Single Electricity Market

(SEM)

Capacity Market Code Working Group 12

CMC_09_19, CMC_07_20 and CMC_08_20

Decision Paper

SEM-20-064

18 September 2020

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating specifically to the Proposed Modifications CMC_09_19, CMC_07_20 and CMC_08_20 to the Capacity Market Code (CMC) discussed at the Working Group held on 31 March 2020.

The decision within this paper follows on from the associated consultation (SEM-20-040[1]) which closed on 31 July 2020.

This paper considers the proposed modifications presented at WG12. The proposed modifications relate to:

- **CMC_09_19 – Supplementary Interim Secondary Trading (Version 2)**

  The purpose of this modification is to implement Supplemental Interim Secondary Trading measures in the absence of a Secondary Trading platform.

- **CMC_07_20 – Change in Technology Class for Awarded New Capacity**

  This modification proposal aims to allow for a change in Technology Class associated with Awarded New Capacity, where such a change has been accompanied by a new or modified connection agreement that reflects the change.

- **CMC_08_20 – Change of Awarded Existing Capacity to Awarded New Capacity**

  This modification proposal aims to allow for the introduction of a means by which Substantial Completion can be reversed such that Existing Capacity that is not delivering is considered as Awarded New Capacity again.

12 responses were received to the Capacity Market Code Working Group 12 CMC_09_19, CMC_07_20 and CMC_08_20 Modification Consultation Paper, one of which was marked as confidential.

Summary of Key Decisions

The purpose of the proposed modifications 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"):*

[1] Capacity Market Code Working Group 12 CMC_09_19, CMC_07_20 and CMC_08_20 Consultation Paper: https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-040%20WG12%20-%20CMC_09_19%20CMC_07%20CMC_08%20Cons%20Paper.pdf

CMC_09_19 –

(a) to facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licences in relation to the Capacity Market;

(d) to promote competition in the provision of electricity capacity to the SEM;

(g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.

CMC_07_20 –

(b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner;

(d) to promote competition in the provision of electricity capacity to the SEM;

(f) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and

(g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.

CMC_08_20 –

(d) to promote competition in the provision of electricity capacity to the SEM;

(f) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and

(g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.

Following consideration of the proposals and the responses received to the consultation the SEM Committee have decided to:

Modification	Decision
CMC_09_19 – Supplementary Interim Secondary Trading (Version 2)	Approve
CMC_07_20 – Change in Technology Class for Awarded New Capacity	Undertake further consideration
CMC_08_20 – Change of Awarded Existing Capacity to Awarded New Capacity	Reject

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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 processes for 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) may reject the proposal on the grounds of it 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.

Process and Timeline for these Modifications

1.1.9. On 19 March 2020 the SOs notified the RAs of the six proposed modifications for discussion at WG12 held on 31 March 2020.

1.1.10. On 31 March 2020, the System Operators convened Working Group 12 where these Modification Proposals were considered.

1.1.11. In the case of CMC_09_19, the RAs were of the view that the existing text needed to be converted into near final legal drafting prior to consultation. Given the substantial nature of the proposed Modification and the likelihood that some elements will need to be phased in given constraints on the ability of the SOs to modify their systems, the RAs considered it is important to allow sufficient time to enable robust drafting to be produced and to ensure that the consulted Modification is deliverable by the SOs.

1.1.12. In the case of CMC_07_20 and CMC_08_20, delaying the start of the consultation process allowed the SOs time to consider the feedback from the Working Group and for the RAs to prepare an appropriate basis for consultation.

1.1.13. Given the interest expressed by industry with regards to CMC_09_19, the RAs deemed it prudent to allow extra time for responses to be submitted. In this instance, the RAs allowed for a 30 working day consultation period to be applied.

1.1.14. On 16 June 2020 the RAs determined the procedure to apply to the Modification Proposals CMC_09_19. CMC_07_20 and CMC_08_20. An overview of the timetable is as follows:

i. The System Operators convened Working Group 12 where the Modification Proposal was considered on 31 March 2020.

ii. The System Operators, as set out in B.12.7.1 (j) of the CMC, are to prepare a report of the discussions which took place at the workshop, provide the report to the RAs and publish it on the Modifications website promptly after the workshop.

iii. The RAs will then consult on the Proposed Modification, with a response time of 30 Working Days from the date of publication of the Consultation.

iv. The RAs were to proceed with the consultation process on the Proposed Modification, with a response time of 30 Working Days from the date of publication of the Consultation. The paper was published on 19 June 2020.

v. 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.

