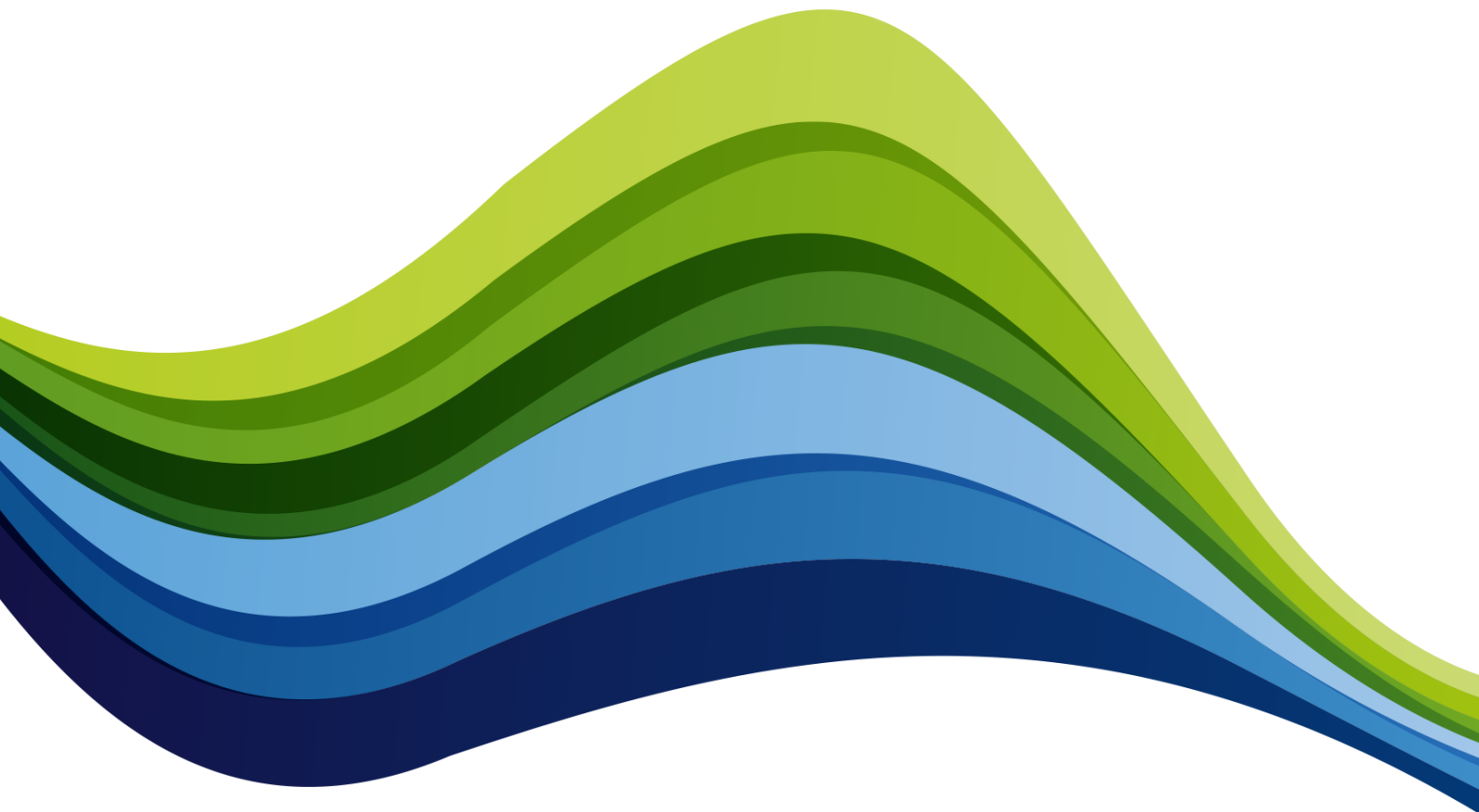

Capacity Market Code Working Group 12: CMC 04_20
& CMC 06_20 consultation

SSE Response





Introduction

SSE welcomes the opportunity to respond to “Capacity Market Code Working Group 12: CMC_04_20 and CMC_06_20 Modifications Consultation Paper”. For the avoidance of doubt, this is a non-confidential response.

SSE Response

We understand that both of these modifications seek to address the opportunity to combine Candidate Units into a single Capacity Unit. This flexibility is to be welcomed, as long as it can be delivered in an equal and proportionate basis for all capacity competing for capacity awards at auctions and avoids creating the potential of undue advantage to be exercised. To avoid any undue advantage arising from these changes, there need to be clear parameters established, including justification for combining of units, a limit to the number of units that can be combined (or some other measure), fair treatment to all capacity, new and existing and a measure to increase transparency arising from the proposed changes.

