EP UK Investments Response to SEM-23-109

EP UK Investments (**EPUKI**) welcomes the opportunity to respond to this consultation paper. EPUKI is strongly supportive of modification CMC_24_23. The principle of this modification is aligned with EPUKI's modification CMC_20_23 Timing of Opt Out Notifications, and both modifications are important for providing appropriate market signals for Existing Capacity in the Single Electricity Market (**SEM**).

The ability for Existing Capacity to opt out of participation in Capacity Auctions after their Unit Specific Price Cap (**USPC**) determination removes the risk of these units being required to run at a loss for the duration of their capacity contract. This is critical for retaining Existing Capacity during the ongoing Security of Supply crisis. Once adequate New Capacity has been delivered to meet demand requirements, EPUKI expects the value of capacity in the SEM to be reduced and Existing Capacity may opt out accordingly if no longer required.

Existing Capacity nearing the end of its economic life is more likely to have higher operating and maintenance costs. These units will also be higher in the merit order which means they are less likely to gain revenue in energy market and future System Services market. The combined effect of higher costs and reduced revenues mean that these units are more reliant on a USPC to recover their operating costs over the duration of their capacity contract.

Under the existing timelines, Existing Capacity can only opt out prior to receiving a USPC determination. This means that if a unit does not receive a USPC which allows it to recover its costs, it will be forced to participate in the Capacity Auction and subsequently locked into a commitment to provide capacity for the duration of its capacity contract. EPUKI considers these arrangements to be fundamentally inequitable and providing an adverse market signal to Existing Capacity.

EPUKI raised CMC_20_23 which would have enabled units to submit opt out notifications up to six weeks prior to the Capacity Auction, this being the latest reasonable date by which a USPC would likely have been received. In response to this modification, the System Operator raised concerns that this would lead to material volumes of capacity opting out too near to the auction taking place. EPUKI highlights the fact that there are strict conditions for opting out of the Capacity Auction including closure, mothballing, or extensive maintenance. Additionally, this risk would be mitigated by the setting of a USPC which facilitated cost recovery, or earlier delivery of USPC determinations. This modification removes the concerns associated with CMC_20_23, as it would mean that the opt out date is unchanged from its current position within the Capacity Auction timeline.

EPUKI notes the SEM Committee's (**SEMC**) stated intention to introduce intermediate length contracts into the Capacity Market. While this mechanism would possibly support Existing Capacity undergoing extensive maintenance or refurbishment, it does not address the risk of a unit not receiving a USPC to enable recovery of operating costs. In fact, if a unit does not receive an adequate USPC, it may be exposed to greater risk under an intermediate length contract. Thus, EPUKI does not view the intermediate length contract as an alternative approach to addressing the problem raised by CMC_20_23 and CMC_24_23.

EPUKI strongly supports the approval of CMC_24_23 and its implementation in time for the upcoming T-4 2028/2029 Capacity Auction.