1.1.15. The purpose of this decision paper is to set out the decision relating to Modification Proposals CMC_09_19, CMC_07_20 and CMC_08_20 discussed during Working Group 12 to either:

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

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

1.2. RESPONSES TO CONSULTATION

1.1.17. This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-20-040) which was published on 19 June 2020.

1.1.18. A total of 12 responses were received by close of the consultation period. Of the 12 responses, one was marked confidential. The remaining 11 are outlined below and copies can be obtained from the SEM Committee website.

- SSE
- Demand Response Association Ireland (DRAI)
- ESB GT
- Enel X
- Tynagh
- Electricity Association of Ireland (EAI)
- Bord na Móna (BNM)
- Moyle Interconnector Limited
- Bord Gáis Energy (BGE)
- Energia
- Energy Storage Ireland (ESI)

2. CMC_09_19 - SUPPLEMENTARY INTERIM SECONDARY TRADING

2.1. CONSULTATION SUMMARY

2.1.1. This proposed modification is an updated version of that submitted for and discussed at Working Group 10 that took place on 21 November 2019, and subsequently deferred for further updating.

2.1.2. The purpose of this modification was to implement Supplemental Interim Secondary Trading measures in the absence of a Secondary Trading platform. The justification for proposing this modification is given as the fact that a secondary market was not available at go-live nor would it be accessible until at least 2021.

2.1.3. The modification has been proposed as according to Recital 51 of the State aid Decision, Reliability Options were expected to be tradable on the Secondary Market by Q4 2018. Given that this date has passed the proposer states this modification will allow the Code to comply with the Decision.

2.1.4. The proposal highlighted that this modification aims to provide greater security of supply by ensuring that sufficient capacity is available in the Market whilst allowing parties to trade obligations and reduce their exposure which the proposer states is considered a necessary supplement to the existing interim solution. The proposal further elaborates that it is not intended to replace the current Interim Secondary Trading Arrangements.

2.2. SUMMARY OF RESPONSES

2.2.1. A total of 12 responses were received to the consultation and of these, 10 respondents provided commentary on this modification. In summary the majority of respondents provided their support for the implementation of the proposal stating that the introduction of Supplementary Secondary Trading mechanism was welcome.

2.2.2. The majority of respondents also took the opportunity to state their concerns that it has taken a considerable length of time for this functionality to be provided in the market, given that this was a design requirement from go-live.

It was also highlighted that having a full set of enduring arrangements in place to enable the secondary trading of Reliability Obligations was an important part of the development of the Capacity Market, and part of the original European State aid approval for the mechanism was based on this being in place.

2.2.3. In their response, ESBT GT stated that they were in agreement that the proposed modification facilitates CMC Objectives (d) (promote competition) and (g) (promote short-term and long-term interests of consumers), and at the same time assists in delivering Recital 51 of the State aid Decision, where Reliability Options were expected to be tradable on the Secondary Market by Q4 2018.

2.2.4. They did however advise that it is unfortunate that implementation of system developments for facilitating the 70 days limit requirements, as stated during WG13, would likely take 12 to 18 months to complete. However, they believe that the approach taken by the RAs to de-scope the modification and continue to engage with the SOs to look at introducing this additional trading capability in the medium term is pragmatic and beneficial to market participants. They have suggested that if this is the decision by the SEMC then the most recent SEMO Roadmap should reflect the next modification requirements.

2.2.5. As mentioned in Workshop 14, ESB GT supports the amalgamation of IT requirements for CMC_09_19 and CMC_11_20 provided it does not hinder the progress of CMC_09_19.

2.2.6. In their response, ESB GT also requested Clarification on the continued availability of the Interim Secondary Trading Arrangement (M.7), in parallel with this proposed interim secondary trading modification.