CMC 04_20

As currently drafted, we are not supportive of this modification. We have concerns about special treatment for New Capacity in CM 04_20, which we know the SEMC shares. We are supportive of the RA’s view that this modification should be rejected as drafted.

However, we are supportive in principle of the intent of this modification. Combined units at thermal or wind sites where there are for instance three units physically co-located on the same site, is reasonable. Such a modification would also avoid future DMILC¹ issues arising from the inability to combine units at the same site. However, in relation to DSUs, these are individual customers offered interruptible contracts—this cannot be treated the same in terms of combined units, (we provide further detail below).

We would encourage that CMC 04_20 be tabled for further discussion and redrafted to address industry concerns, including a parameter to limit any undue advantage created by an otherwise infinite ability to combine units, as well as equal treatment of all capacity (new and existing). We and our colleagues raised these concerns at the workshop but felt there was not sufficient time for these to be addressed on the call. We would have welcomed a steer from the RA’s relating to the threshold parameter.

CMC 06_20

We are also not supportive of CMC 06_20. We would consider that there is a high degree of room for competitive advantage and potential for gaming if this modification were to be approved. We note that there have been recent similar concerns raised in GB relating to the Demand Side Units (DSUs) being given the ability to swap components between different units. Additionally, further concessions to Demand Side Response units in GB appears to have had unintended consequences, with, for example, some battery storage capacity qualifying as demand side response to enjoy more favourable de-rating factors. We consider that this serves as an important consideration for regulators where DSUs are seeking further concessions within the CRM.

¹ CRU/17/346 established that generators in financial distress must demonstrate that there is a demonstrable, material, and imminent likelihood of closure (the DMILC Test). DMILC arose as a result of a particular thermal unit bidding their units as separate candidate units though co-located on the same site.



The current CRM design approach is for capacity to be withheld from T-4 auctions, in order to provide an opportunity for DSUs to compete at T-1, on the assumption that they cannot participate in the longer-term auctions. However, DSUs are now succeeding in T-4, rendering the withholding of capacity volumes to T-1, redundant. DSUs will now shortly be exposed to Reliability Options charges. This will ensure a level playing field for all participants and brings with it both upsides and downsides that all market participants have to manage. Therefore, where DSUs are being treated more like other market participants, it would be out of step to approve the proposed change in CMC 06_20. The modification proposal specifically points out that the impetus of this change is to accommodate further unique characteristics of AGUs and DSUs.

Specifically, the modification proposal cites that allowing DSUs to combine units will assist in balancing a portfolio. In our view, it is not suitable for a fixed contract award like a Capacity Contract and therefore the Capacity Code, to be used to provide a favourable opportunity for the maximisation of a portfolio. This is the benefit of the complex markets structures we have of Balancing, Intraday and Day Ahead markets. If these cannot be appropriately utilised by DSUs and AGUs to maximise their portfolio, then they should seek to address this via the TSC, not the CMC.

Another reason for this change as stated in the modification proposal, is for DSUs to be able to better accommodate the new Reliability Options (RO) charges that they will now be exposed to. We would consider this should be a cause for concern. Combining units to reduce exposure to Reliability Options charges is not in the spirit of the CRM design. RO charges are a charge that must be accepted to help manage stress events on the system. DSUs will now be provided the RO revenue needed to meet the exposure of RO charges, (through Mod 17_19 of the Trading and Settlement Code). Therefore, seeking to further hedge against these charges is not to be encouraged or allowed. Especially where to date, it has not been tested whether DSUs can meet the needs of a stress event, since they have never been exposed to the charge for being non-compliant.

Furthermore, we are concerned with the current practice that DSUs seem able to combine individual customer units, which they say are at the same site. DSUs operate interruptible contracts, therefore it is not clear how customers could be clustered on the same site and are therefore able to register them as such. We understand that this may be the rationale for the proposal in CMC 06_20, in allowing for AGUs and DSUs to cooperate, since one party is expected to be able to aggregate and the other, we would have originally thought, cannot. We are not comfortable with the suggestion that there might be double registration of the same sites as AGUs and DSUs. We consider CMC 06_20 increases the opacity of the capacity auctions and provides unfair advantage. We are not supportive.

Summary

We suggest that CMC 04_20 should be tabled for further discussion and development. CMC 06_20 should be rejected on the basis primarily that it is seeking to hedge a new charge that DSUs are fairly being exposed to, which tips the level playing that the RAs are seeking to achieve under State Aid rules, through Mod 17_19. Furthermore, this modification should be rejected because it does not contribute to transparency under the CMC.