



**Single Electricity Market
(SEM)**

Capacity Market Code Working Group 11(b)

Modification Decision Paper

SEM-20-019

30 March 2020

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to the Proposed Modification to the Capacity Market Code (CMC) discussed at the urgent Working Group held on 5 March 2020.

The decisions within this paper follow on from the associated consultation (SEM-20-018¹) which closed on 20 March 2020.

This paper considers the proposed Urgent modification presented at WG11(b). The proposed modification relates to:

➤ CMC_03_20 – Modification to the Long Stop Date for the CY2023/24 T-4 Capacity Auction

The modification proposes amending the definition of the Long Stop Date (as set out in J.1.1 (b) (i)). This would be set at $42 + 18 = 60$ months from the Capacity Auction Run Start for Awarded New Capacity with a multi-year award and maintain the delivery window foreseen in the drafting of the CMC whilst also remaining consistent with the last date to achieve Substantial Financial Completion. It should be noted that this extension to the Long Stop Date is only applicable for the T-4 CY2023/24 Capacity Auction.

Two responses were received to the Capacity Market Code Working Group 11(b) Modification Consultation Paper by the end of the consultation period, neither of which were marked as confidential.

Summary of Key Decisions

The purpose of the proposed modification was to further the Code Objectives within the CMC, specifically:

A.1.2.1 This Code is designed to facilitate achievement of the following objectives (the “Capacity Market Code Objectives”):

b) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;”

At the time of consulting upon the proposal, the SEM Committee were minded to approve this Modification proposal.

Following consideration of the proposals and responses received to the consultation the SEM Committee have adopted the minded to position, and approve the proposed modification CMC_03_20.

¹ Capacity Market Code Working Group 11(b) Modification Consultation Paper:

<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-018%20Capacity%20Market%20Code%20Working%20Group%2011%28b%29%20Modification%20Consultation%20Paper.pdf>

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1. OVERVIEW

1.1 BACKGROUND

1.1.1 Decisions made during the development of the I-SEM CRM Detailed Design were translated into auction market rules to form the Capacity Market Code (CMC) (SEM-17-033) which was published in June 2017. The most recent version was published on 10 October 2019. The CMC sets out the arrangements whereby market participants can qualify for, and participate in, auctions for the award of capacity. The settlement arrangements for the Capacity Remuneration Mechanism (CRM) form part of the revised Trading and Settlement Code. The most recent version of the Trading and Settlement Code was published on 12 April 2019. Section B.12 of the CMC outlines the process used to modify the code. In particular, it sets out the handling of proposing, consideration, consultation and implementation or rejection of Modifications to the CMC.

Process for modification of the CMC

1.1.2 Section B.12 of the CMC outlines the process used to modify the code. In particular, it sets out the handling of proposing, consideration, consultation and implementation or rejection of Modifications to the CMC.

1.1.3 The purpose of the Modifications process is to allow for modifications to the CMC to be proposed, considered and, if appropriate, implemented with a view to better facilitating code objectives as set out in Section A.1.2 of the CMC. (B.12.1.2).

1.1.4 Modifications to the CMC can be proposed and submitted by any person, (B.12.4.1), at any time. Unless the modification is urgent modifications are subsequently discussed at a Working Group held on a bi-monthly basis. Each Working Group represents an opportunity for a modification proposer to present their proposal(s) and for this to be discussed by the workshop attendees.

1.1.5 For discussion at a Working Group, Modification proposals must be submitted to the System Operators at least 10 working days before a Working Group meeting is due to take place. If a proposal is received less than 10 working days before a Working Group and is not marked as urgent it is deferred for discussion to the next Working Group.

1.1.6 Following each Working Group, and as per section B.12.5.6 of the CMC, the RAs are required to publish a timetable for the consideration, consultation and decision relating to the Modification(s) proposed during a Working Group.

1.1.7 If a proposal is received and deemed to be contrary to the Capacity Market Code Objectives or does not further any of those objectives, the Regulatory Authorities (RAs) will reject the proposal on the grounds of being spurious, as set out in section B.12.6 of the CMC.

1.1.8 If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs will determine the procedure and timetable to be followed in the assessment of the Modification Proposal. The CMC states that the procedure and timetable may vary from the normal processes set out in the code, allowing for the modification to be fast-tracked.

