



**Energia response to SEM Committee
Consultation Paper SEM-20-025**

***Capacity Market Code Working Group 12: CMC_04_20
and CMC_06_20***

21 May 2020

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-20-025 (the “Consultation Paper”) on proposed modifications to the Capacity Market Code (CMC_04_20 and CMC_06_20) discussed at Working Group 12 on 31 March 2020.

Having reflected on the proposed modifications and the minded to position of the Regulatory Authorities (RAs) which consequently amends the proposed modifications, Energia does not support either of the modifications being progressed at this stage. The remainder of this response elaborates.

2. Overarching Concerns

The Regulatory Authorities (RAs) have indicated their ‘minded to’ position with respect to the proposed modifications, which is encapsulated in para 2.2.33 of the Consultation Paper as follows:

“The RAs are minded-to allow flexibility in aggregation of all CMUs, not limited to only AGUs and DSUs, subject to a constraint on the maximum size of such aggregations. Our initial thinking would be a maximum aggregation size of 100MW...”

Energia has significant concerns with this ‘minded to’ position and would strongly recommend against proceeding on this basis taking the following points into account¹.

In relation to CMC_04_20:

- 1) CMC_04_20, as proposed by Energia, was importantly limited to generator units locating on a single site where potential cost savings associated with economies of scale of locating on a single site could be reflected in capacity market bids through aggregation. The above minded-to position of the RAs clearly seems to relax the ‘single site’ restriction (given the intention to provide greater flexibility to all CMUs, including AGUs and DSUs). This would fundamentally change and undermine the basis for the proposed modification and cannot be in consumers’ interests because it would allow aggregation in circumstances where it is difficult to see any commensurate benefits for consumers through economies of scale whilst at the same time increasing delivery risk in circumstances where consenting risk is magnified by the aggregation of generator units across multiple sites.
- 2) The minded-to position is also to allow both existing and new capacity greater flexibility to aggregate, subject to a maximum aggregation size of 100MW. Again, this would fundamentally change and undermine the basis for the proposed modification. Energia has a number of concerns with this position. Firstly, the proposed 100MW limit is too low to serve its intended purpose and is difficult to reconcile with the level of aggregation already permitted in the capacity market for variable units (i.e. c190MW). Secondly, increasing the limit applicable to all CMUs, including existing as well as new, presents a concern about market power in circumstances where dominant incumbents have the ability to aggregate multiple existing units in locational constrained areas. We understand that CMC_05_18 was previously rejected by the RAs on this basis. Thirdly, and for the avoidance of doubt, extending flexibility to aggregate both existing and new capacity,

¹ For the avoidance of doubt, Energia does support the transparency amendments in relation to section F.5.1.3 as proposed in Modification Proposal CMC_04_20 (v2) if either of the modifications are progressed further.

subject to a 100MW limit fails to serve the intended objective of Mod_04_20 whilst simultaneously increases the risk of market power being exerted by dominant incumbents. Thus, we do not believe it is in consumers' interests to proceed as proposed by the RAs.

In relation to CMC_06_20:

- 1) The minded to position of the RAs in terms of extending CMC_06_20 to all CMUs with a maximum aggregation size of 100MW gives rise to the significant concerns already discussed above. As such, Energia is strongly against this proposed amendment suggested by the RAs.
- 2) We also have wider concerns in relation to CMC_06_20 as originally proposed, and do not believe it should be approved at this stage. We would note, as the RAs have pointed out, that the Flextech initiative covers more than DSUs and AGUs, and we would emphasise that it is at preliminary stage of development. Thus, it would seem premature to progress a modification to the CMC with reference to this initiative for DSUs and AGUs when wider changes across DS3, capacity market and the energy market may be more appropriate for a broader class of technologies. We recommend therefore that a wider review in relation to this is carried out before any implementation of the proposal.

3. Conclusion

Energia does support either of the proposed modifications, CMC_04_20 and CMC_06_20, for reasons explained above.

In particular, the minded-to position of the RAs fundamentally changes and undermines the basis for Energia's proposed modification CMC_04_20, such that it no longer serves its intended purpose and is not in consumers' interests. We have similar concerns in relation to CMC_06_20. In addition, we believe it is premature to progress CMC_06_20 at this stage given wider DSU issues that need to be carefully considered and addressed, and recognising that the Flextech initiative is much broader than DSUs and AGUs and is at a preliminary stage of development.