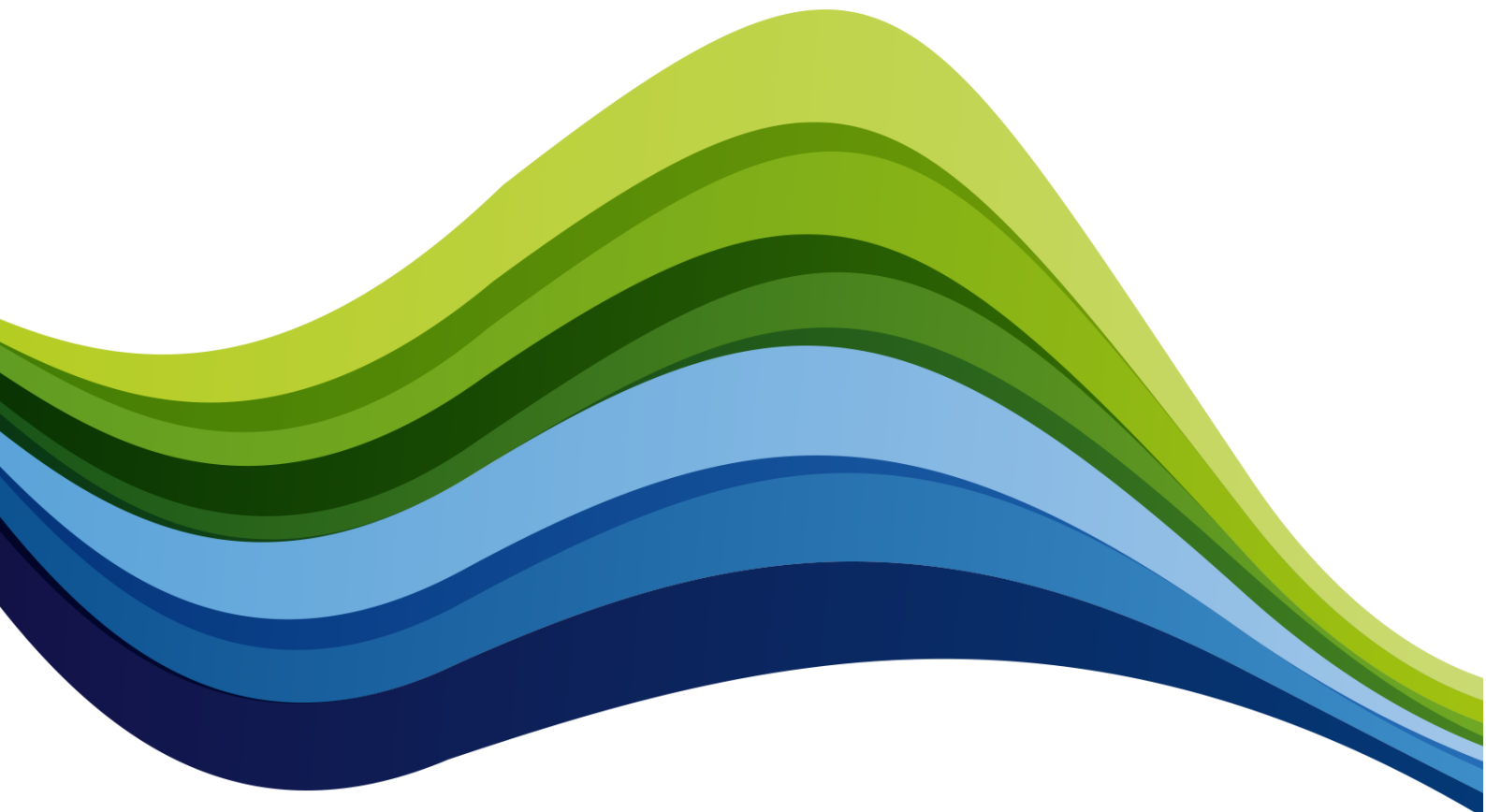

**Capacity Remuneration Mechanism 2020/21 T-1
Capacity Auction and 2021/22 T-2 Capacity Auction
Parameters**

SEM-19-010



Introduction

SSE welcomes the opportunity to comment on the “Capacity Remuneration Mechanism 2020/21 T-1 Capacity Auction and 2021/22 T-2 Capacity Auction Parameters”. For the avoidance of doubt, this is a non-confidential response.

As a large generation provider in the market, the parameters of capacity auctions provide a clear signal regarding bidding for contracts at the various capacity auctions. Furthermore, taken with the Best New Entrant parameter, it provides an important consideration for generators insofar as new plant and of which type might be best suited to the market and needs of the island. Therefore, we have provided comments below, regarding the proposed parameters for forthcoming auctions T-1 and T-2.

We have extensively commented on the previous consultations regarding the setting of parameters for T-4 and the setting of the Best New Entrant. We have drawn on this perspective to provide a relevant and consistent response to the proposals for these capacity auctions.