Urgent Modifications

- 1.1.9 This decision paper is concerned with an urgent modification proposal.
- 1.1.10 A proposer may choose to mark a Modification proposal as “Urgent”. (B.12.9.1). In this case, the RAs, as per section B.12.9.3 of the CMC, will assess whether or not the proposal should be treated as urgent. If the RAs deem a proposal to be urgent they have the power to fast-track the proposal.
- 1.1.11 In this regard B.12.9.5 provides:
- “If the Regulatory Authorities determine that a Modification Proposal is Urgent, then:*
- a) the Regulatory Authorities shall determine the procedure and timetable to be followed in assessing the Modification Proposal which may vary the normal processes provided for in this Code so as to fast-track the Modification Proposal; and*
- b) subject to sub-paragraph (a), the System Operators shall convene a Workshop.”*
- 1.1.12 The RAs may request the SOs to convene a Working Group to discuss the proposed Modification.

Process and Timeline for this Modification

- 1.1.13 On 26 February 2020 the RAs submitted a modification proposal (CMC_03_20) under the terms of B.12.4. The Modification Proposal was marked as Urgent.
- 1.1.14 The Regulatory Authorities determined that the Modification Proposal was Urgent. This was because the Modification Proposal was proposed to deal with a matter that could reasonably be anticipated would imminently and unduly interfere with, disrupt, or threaten the proper operation of the Capacity Market. The Modification Proposal addresses concerns that were raised in responses to the consultation paper associated with the modification CMC_02_20².
- 1.1.15 As highlighted in the subsequent decision paper associated with modification CMC_02_20³ several respondents raised concerns around the effect delaying the auction may possibly have in regards to losing time related to project planning and construction. In their decision, the SEM Committee recognised that whilst these concerns were valid, they didn’t form part of the proposal.
- 1.1.16 The SEM Committee committed to the proposal of an additional modification to the Code that would directly deal with the comments provided by respondents in regards to any additional steps that may be required as well as changes to the Long Stop Date, therefore allowing industry to provide feedback on any changes that could be applied.

² SEM-20-005: Capacity Market Code Modifications WG11 – Consultation Paper
<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-005%20CMC%20WG11%20Consultation.pdf>

³ SEM-20-008: Capacity Market Code Modifications WG11 – Decision Paper
<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-008%20%20CMC%20Mods%20WG11%20Decision%20Paper.pdf>

1.1.17 On the 28 February 2020 the RAs determined the procedure to apply to the Modification Proposal. An overview of the timetable is as follows:

- i. The System Operators are to secure that the Modification Proposal is considered at a workshop no later than 5 March 2020.
- ii. The System Operators are to prepare a report of the discussions which took place at the workshop, provide the report to the RAs and publish it, promptly and in any event no later than two Working Days, (as defined in the CMC), after the workshop.
- iii. The RAs will then consult on the Proposed Modification, with a response time of five Working Days (as defined in the CMC), from the date of publication of the Consultation.
- iv. As contemplated by B.12.11 the RAs will make their decision as soon as reasonably practicable following conclusion of the consultation and will publish a report in respect of their decision.

1.1.18 The purpose of this decision paper is to set out the decision relating to the urgent Proposed Modification discussed during Working Group 11(b) to either:

- a) Implement a modification;
- b) Reject a modification; or
- c) Undertake further consideration in regards to matters raised in the modification proposal.

1.1.19 This decision paper sets out a summary of the consultation proposal and sets out the SEM Committee's decision.

1.2 RESPONSES TO CONSULTATION

1.2.1 This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-20-018) which was published on 11 March 2020.

1.2.2 A total of two responses were received by close of the consultation period. The respondents are listed below and copies of the responses received can be obtained from the SEM Committee website.

