not consider that the application of separate derating factors discriminates against either existing or New Capacity. On the contrary, the purpose of establishing distinct derating factors is to remove barriers to investment in New Capacity, thereby enhancing security of supply on the island. It is important to note that under the current market design, New Capacity is awarded a 10-year contract, whereas existing units participate under 1-year contracts or by getting a 5-year Intermediate Length Contract. While this distinction could be perceived as discriminatory, it is intentionally designed to

[1] T-4_2028_29_Parameters_Decision_Paper.pdf

support and facilitate new investments. The use of separate derating factors aligns with this market framework and further reinforces efforts to strengthen security of supply and stimulate investment.

EPUKI reiterates its position that assigning derating factors for New Capacity based on the historical availability of older plants is inappropriate and significantly undermines the investment case for New Capacity. The SEM Committee acknowledged this by stating in SEM-24-012 that *"it is arguable that new units should have better availabilities and should not have the DRFs reduced to such an extent by the poor performance of units which may be as much as 40 years old"*.

4. Lastly, EPUKI does not agree with SEMC that this proposed modification constitutes a significant change to the Capacity Remuneration Mechanism (CRM) design. EPUKI notes that the current derating methodology is determined outside of the Capacity Market Code (CMC), and that a minor targeted amendment to the Code would be sufficient to enable this modification. Further, there already exists a system wide all-island derating factor for new technologies (i.e. a technology for which there is currently no technology class). This strengthens the call for a separate derating factor for New Capacity.

A previous modification on introducing Annual Run Hour Limits (ARHL) was a similar modification which was previously approved. (See CMC_11_22: De-rating for Annual Run Hours Limits). This modification also had very similar legal drafting and changes made to the code. Accordingly, EPUKI considers that the proposed adjustment to incorporate unit age into derating factors represents an incremental refinement rather than a fundamental redesign of the CRM framework.