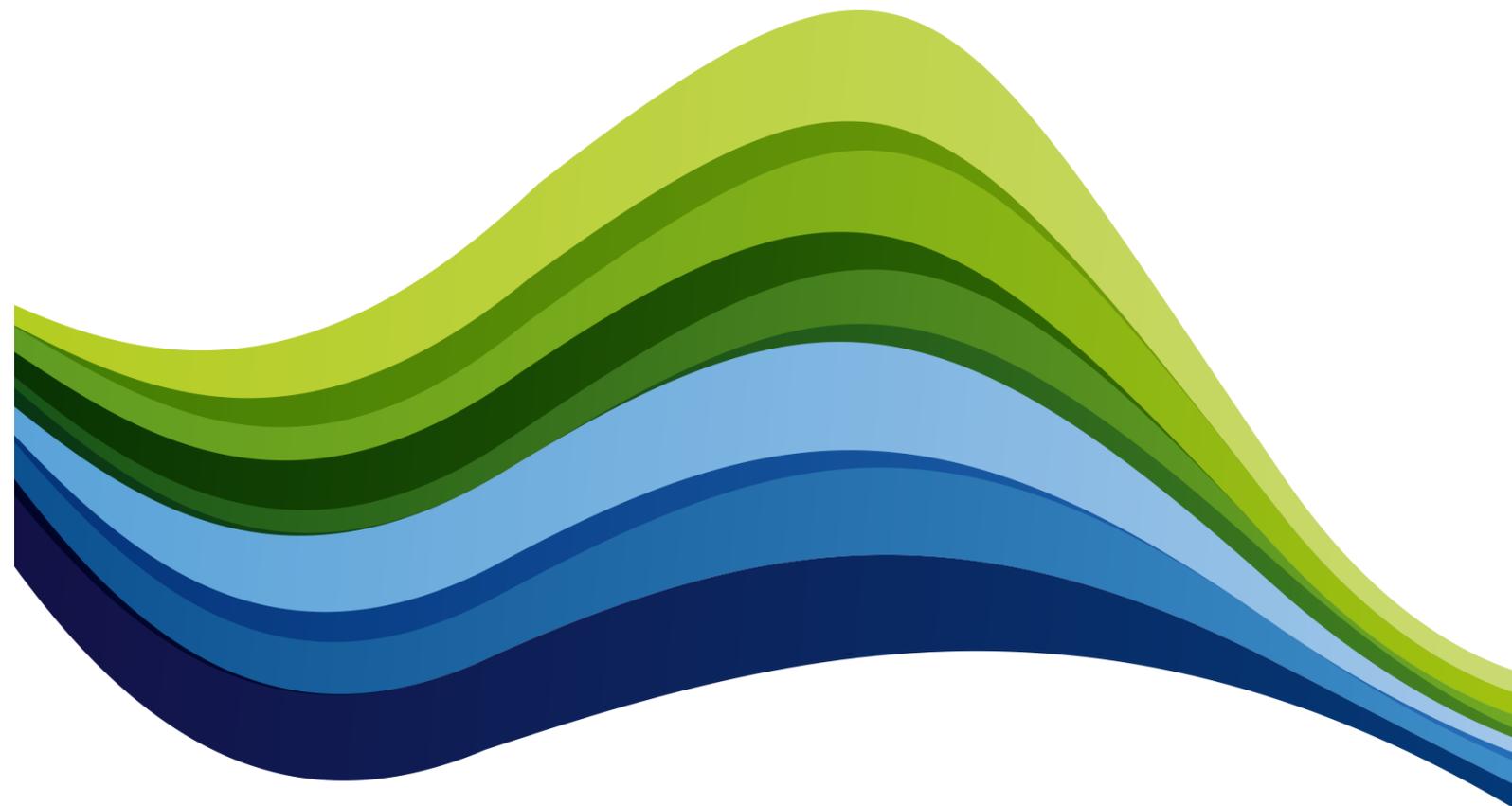

Capacity Market Code Modifications –
Working Group 7 Consultation Paper





Introduction

SSE welcomes the opportunity to comment on the Capacity Market Code Modification, “CMC_07_19 – Treatment of Multiyear Contracts in the Event of Simultaneous Capacity Auctions”.

We understand that this modification seeks to prevent a possible market power issue when auctions might run almost concurrently. Where auctions are timetabled together and given the tight timescales for these processes, it could mean that Final Qualification Decisions for the second auction may occur before the results of the first auctions have been published.

For the avoidance of doubt, this is non-confidential response.

SSE Response

We agree with the sentiment of this modification, in what it is seeking to try to avoid; i.e. double payment of capacity payments to the same units. However, we consider that this potential issue should have been realised when the dates for these two auctions were set, rather than now, where we are only a few months away from the auction timelines in question.