2.2.7. In their response, Enel X stated it is their belief that there is an error in the drafting of Chapter H of the Capacity Market Code which was overlooked during the 2017 consultations on the code drafting and has been copied into the proposed Code section M.11 in this modification. They elaborated that the mistake relates to the concept of Legitimate Reasons.

They stated that this concept was introduced during the I-SEM CEM Detailed Design process – specifically in Decision Paper 2 (SEM-16-022) and was introduced as a safeguard when trades involved capacity above de-rated limits – i.e. the same circumstances in which the 70-day limit is intended to apply to the Seller. This intent is explained in paragraph 4.4.16 of SEM-16-022, and made explicit in the decision paragraph 4.4.29.

2.2.8. They believe that this subtlety was not properly captured in Chapter H, where it instead reads as if a Legitimate Reason should be provided for all trades. This appears to be an accident, as there does not seem to have been any consultation or decision document setting out any deliberate intent to restrict secondary trading far more tightly than described in the detailed design decision papers.

They have highlighted that this makes sense, as they believe deliberately imposing such a requirement would be a very strange design decision and would undermine the liquidity of the secondary market, which could also prevent many DSUs from undertaking secondary trades given the Legitimate Reasons do not really cover DSUs. This would go against all the strong reasons to enable secondary trading that were clearly spelled out in the detailed design consultation and decision papers.

2.2.9. They have advised that to correct this "error" would require the re-drafting of H.1.1.1 and H.7.1.3, and possibly some consequential changes elsewhere in the section. However, they have advised this is not urgent as Chapter H will not be used until the enduring secondary trading platform is ready. In the meantime, they believe it is straightforward to modify the drafting of the proposed section M.11 to remove the error, as the proposed Supplementary Interim Secondary Trading arrangements do not support trades using capacity above de-rated limits.

They have recommended that this correction to M.11 should be made now.

2.2.10. Tynagh, the proposer of the modification, advised that they believe this modification, including any required amendments following the consultation period, should be introduced ahead of the start of the next Capacity Year (1 October 2020).

This was a comment that was provided by the majority of respondents to the consultation.

2.2.11. The EAI believe it is imperative that the revised Secondary Trading Arrangements are implemented by 1 October 2020, particularly given the impact of COVID-19 on outage schedules which has required outage dates to be amended creating additional uncertainties and risks for participants. They urged that any of the comments proposed should not be at the expense of delaying the implementation of the Supplementary Secondary Trading arrangements by 1 October 2020.

2.2.12. They have highlighted that in their view the current Interim Secondary Trading Arrangements under section M.7 of the CMC are overly restrictive in many ways, including being limited to Planned Outages, which itself are subject to TSO designation, and requiring 10 Working Days' notice prior to the month in which the outage is scheduled to occur.

2.2.13. The EAI advised they are in favour of the notice period being as short as possible and the alignment of both mechanisms (in terms of notice periods and flexibility) such that they can supplement one another as intended while not undermining transparency and simplicity of use of the mechanism for the TSOs and market participants. These comments were mirrored in the response from BnM.

2.2.14. EAI also support the RAs' intention to monitor the two interim secondary trading options to ensure the liquidity and accessibility of the overall secondary trading capacity market. EAI envisage such monitoring measures should safeguard a transparent and competitive market and that regulatory intervention will be taken, if necessary, for such safeguarding. Trades as proposed should occur for legitimate reasons and should not undermine the value or reliability of the product that the consumer is paying for.

2.2.15. They have also requested clarity on the verification process for buyers and sellers of secondary capacity from and to units within an LCCA. They have highlighted that there are potential impacts of constraints on delivery across these areas during a RO event and who the RO risk lies with will be important to understand.

2.2.16. EAI noted that the proposed modification has been reduced in scope by removing the ability to trade above de-rated capacity, so that it can be implemented as soon as possible.

They stated that whilst this is far from ideal, they acknowledge the timing imperative and the value of having Supplementary Secondary Trading Arrangements in place (that can be used in conjunction with the Interim Secondary Trading Arrangements) by 1 October 2020. However, the EAI requested that a commitment be given to when the ability to trade above the de-rated capacity will be possible, and that such date should not be after 1st October 2021.

