Vayu

SEM Consultation Paper SEM-17-004
CRM CMC Consultation Paper

Vayu welcomes the opportunity to comment on the SEM Committee's ("SEMC") consultation paper – SEM-17-004 on the Capacity Market Code, which covers the completed draft of the Capacity Market Code for I-SEM.

Vayu has participated throughout the process to develop and draft the CMC, responding to previous consultations and attending presentations, meetings and workshops. Vayu recognises that the issues raised through the various consultations have been reflected in this draft. In addition to the specific issues detailed in the response table, below, Vayu would like to highlight three more general points that we believe are worthy of further consideration.

Firstly, we believe that the proposals for a secondary market are overly complex and elaborate. While there is nothing wrong with the drafting of the relevant section of the code (Section H) Vayu sees this as being more applicable in a larger, more liquid market.

Our preference would be for a simpler secondary trading mechanism (e.g. simple bulletin board or brokered market) to allow participant's to exchange RO cover for their generation plant through outages. Such a mechanism could develop as the market evolved and greater sophistication was required but would be simpler and cheaper to operate in the initial stages of the CRM.

Secondly, while it is not directly covered in the draft of the code, Vayu would like the issue of capacity payments for de minimis generators to be considered in the context of the entire market. The recent Supplier Charging decision covers some of the issues (negative demand) but does not settle the issue of fair remuneration to de minimis generators for their contribution to capacity and security of supply. We note that the code as drafted recognises this contribution by netting it off the demand curve (Section F.3.1.4.d) but this does not resolve the issue of compensating these de minimis generators appropriately.

Finally, both this draft of the CRM code and the draft of the TSC code recognise that there may, on occasion, be surpluses of cash in the Socialisation fund or funds accrued from termination payments (section J.7.1.8). We believe that these funds should be distributed fairly towards customers that have contributed to Capacity Payments and this should be considered along with the Capacity Charging mechanism currently under consultation in the CRM Parameters consultation (SEM 16-073).

In our detailed response, below, we have proposed that termination payments are either re-distributed through a discount on Supplier CRM charges or by placing them in the socialisation fund (resulting in a broadly equivalent reduction in Supplier CRM charges for the socialisation fund). Whatever method is selected, we believe that it must be consistent with the supplier charging methodology for CRM charges to avoid any discrimination between suppliers.

We are, as always, open to discussing our views in more detail and our comments on the specific consultation questions are as follows:

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APPENDIX A RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	Vayu Limited
Type of Stakeholder	Supplier
Contact name (for any queries)	
Contact Email Address	
Contact Telephone Number	

I-SEM CMC COMMENTS

ID	I-SEM CMC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the CMC	Relevant Cross-Reference for any impacted section
1	B.11.1.5.a	Capacity Market Auditor	Same person can be both Capacity Market Monitor and Auditor. Would it not be desirable to have an independent Auditor that can also report on the compliance of the Monitor in his duties?	Change to say that the same person may not be both Capacity Market Monitor and Auditor	

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2	B.12.11.4	Modifications – Decision of Regulatory Authorities	This gives carte blanche to the RAs to create modifications materially different from those proposed (an issue that resulted in the recent Supplier Charging consultation).	Amend the text to oblige the RAs to consult and secure consent from participants that the RAs proposed alternative modification is acceptable and a full impact assessment of them has been carried out.	
3	B.15.1.1	Limitation of Liability	'not unlikely' - double negative makes the clause difficult to read and interpret	Change to 'likely'	
4	D.3.1.2.c	Capacity Auction Information Pack	Refers to 'indicative' Demand Curve, implying this might be varied by the SO/RAs at their discretion. Perhaps just referring to this as 'the Demand Curve' or 'forecast Demand Curve' would be better?	Change wording to reflect that this Demand Curve has a higher degree of certainty than 'indicative' for the purposes of the auction.	
5	D.3.1.2.q	Capacity Auction Information Pack	Bracketed section seems redundant – Capacity Auction timetable events preceding the publication of the pack will already be known.	Delete bracketed section.	
6	D.3.1.3.c	Capacity Auction Information Pack	Refers to 'indicative' Demand Curve, implying this might be varied by the SO/RAs at their discretion. Perhaps just referring to this as 'the Demand Curve' or 'forecast Demand Curve' would be better?	Change wording to reflect that this Demand Curve has a higher degree of certainty for the purposes of the auction.	

