Energia Response to SEM Committee Consultation Paper SEM-22-033

Capacity Market Code Working Group 25
Modification Consultation Paper

2 August 2022

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-22-033 (the "Consultation Paper") on proposed modifications to the Capacity Market Code discussed at Working Group 25 on 19 May 2022. Energia note that of the five modification proposals being consulted upon, SEM Committee are minded to approve four of the proposals and reject one. Energia are in agreement with SEMC regarding some of these minded to positions but disagree on others – this is summarised in the table below.

Modification Proposal	**SEMC Minded to Position**	**Energia Position**
CMC_04_22: New Reference Rates for Default Interest	Approve	Agree with SEMC position
CMC_06_22: New Interdependent Combined Units	Approve	Disagree with SEMC position
CMC _07_22: Joint Market Registration Variation in Mix	Reject	Agree with SEMC position
CMC_08_22: Local Capacity Constraints Maximum Quantities	Approve	Disagree with SEMC position
CMC_09_22: Secondary Trade Approval Notification	Approve	Agree with SEMC position

We set out our views on each of the modification proposals in Section 2 below, starting with those proposals where we disagree with the SEMC minded to position.

2. Comments on Proposed Modifications

Modifications we Disagree with SEMC minded to position

CMC_08_22: Local Capacity Constraints Maximum Quantities

- The proposed modification seeks to introduce a Locational Capacity Constraint Maximum Quantity into the CMC to address concerns that more capacity may be cleared in the auction than can be technically accommodated on the system.
- A number of market participants raised concerns with this proposal at the CMC Workshop but these do not appear to have been taken into account by the RAs in arriving at their minded to decision to approve the modification proposal.
- The capacity market is designed to provide for *minimum* levels of capacity in constrained areas to ensure local security of supply. In approving this design, the European Commission underlined the importance of resolving transmission

constraints swiftly[1]. Adding a *maximum* LCC is a movement in the opposite direction and can only reduce the incentive to resolve system or grid constraints, preventing the connection of more generation where it is needed to meet demand growth.

- On the latter note, we understand that Dublin is an area where a maximum LCC may be targeted. This is very difficult to rationalise in the context of numerous documents and publications by EirGrid[2] showing that:
    a) additional generation capacity is critically needed in Dublin; and
    b) the network in the Dublin area (particularly north Dublin) has the capacity to accommodate additional generation.
- Relating to the above, there is a lack of transparency and understanding of the problem that a maximum LCC is endeavouring to address, whether this is the optimal solution, how such a limit is to be determined (including the methodology and input assumptions), and whether it will be applied consistently across all LCCAs. This creates significant uncertainty for investors and serves to undermine good governance and oversight with potentially negative consequences for security of supply and competition as it could deter new capacity from qualifying and committing to bid into auction given the time, investment and resourcing (including engagement with OEMs) required to bring serious projects forward and could needlessly prevent (existing or new) capacity contracts from being awarded in a LCCA.
- Accordingly, before any consideration is given to approving the proposed modification, some fundamental questions need to be addressed, including:
    - What is the problem?
    - How has it been assessed, is it consistent with approved standards and methodologies, what are the underlying assumptions and scenarios and are they credible[3]?
    - Are there any alternative solutions?
    - Is the proposed solution necessary, proportionate and reasonable?
    - Is the same approach to be applied equally to all areas of the network?
- The proposed modification and consultation do not address the above questions. Furthermore, further consultation would be needed on the methodology for determining maximum quantities for LCC. Whilst improvements could be made in terms of transparency, there is at least an established methodology for minimum locational capacity requirements, including for example that for the purposes of the CRM mechanism, only power-flow issues are considered. Other constraints such as local ancillary services requirements, voltage control, dynamic issues and fault levels are not included. Conversely, there is no clarity on the methodology and assumptions which the SOs would adopt for the assessment of maximum limits.

[1] State Aid Decision SA.44464 at paras 114 and 140. Along related lines, the European Commission emphasised the importance of only granting long term contracts in constrained areas that are in merit in light of the risk of contracting new capacity at too high a cost.

[2] Such processes/documents include (without limitation): CRM information and associated publications, which consistently indicated a requirement for additional capacity in the Dublin area; EirGrid's Transmission Forecast Statements: including the most recent TFS 2020, which specifically indicates north Dublin as one of very few areas in Ireland where significant levels of additional generation capacity can be accommodated; and the "East Coast Generation Opportunity Assessment" (published by EirGrid in February 2019).

[3] For example, the Transmission System Security and Planning Standards (TSSPS) requires that: "Planning of the transmission system shall be carried out on the basis that generation is dispatched according to normal operational methods *for a credible range of dispatches*."