We note that the EAI will have submitted an industry response to this consultation. We have contributed to, and are fully supportive of the comments provided in their response.

SSE Response

For clarity, we have re-produced the table of parameters below and provide our comments against each.

Furthermore, we note the intention to hold both auctions in December 2019 and for there not to be a T-1 auction in 2021/22. We would welcome timely information as to the dates and next steps for these auctions.

T-1 and T-2 parameters

Parameters	SSE response
<p>De-rating curves, defining de-rating factors by unit Initial Capacity and by Technology Class (including for Interconnectors)</p> <p>Proposal: For these to be calculated by the system operators and to be submitted to the RAs for determination</p>	<p>We note that the de-rating methodology agreed in SEM-18-030a. This has determined the de-rating factors are those used to derive the capacity requirement that has been selected by the Least-Worst Regrets analysis. We have no direct comment in this regard.</p> <p>However, in the case of interconnector de-rating factors, the External Market De-Rating Factor should be kept under regular review. We would also welcome additional detail on the interpretation of the results of the methodology and an opportunity to comment on these.</p>
<p>Capacity requirement</p> <p>Proposal: To be calculated by the system operators and submitted to the RAs for determination</p>	<p>We welcome the indication that no capacity should be held out of the T-2 auction, given that there would be no T-1 auction for 2021/22. Under T-4, quantities of DSUs have appeared in the final qualification report, despite capacity being withheld for T-1 to accommodate increasing levels of DSUs.</p>

	<p>Therefore, it is difficult to accept that there are any real barriers in this respect which would require some of the T-2 volume being held over (should there be a T-1 auction to allocate it to).</p> <p>Additionally, we note that the Final Auction Pack for the current T-4 was published late. This confirms the final capacity requirement which is an important indicator of the total pot of capacity to compete for. Therefore, we would welcome that reporting can be as timely as possible to provide timely details of the final capacity requirement for any auction.</p>
<p>Indicative demand curve</p> <p>Proposal: Based on the following principles: Horizontal at APC between 0MW and 100% capacity requirement Vertical at 100% of capacity requirement between a price of APC and 1x Net CONE Straight line slope with a zero-crossing point at 115% of the capacity requirement</p>	<p>The principle for shifting the demand curve for these forthcoming auctions is to allow for commensurately more capacity to be purchased in the T-1 auction.</p> <p>We consider that there needs to be clarity on this principle in light of high levels of DSU capacity noted in the final qualification results for the recent T-4 auction. We are concerned that these principles do not reflect a potential increasing maturity in these technologies, and therefore, may be delaying capacity procurement where there is no need, whilst constraining other auctions.</p> <p>We note the principle is also extended to the consideration of volumes being withheld between T-2 and T-1. We would support the view that there is no need for a T-1 auction for 2021/22 and that no volumes will be withheld from the T-2 auction.</p>
<p>Auction Price Cap</p> <p>Proposal: 1.5x Net CONE</p>	<p>We have no comment on this.</p>
<p>Existing Price Cap</p> <p>Proposal: The SEMC welcomes respondents' comments on an appropriate ECPC</p>	<p>We share the EAI view that there should be no reduction to the ECPC. No constructive reasons for this possible reduction have been provided by the SEMC. A reduction in ECPC will have an impact on fair and effective competition between capacity providers and may encourage the transfer of some quasi-fixed costs into complex bids, making market prices higher than they need to be. This has already been demonstrated in market outcomes since go-live, where transmission constrained plant are able to reflect costs that unconstrained plant are unable to.</p> <p>At a time where we can see that ECPC may not in fact be sufficient, evidenced by the high levels of USPC applications referenced (and potentially as a driver to certain mods tabled recently, Mod 02_19), we would consider it prudent to keep the ECPC at current or higher levels than set. The exception</p>

	process should be designed for 'exceptions' as opposed to representing a qualification requirement for a substantial percentage of existing plant.
New Capacity Investment Rate Threshold Proposal: €300,000 per de-rated MW	We have no comment on this.
Annual Stop Loss Factor Proposal: 1.5	We have no comment on this.
Billing Period Stop Loss Factor Proposal: 0.5	We have no comment on this.
Indicative Annual Capacity Exchange Rate Proposal: The exchange rate will be proposed by system operators and included in the IAIP	We have no comment on this.
Increase Tolerance and Decrease Tolerance by Technology Class Proposal: All zero, excepting DSUs at 100% decrease tolerance	We have no comment on this.
Performance Securities Proposal: Remaining the same as currently	We have no comment on this.
Termination charges Proposal: As per performance securities above	We have no comment on this.
Full Administered Scarcity Price and Reserve Scarcity Price Proposal: ASP: 25% of VoLL for demand control and when at zero (for Short Term Reserve MW) ASP: at 500MW Short Term Reserve, 500 for ASP	We have no comment on this.
Values for determining strike price in accordance with the Trading and Settlement Code Proposal: The SEM Committee proposes to retain the existing values for the 2020/21 T-1 and 2021/22 T-2 capacity auctions	We have no comment on this.

