



**Energia Response to SEM Committee
Consultation Paper SEM-21-066**

***Capacity Market Code Working Group 20
Modification Consultation Paper***

15 September 2021

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-21-066 (the “Consultation Paper”) on proposed modifications to the Capacity Market Code discussed at Working Group 20 on 27 July 2021.

In summary:

- Energia does not support proposed modification CMC_03_21 (Version 3) on the basis that it accentuates the risk to security of supply and market distortion caused by an underlying tendency for DSU capacity to be collectively (albeit inadvertently) overstated in capacity auctions as a consequence of more than one DSU comprising the same Demand Site(s) during qualification. We therefore ask that the SEM Committee reconsider its minded to position to approve this proposed modification.
- Energia supports proposed modification CMC_12_21 and the SEM Committee’s minded to position to approve it.

We elaborate further in Section 2 below.

2. Comments on Proposed Modifications

CMC_03_21: Modification to the provisions for Substantial Financial Completion (Version 3)

- The Consultation Paper describes the modification proposal as “*a balance between the increased flexibility offered to DSUs, which will allow additional capacity to come forward, and the potential increased risk of non-delivery*”.
- However, the issue of concern goes beyond that of non-delivery. Rather, it is the significant risk that DSU capacity, in aggregate, qualifying and participating in capacity auctions is being inadvertently overstated by dint of more than one DSU comprising the same Demand Site(s). This issue is acknowledged in the Consultation Paper whereby it suggests the use of Implementation Progress Reports to enable early identification of the situation where the same Demand Site, where known, is planned to be included in more than one DSU.
- It also acknowledges that “*some of the awarded capacity considered “New” under the CMC will relate to existing Demand Sites which have already participated in the CRM as part of a different CMU*”.
- This implicit tendency to overstate qualified DSU capacity participating in auctions underlines the risk of providing extra flexibility for Awarded New Capacity from DSU / AGU to meet Substantial Financial Completion out to 4 months before the start of the Capacity Year, especially in the context of the current tight capacity margins that exist.
- In this regard, emphasis should instead be placed on reviewing the qualification process such that the risk of DSU capacity being overstated is mitigated. If awarded New DSU capacity is non deliverable because it has been overstated in qualification as described above, extending the Substantial Financial Completion deadline to just 4 month prior to the start of the capacity delivery year is highly inadvisable given the risk this presents to security of supply that cannot be mitigated in such a short timeframe. Proposed amendments to Implementation Progress Reports do not

address this concern because: (a) the capacity in question has already qualified and been awarded a capacity contract; (b) it is unclear if and on what basis such capacity could be terminated, particularly in circumstances where more than one DSU comprises the same Demand Site(s) (by definition only one Demand Site can deliver but which DSU?) and (c) it is entirely ineffective where the Demand Sites comprising DSUs are not identified in these reports.

CMC_12_21: Modification to the methodology for calculating the de-rated grid code commissioned capacity

- Energia support the intent of the modification proposal which seeks to rectify the scenario whereby if Awarded Capacity is less than Initial Capacity Qualified for the auction, then the Proportion of Delivered Capacity calculation required for Substantial Financial Completion is unduly affected. This affects all technology types and is recognised to be an anomaly in the code that should be fixed.
- There is some uncertainty in respect of the legal drafting in implementing this modification around G.3.1.4A(b), and particularly around the event of a non-zero INCTOL value. Energia agree that the changes to the legal drafting in implementing the modification should be sufficiently robust as to not undermine the impact of having a non-zero INCTOL value in the future.