



**Energia Response to SEM Committee
Consultation Paper SEM-20-071**

***Capacity Market Code
Further Consideration of Modification
CMC_07_20***

25 November 2020

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-20-071 titled “Capacity Market Code Further Consideration of Modification CMC_07_20” (the Consultation Paper). Energia does not support the proposed modification (CMC_07_20) to facilitate a change in Technology Class for Awarded New Capacity because it seeks to address a hypothetical problem that is unlikely to arise and is highly likely to have negative consequences, contrary to the objectives of the Capacity Market Code. The remainder of this response elaborates.

2. Concerns over implementation of Modification Proposal

The Consultation Paper indicates a minded to position to approve the modification proposal, with the stated intention of providing greater flexibility to deliver Awarded New Capacity if issues are being experienced delivering a particular Technology Class or in relation to an Insolvency Event or material breach by an EPC contractor.

However, there is no evidence that such issues exist or are likely to arise. This is reflected in section 2.2.12 of the original consultation paper SEM_20_040 where *“The System Operator stated they didn’t have any particular rationale for proposing this modification and have not received any questions from participants in advance of the auctions to date.”*

Furthermore, it is difficult to envisage a scenario where a legitimate developer would need or want to change Technology Class after the award of a capacity contract given that a Connection Offer (and hence planning permission) is required to qualify for the auction and Technology Classes are already broadly defined in the CMC.

The proposed modification will only serve to undermine the qualification process and market transparency because it necessarily implies a change to qualification data (including connection offer and CO₂ emissions) after the auction has taken place. As such, it could also give rise to speculative participation in future auctions with all the negative consequences associated with that, including market distortion and increased delivery risk.

The original modification prevented a change in Technology Class from Clean capacity to capacity no longer considered to be Clean. However, the Consultation Paper now states that the modification proposal should allow for a change between any Technology Class, including from Clean capacity to capacity no longer considered to be Clean. This is not acceptable where Clean status is used in a tie-break situation.

The proposed modification seems to disregard any change in CO₂ emissions as a result of a change in Technology Class, and there does not seem to be any consideration of compliance with the emissions limits in the Clean Energy Package which should be assessed during qualification and thereafter.

It is unclear if the proposed modification will allow for a change in Awarded New Capacity resulting from a change in Technology Class. If so, this would clearly have a distortive effect on auction outcomes including a possible impact on the auction clearing price. In addition it would have knock-on impacts on additional capacity auctions, not just the auction for which the change in Technology Class was utilised e.g. should a change in Technology Class change the de-rated MW of the Awarded New Capacity from a T-4 capacity auction, this will impact the volume required for the corresponding T-1 auction for that capacity year and it is unclear when this would be clarified and the impact that this could have on the later auction.

Neither is it clear whether the proposed modification would require any changes to systems and how this may impact other system changes that are currently planned, given the long delivery times that are currently being experienced in this regard.

3. Conclusion

For reasons explained above, Energia does not support the proposed modification and strongly cautions against its approval by the SEM Committee. In short, the proposed modification is seeking to address a hypothetical problem that does not exist and is unlikely to arise, but yet is highly likely to have negative consequences contrary to the objectives of the Capacity Market Code.

It also creates an unwelcome precedent that delivery problems for new capacity should be solved by retrospectively amending the market rules which can only encourage speculative participation in future auctions, thus increasing delivery risk rather than reducing it going forward.