2.2.17. With regard to turn around times, Tynagh suggested that the quick turnaround of requests for trading is important in the provision of this functionality and where possible the work, and if necessary, the proof of any calculations should be performed by the participants, this should ensure that the TSOs are only involved in verification and data entry.

2.2.18. Moyle stated that a fast turn-around is essential and they do not see that this places a major burden on the TSOs. Elaborating they have highlighted that to cover unplanned outages, market participants who have together agreed a trade need the trade to be put in place as soon as possible and in a known time scale. They advised they have concerns that updating the Capacity and Trade Register 'as soon as reasonably practicable' is too vague and may result in different response times for requests received in different period. Such an inconsistent approach would be unfair on participants. Whilst they acknowledge the RAs' wish to converge on a 1 WD arrangement, they believe that any longer maximum timescales before 1 WD is implemented should also be codified.

2.2.19. BGE have stated that whilst a 1-Day window is desired in operation, they understand this may not be possible at the start of implementation. Nevertheless, they have encouraged the SOs to have a set range for this operation of 1-3 days at the start of implementation, and a plan to reduce it to 1-Day as quickly as the reliability product. They also believe that the basis for which the RAs/ SOs may remove such measures should be published, and any concerns that are raised which requires pre-emptive measures are notified to the market participants.

2.2.20. Tynagh stated that the template that has been suggested previously allowed this process. For the sake of clarification regarding point 2.1.31 of the consultation, Tynagh believe it would make more sense if the unique reference number was a concatenation of 1) Seller unit ID 2) Buyer unit ID 3) Start time. They advised that this makes more sense particularly if a seller was looking to sell to more than one unit at a time.

2.2.21. Tynagh have urged that to ensure that Market Power is not abused and that equally there is true price discovery, once a month a report should be produced. They stated that this should simply be a publication of the Capacity and Trade Register of new trades from the previous month. They suggested this would report all the details of the trade, including:

- Seller Unit ID
- Buyer Unit ID
- Start Trading Period
- End Trading Period
- Quantity
- Price (€/MW)
- Price (£/MW)
- Capacity Quantity Scaling Factor (FSQC)

2.2.22. Tynagh stated that the system should work in parallel with the existing interim solution, particularly as the TSO timeframe will be insufficient for any short term forced outages. Equally, due to the limited volume available (as the proposed solution is only looking at the difference between de-rated capacity and FSQC de-rated capacity and not the 70 days at nominal capacity) it should be possible to stack the trades.

2.2.23. Tynagh highlighted that the Load following methodology should use the latest appropriate forecast either annual or monthly. They elaborated that it will also require that the annual load forecast is run for two years in advance.

They stated that if this is not available then where an outage is due to occur in the following year, it will not be possible for a participant to trade out of that outage until the forecast is updated. Tynagh believe this should not be a significant piece of work for the TSO as it will largely be driven by the ten-year Generation Capacity Statement.

2.2.24. BnM took this opportunity to state that, as in 2.1.3 of the consultation paper it can be read that the CMC is effectively out of line with SI 445 of 2000 (European Communities (Internal Market in Electricity) Regulations 2000) and with SI 60 of 2005 European Communities (Internal Market in Electricity) Regulations 2005, both of which underpin the T&SC.

2.2.25. BnM welcomed this timely consultation to restore compliance in so far as is currently possible, while recognising the shortcomings of this modification.

2.2.26. Both BnM and the EAI stated in their response that it is their assumption that participants will be able to stack their trades providing an example whereby if a large unit was on an outage that they may be able to make three smaller trades to meet their exposure. They have advised that it should also be possible for participants to use both the supplementary and interim measures for the same period.

2.2.27. They have further stated that given that the TSO licences are linked to the above mentioned SIs, and until a fully effective modification is in place, there is a shortfall in delivery of the Capacity Market Code Objectives A. 1.2.1 a) and b). They advise they recognise that it is important to take timely action which will match the SOs capability to deliver required solutions, and they support the notion of a phased solution, with this being the first step.