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7	D.3.1.4	Capacity Auction Information Pack	Cannot see any reasons why the Demand Curve for the Auction should be 'indicative'. If sellers of capacity are providing firm bids in the auction, it seems only equitable that the SO/RAs purchasing the capacity should provide a firm Demand Curve for their purchases. There are (or should be) sufficient protections in terms of auction price caps etc to remove any need for any subsequent change in the Demand curve	Remove clause and provide firmer commitment to bidders on the Demand curve used in the auction.	
8	E.3.1.4.d	Qualification – Opt-out notification	Requires generators 'opting out' for extended outage or mothballing to not have been previously allocated Awarded Capacity. This would appear to unnecessarily constrain generators that might be able to purchase cover for their Awarded Capacity in the Secondary Market to allow for an extended outage/mothballing period.	Delete clause or amend to oblige the generator to provide information on how they intend to manage any previous allocation of Awarded Capacity	
9	E.3.1.7	Qualification – Opt-out notification	Generator must keep information on Opt-out for three years. This seems inconsistent with Capacity Market Timeframes (and E.4.1.6). Suggest increasing this to five years, so that the information is available to the end of the relevant capacity year.	Amend 'three' to 'five'.	
10	E.9.1.1.e	Qualification Decisions	'whether the Capacity Market Unit provides Existing Capacity that the Capacity Market Unit' does not make sense.	Re-draft	

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11	F.3.1.4.d	Demand Curve	This clause nets off de-rated capacity for generation which is expected to be operational but which is not required to participate in the auction (i.e. de minimis generation). If this capacity is not being rewarded for and is not obliged to provide capacity to the CRM, why should it be netted off demand in this way?	Delete clause or find appropriate method to remunerate de minimis generation for its provision of capacity.	
12	F.5.1.2.c	Publication of Final Auction Parameters	Is there a reason why the timetable published should not include events that have already occurred? The word ‘only’ seems to imply this.	Delete the word ‘only’ from this clause.	
13	Section H	General	Vayu believes that the design and description of the secondary market is over-elaborate and complex for a market the size of SEM. Vayu believes that this market should be allowed to develop in response to participants’ needs or organised in a much simpler manner (e.g. open meeting, bulletin board or brokered market).	Remove current Section H and provide for a simpler means to allow participants’ to cover their obligations to provide capacity from units that are on outage.	
14	H.3.2	Price Caps	As the Secondary Market is not mandatory and participants are free to trade capacity obligations outwith it, price caps are irrelevant and unnecessary. Sellers can elect not to offer capacity if the price cap is too stringent, preferring to offer it in the OTC market. Purchasers can elect not to buy capacity in the event that it is priced at levels well above the cost of the risk they are looking to cover.	Delete Section 3.2	
15	I.2.1.1.a.i And I.2.1.1.b	Obligations Associated with Awarded Capacity	Code refers to ‘reasonable endeavours’. Vayu would prefer to see this raised to ‘best endeavours’ to oblige those awarded capacity for new plant to exhaust all practical methods to deliver their capacity.	Change ‘reasonable’ to ‘best’ in both clauses.	

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16	J.4.1.1	Achievement of Milestones	Code refers to ‘reasonable endeavours’. Vayu would prefer to see this raised to ‘best endeavours’ to oblige those awarded capacity for new plant to exhaust all practical methods to achieve the milestones.	Change ‘reasonable’ to ‘best’ in both clauses.	

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17	J.7.1.8	Termination Charges	Vayu notes the comments on square brackets regarding distribution of termination fees.	Vayu agrees that termination fees should be distributed amongst suppliers and it is sensible that this is done through an existing settlement mechanism and that it occurs during the period where the capacity that has been terminated was expected to deliver. We would propose two mechanisms for the redistribution of these funds amongst suppliers: 1. A discount is applied to the CRM Charges levied on Suppliers equivalent to the value of the termination fees over the relevant capacity year; or 2. The termination fee is placed in the socialisation fund. This should result in a reduction in supplier CRM charges for the socialisation element, broadly equivalent to our first proposal. However, it would have the advantage that the socialisation fund maintains a stronger balance during a period where capacity is likely to be tight and difference payments may not be adequately funded. Whatever method is applied to the redistribution of any termination fees, it should be consistent with the methodology for charging Suppliers for the CRM to ensure equity and non-discrimination.	

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18	Consultation Paper 3.11	Force Majeure	The RAs seek opinions on time limiting Force Majeure and how termination should be handled following the expiry of any time limit.	It would seem sensible, particularly for new plant that may have a ten year RO contract, to place some time limit on the extent of Force Majeure relief, when it is accepted that the consequences of an FM event cannot be cured. If this time is too short, there is a risk of terminating capacity that may be able to return to service and if the period is too long there is a risk of the CRM being left short of capacity while the capacity affected by FM remains unavailable. Any period chosen for a time limit on FM relief must balance these factors and a period of several months at least would seem appropriate for capacity which might require major new items of plant or reconstruction to cure the consequences of an FM event. As the Force Majeure event, by definition, is outwith the control of the provider of capacity affected it would be unfair to charge any punitive termination fees. A plant which has made a valid FM claim will be suspended from its liability to provide capacity to back its RO sales but will also cease to receive fixed income from the CRM. The System Operators could use the funds that are no longer being paid the capacity holder afflicted by an FM event and/or termination following expiry of the time limit to procure replacement capacity either through the secondary market or by tendering for replacement capacity.	

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