Greater clarity and transparency is needed, recognising that the concept of a maximum quantity is a fundamental change of approach to LCC which has the potential to deter required investment and reduce competition.

- In conclusion, for the reasons set out above, Energia is strongly opposed to the proposed modification to introduce a Locational Capacity Constraint Maximum Quantity into the CMC. This would constitute a fundamental change of CRM design which has not been adequately explained or justified and there is no clarity as to how a maximum LCC would be determined and consistently applied across all areas of the network.

CMC_06_22: New Interdependent Combined Units

- The proposed modification is seeking to introduce a new paragraph (E.7.6.4) into the CMC that applies when Candidate Units are seeking to combine but do not meet E.7.6.1 (i) – in this scenario their qualification application to combine will not be rejected but the CMU is then bound by a restriction when bidding into the auction in that its inflexible bid is limited to the gross de-rated capacity of the largest Candidate Unit comprising the CMU.
- However, the recent Decision Paper SEM-22-028 (the Decision Paper) which provided a decision on modification proposal CMC_01_22 made amendments to E.7.6.1 (i) which have not been addressed in the Consultation Paper. This is crucial given the interaction between the proposed modification and E.7.6.1 (i).
- The Decision Paper introduced a new Glossary Term "*Capacity Aggregation Threshold*" which defines the maximum size of Candidate Unit which can be aggregated under E.7.6.1(i). This newly approved threshold is to be consulted on in CRM Parameter consultations and then included in IAIP for auctions.
- This term is inserted into E.7.6.1 of the CMC, replacing De Minimus threshold, in relation to threshold for Candidate Units to combine.
- However the Consultation Paper does not reference or note the recently approved changes to E.7.6.1(i) despite this being central to modification proposal CMC_06_22. As such it is not clear how the approved modification and the new proposal will interact. For example, if a higher "*Capacity Aggregation Threshold*" is determined for an auction above De-Minimis Threshold does that still allow CMC_06_22 to come into effect – or is it only in cases where no "*Capacity Aggregation Threshold*" has been determined and thus the De-Minimis Threshold still applies that CMC_06_22 would apply? If it is the intention that CMC_06_22 is to apply in all cases even where a "*Capacity Aggregation Threshold*" is determined above the De-Minimus Threshold, it is not clear if there is still a requirement for the change being proposed in CMC_06_22 to be implemented.
- In summary, there is a lack of transparency in relation to how the proposed modification will interact with the recently approved decision in SEM-22-028. Energia therefore do not support the introduction of CMC_06_22 until the necessary clarity has been provided to the market. Should the SEM Committee proceed to approve the modification proposal in line with its minded to position this must be accompanied with sufficient explanation and detail so as to provide total clarity to market participants as to how the modification proposal will work in practice given the above recent decision.

Modifications we Agree with SEMC minded to position

CMC_09_22: Secondary Trade Approval Notification

- The proposed modification in respect of notification on whether Secondary Trades have been approved is intended to provide clarity and remove ambiguity for market participants in relation to the Secondary Trade process whereby they can be left uncertain as to the outcome of a submitted trade after the timelines for SO validation have passed.
- We welcome the RAs minded to position to approve the modification proposal although note that notification is to be sent to market participants within 5 Working Days to reflect the current SO validation period. This is then due to reduce to a 2 hour period once implementation of systems have been completed to allow for validation to be carried out within this timeframe.
- In this regard we would reiterate our support for the implementation of systems to allow for full implementation of the modification proposal CMC_11_21. The latest update has stated that the systems will be in place by April 2023 and we would encourage the earliest possible implementation of this given the delays that have occurred on this to date.

CMC_07_22: Joint Market Registration Variation in Mix

- The proposed modification seeks to allow DSU aggregators to vary the mix of individual demand sites that provide the actual physical backing for delivering on their Reliability Option within their portfolio of DSUs.
- The SEM Committee are minded to reject the modification proposal primarily on the basis of significant changes it will require on CRM systems, notably settlement and Capacity and Trade Register processes, and also further legal drafting changes to achieve intended objectives.
- Energia agree with the minded to decision to reject the modification proposal but would also highlight that at a principle level, this proposal would provide advantages to DSU aggregators that are not available to other market participants. It is incumbent on the SEM Committee to ensure that any changes they make to the CMC are not discriminatory or exclude other technologies / market participants.

CMC_04_22: New Reference Rates for Default Interest

- Energia agree with the minded to decision to implement a new reference rate as a replacement for LIBOR as proposed.