2.2.28. Moyle welcomed the proposed arrangements for secondary trading of capacity obligations in CMC_09_19 and have advised that secondary trading is essential, not least to comply with the State aid decision, but also to allow participants to trade their obligations in accordance with the SEM Committee decisions on design of the capacity mechanism.

2.2.29. They have stated their view is that the present interim solution, which they believe is effectively to suspend capacity obligations (and associated capacity payments) for an outage planned in the previous year, is inadequate. They further state it does not provide for management of capacity obligations in unplanned outages and does not provide for trade among participants that would value capacity obligations appropriately. Further, it does not incentivise provision of adequate capacity.

2.2.30. Moyle further stated that while the design of the capacity mechanism is intended to send an exit signal to unreliable plant, even historically reliable units will suffer from unplanned outages from time to time. Without proper secondary trading arrangements, at present such a unit retains its full potential exposure to difference charges during such an outage, with no ability to manage its exposure, even though other units may have an appetite to trade the capacity obligation, to the mutual benefit of both parties and consumers.

2.2.31. They have also advised that trading will benefit system security. They stated that if a unit suffers from an unplanned outage today of estimated one-month duration, its unavailable capacity will not be available to the system during that month.

If no arrangement for trading of capacity obligations is in place, the total capacity available to the system that is incentivised through holding a capacity obligation will be reduced, potentially negatively affecting security of supply during that period. If the unit suffering from an outage can trade its obligation, then the full capacity requirement can be incentivised when the capacity obligation (which would normally be delivered by the unavailable plant) is transferred to one or more other suitably qualified units.

2.2.32. In their response, BGE have advised that there are a number of considerations with the implementation of the Alternative Secondary Trading Arrangements (ASTA) proposed under the Modification that they request the RAs to take into consideration before finalising the ASTA.

2.2.33. BGE wished to highlight that, as a new mechanism for trading in the Capacity Market, trades under the ASTA should promote an open, transparent and competitive market that allows participants to manage RO risks for evidenced legitimate reasons. Further, the mechanism should not encourage behaviours that may undermine competition in the Capacity Market and importantly the exit signal element of the RO mechanism.

BGE believe that strict monitoring controls need to be applied by the RAs and SOs to ensure that non-competitive actions can be identified.

2.2.34. With regard to market liquidity, BGE stated they understand the need to establish a deliverable scope that enables near term delivery which may de-scope some items (namely the ability to trade above de-rated capacity). However, they have encouraged the RAs and SOs to focus on supporting growth in liquidity and trade capabilities for participants as quickly as possible after the initial implementation of the ASTA by re-scoping the ability to trade above the de-rated capacity of the unit as soon as possible.

2.2.35. BGE request the RAs views as to the applicability of ASTA to units in Locational Capacity Constraint Areas (LCCAs). They have commented that they believe there is a risk that executed secondary trades could turn out to be impractical if, for example the counterparty to the trade is outside the LCCA. Any associated LCCA delivery may not be possible or the minimum MW required for the LCCA as determined in the Final Auction Information Pack for the relevant capacity year could be undermined.

2.2.36. Energia stated that they fully endorse the comments put forward by the EAI. They also advised they are supportive of the proposed modification to introduce a Supplementary Secondary Trading mechanism as a necessary supplement to the existing interim solution.

2.2.37. They have also advised that they would put emphasis on the need for the Product Load Following Factor methodology and all relevant variables required in the calculation of the load following obligation to be published in advance (by no later than 1 September 2020) for market participants to understand and use so that they have certainty over the eligible volumes that can be submitted in a Supplementary Secondary Trade. This was mirrored within a number of other responses.

2.2.38. A number of respondents provided feedback in relation to the draft text contained within the proposal.

2.2.39. The EAI and BnM stated that the drafting proposed under M.11 does not provide a clear timeline for completing a Supplementary Secondary Trade. They advised that Market participants require clear and definitive timelines to be set out for completion of this process from end-to-end, including the publication of all details relating to the trade.