- Bord Gáis Energy Limited (BGE)
- Energia

2. CMC_03_20 – MODIFICATION TO THE LONG STOP DATE FOR THE CY2023/24 T-4 CAPACITY AUCTION

2.1 CONSULTATION SUMMARY

- 2.1.1 This Modification was submitted by the Regulatory Authorities on 26 February 2020 and marked as Urgent. The modification proposed to make an additional change to the recently implemented section, proposed in *CMC_02_20 - M.10 Provisions Applicable to the T-4 Capacity Auction for Capacity Year 2023/24 only*.
- 2.1.2 This modification was proposed, and subsequently implemented, to allow for the shortening of the time between the CY2023/24 T-4 Auction and the start of the delivery year to less than the 42 months set out in the main body of the CMC. The addition of section M.10 then allowed the Regulatory Authorities to approve an amendment to the Capacity Auction Timetable under D.2.10.
- 2.1.3 CMC_02_20 was proposed, and subsequently implemented, to allow for the shortening of the time between the CY2023/24 T-4 Auction and the start of the delivery year to less than the 42 months set out in the main body of the CMC. The addition of section M.10 then allowed the Regulatory Authorities to approve an amendment to the Capacity Auction Timetable under D.2.10.
- 2.1.4 In the responses to the consultation for CMC_02_20, respondents raised the issue of the reduced delivery window for new capacity and noted the increased delivery risk that would arise. Some requested that the Long Stop Date be adjusted to maintain the full 42+18 months from the Auction to the latest date for delivery.
- 2.1.5 As part of the decision relating to CMC_02_20, the SEM Committee recognised the concerns raised and deemed it appropriate for a further Urgent Modification to the CMC be raised. This proposed modification, CMC_03_20, is aimed at directly dealing with the comments provided by respondents in regards to any additional steps that may be required as well as changes to the Long Stop Date.
- 2.1.6 It was also decided that the proposing of a new modification would also allow industry to provide feedback on any changes that could be applied.
- 2.1.7 The purpose of this modification is to modify section M.10 of the CMC to include a new paragraph, M.10.1.4A.
- 2.1.8 The SEM Committee stated that it is reasonable to make such an adjustment in the case of a multi-year contract award as this reduces risk for new capacity providers without material impact on security of supply and the value of the CRM hedge to consumers.

2.2 SUMMARY OF RESPONSES

- 2.2.1 Both respondents to the consultation acknowledged the requirement to further modify the newly implemented section M.10 within the CMC.
- 2.2.2 BGE agreed with the modification and highlighted that it is necessary to ensure that any potential barriers to the delivery of new capacity are mitigated where practical given the rapidly growing need for new capacity to come on the system in the next five to six years in particular.
- 2.2.3 They advised they view the proposed modification as not only reasonable but necessary and note that importantly it strikes the right balance between risks to new capacity providers as against consumer costs or security of supply exposures. They further highlighted the importance that the modification is clearly applicable only to the April 2020 auction (T-4 for CY2023/24) and stated they are satisfied that the adjusted text in M.10 of the CMC reflects this.
- 2.2.4 Energia acknowledged the proposed modification is required in order to maintain the existing delivery period for new capacity as would have been provided had the associated Capacity Auction Timetable not been amended. They highlighted that failure to amend the Long Stop Date would result in an increased delivery risk for new capacity projects should the proposed amendment to the Long Stop date not commence.
- 2.2.5 Energia stated they welcome the clarification and revised legal drafting that states the proposed amended Long Stop date will only apply to new capacity projects which are awarded a multi-year contract. They highlighted that it is critical that the amendment does not apply to new capacity projects who are awarded a one year contract as this could have serious implications for the successful delivery of new capacity for the Capacity Year 2023/24.
- 2.2.6 Both respondents highlighted in their submission that they are satisfied with the modifications drafting and that the text is consistent with the Code Objectives as set out in the CMC.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee welcome the feedback received from all respondents.
- 2.3.2 Following consideration of the proposal and responses received to the consultation, the SEM Committee have adopted the minded to position, and approve CMC_03_20, as per the drafting set out in Appendix A.

3. NEXT STEPS

- 3.1.1 Given that the proposed urgent modification approved within this decision paper is required to amend the Long Stop Date associated with the upcoming T-4 CY2023/24 Capacity Auction and as agreed during WG11 (b) that the change to the Long Stop Date for Multi-year contracts is to be reflected in the forthcoming Final Auction Information Pack, the SEM Committee require that the SOs incorporate the approved Modification contained within this paper into the CMC via an appropriate version control process and the Modification is to become effective by no later than 30 March 2020.
- 3.1.2 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com