Furthermore, if these auctions were separated by a decent margin, there would not be the process-related issues we outline below.

Finally, we assume it is understood that units will legitimately consider bidding into both of these auctions. This maximises the potential for a contract to be awarded, and therefore secure finance and realise a generation project. In addition, as there is only effectively a 12-month gap in delivery of projects between these two auctions, it may be an acceptable lag for a project, where the aim is to ensure a contract can be awarded.

We agree with some of the concerns raised by the working group, as outlined and discussed below:

1. Tightness of timelines between the two interim auctions not providing sufficient time for the planned process to operate (2.2.15 in the consultation). Whilst the RAs have considered this in 2.2.25, we are still concerned that there may not be sufficient time. The last auctions T-1 and T-4 have suffered from some delays in publication of key documentation. Therefore, a week between 28th November (provisional auction results T-1 and opening of T-2 window) and 5th December (when T-2 closes), may not be enough for notification as well as to provide a buffer period in the case of delays to publications critical to either auction process. We would require some tighter wording or requirements regarding timely publication to ensure that this modification does not interfere with the currently tight timescales, which have already suffered delays. Therefore, we are of the mind that potentially the timescales need to be adjusted for T-1 and T-2, which brings its own impacts.
2. Under F.3.1.10 a definite timeframe is included where it states that a Final Demand Curve will be provided “as soon as reasonably practical” (paragraph 2.2.20). We would agree in addition to our comments above about timescales and delivery of key publications, that there should be a guarantee provided that the Demand Curve would be made visible a certain number of days before the Capacity Auction, though we acknowledge this may be challenging. It may be that the Demand Curve for T-2 would include those multiyear contracts awarded for T-1, which therefore may mean this is difficult to publish ahead of T-2. In this case, we would advocate for consideration of changing the timelines to allow for more time between the two auctions. The Demand

Curve is critical and should be published earlier, as part of this proposed modification. This could be inserted in the definition of the Demand Curve in the CMC.

3. Changes to Net De-Rated Capacity may also impact nodes in the definition of a Locational Constraint as well as the Demand Curve (paragraph 2.2.21). We note that no further detail has been provided by the RAs as to whether they have considered this. SSE would consider that there is an impact on locational constraints capacity and locational constraint nodes published for each of the two auctions. The definition for Net De-rated Capacity is below:

Net De-Rated Capacity means the MW quantity of Existing Capacity or New Capacity from a Capacity Market Unit that is Qualified taking into account previously allocated Awarded Capacity to be offered into a Capacity Auction.

This definition assumes the ability to take into consideration the previously allocated Awarded Capacity or where the capacity has been awarded otherwise, see below.

Awarded Capacity in respect of a Capacity Market Unit, means a specified amount of de-rated capacity which under this Code must be dedicated and made available using the Generator Unit(s) or Interconnector comprising the Capacity Market Unit. Awarded Capacity may be allocated pursuant to a Capacity Auction or may be the subject of a Product acquired in a Secondary Trade Auction.

Therefore, we consider there is a circular issue here between the timelines for notifying locational constraint capacity in FAIPs for these auctions scheduled close together and ascertaining any perceived double payments.

4. With regard to making the modification evergreen (paragraph 2.2.22), we are in agreement with comments that this modification proposal makes the CMC more complex than perhaps needed. T-1 and T-2 are fairly homogenous auctions as compared to the future-looking, investment signal that is the T-4 auction. We would agree that this proposed modification may be better inserted into the Interim Arrangements until such time as a more enduring solution can be arrived at, that also addresses the impact to bidding strategy, as discussed below.

Finally, whilst we understand the rationale of this change, we are concerned that the primary focus is on an individual unit. The auction is a process of multiple market participants. There is a potential impact to the bidding strategy of other units depending on the outcome of each of the auctions. Since T-1 would be published first and on the same day that T-2 opens, there is little opportunity for pricing strategies to be altered. Therefore, clarity is needed regarding any potential double payment of capacity payments, and notification of any units not successful at T-1 as soon as possible. This will allow for additional bids to be prepared in time for the T-2 auction for those units that have been unsuccessful and for bids to be altered in the case that multiyear contracts may otherwise be double-paid. This again may lead to a decision that the timescales for these two auctions need to be altered to provide sufficient time between each for preparation of additional bids, and adjustments to pricing behaviour that should be adjusted where there may be a notified double capacity contract awarded to the same unit.

Taking all of this into consideration, we would be of the view that separating these auctions more clearly to allow time for the results of T-1 and publication of the Demand Curve, is the cleanest approach. Whilst potentially unpopular since the dates for these two auctions have already been set and are due shortly, it would avoid affecting other market participants and their bidding strategies, through the actions of one individual unit. It would also allow for any alterations needed to avoid double payments as well as a buffer to provide for any process delays.