2.2.40. The EAI recommend that more definitive timelines for end to end completion of the process are included within M.11.3, and have suggested the following text be adopted:

The System Operators must do all things necessary to operate and administer the Supplementary Secondary Trading Arrangements such that Trade Requests are validated, and the Capacity and Trade Register is updated within 1 Working Day in accordance with this section M.11 including:

2.2.41. To maximise efficiency in the secondary market, the DRAI believe it is important to ensure that sufficient qualification opportunities exist to enable new units to participate in the secondary market for each Capacity Year. They recommended that the RAs make a firm commitment to hold an annual qualification window (within the T-1 timescales for each Capacity Year even if they do not have withheld capacity volumes to auction), allowing any new CMUs to qualify for the upcoming Capacity Year, and therefore participate in secondary trading.

A new clause D.2.1.4A is proposed to implement this recommendation, stating:

D.2.1.4A Irrespective of whether instructing the System Operators to conduct a T-1 Auction, the Regulatory Authorities shall instruct the System Operators to undertake a Qualification Process in respect of each Capacity Year on the same timescales as would have been required had a T-1 Auction been held.

2.2.42. Tynagh stated they believe there is a lack of clarity in the definition of "Seller Limit" in section M.11.6.3. To mitigate this they have proposed the inclusion of the following text:

M.11.6.3 The Seller Limit for a Capacity Market Unit is the value calculated as:
the Available De-Rated Capacity less (the Initial Position of the Capacity Market Unit multiplied by the maximum Product Load Following Factor for the traded periods)

2.2.43. The DRAI stated that an amendment to M.11.7.1 should be made, with the inclusion of a new sub-section. They believe this will add to the existing drafting which already provides for the distinct features of other unit types. The justified the inclusion stating that they believe it is equitable to include explicit provision for DSUs to avail of the enhanced secondary trading provisions based on the inherent variation in the availability of their underlying resource. They have proposed the following amendments:

M.11.7.1 For the purposes of this section M.11, each of the following is a "Legitimate Reason":

(g) one or more of the Demand Side Units comprising the Capacity Market Unit is or are adversely affected by fluctuations in the availability of its primary energy source (the availability of Individual Demand Sites to provide a demand reduction or an increase in on-site generation);

2.2.44. ESB GT queried whether clarification could be provided to the proposed seller limit as per M.11.6.3 through the following amendment to the proposal:

M.11.6.3 The Seller Limit for a Capacity Market Unit is the value calculated as:

(a) the Available De-Rated Capacity less,
(b) the Initial Position of the Capacity Market Unit multiplied by the Product Load Following Factor for the traded period."

2.2.45. BnM stated they believe there is an error within the proposal in relation to the proposed text under M.11.6.3, regarding Seller Limits. With regard to this they have proposed the draft text be modified to:

The Seller Limit for a Capacity Market Unit is the value calculated as:

the Available De-Rated Capacity less (the Initial Position of the Capacity Market Unit multiplied by the maximum Product Load Following Factor for the traded periods multiplied by the De-rating factor*)

2.3. SEM COMMITTEE DECISIONS

2.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process and recognises the importance of more flexible Secondary Trading arrangements in allowing market participants to manage their risk under the CRM.

The SEM Committee further recognises the importance of integrating the operation of the Alternative Secondary Trading Arrangements set out in this modification with the existing Interim Secondary Trading Arrangements set out in Chapter M.7. These arrangements are themselves subject to a proposed Modification (CMC_11_20).

2.3.2. The CRM Team have discussed with the System Operators the options available to ensure the most timely implementation of this proposed modification and its integration with both the existing M.7 arrangements and possible implementation of Modification CMC_11_20. The decision set out below reflects the outcome of these discussions.

2.3.3. The SEM Committee notes the comments on the determination of the Seller Limit set out in M.11.6.3. This drafting is taken from the enduring Secondary Trading solution (paragraph H.7.3.3). It is important that this drafting is considered in conjunction with the paragraphs of the TSC which use FSQC and of which the Product Load Following Factor is a pre-estimate (cf. sub-section F.18.2). The SEM Committee is content that the drafting in Chapter H and the reduced version used in M.11.6.3 correctly reflect the intent of the Seller Limit.

2.3.4. A new paragraph has been added at the start of M.11.2, based on existing text in H.1.1.1, to clarify the roles of Buyer and Seller.

2.3.5. While noting the desire for a very rapid turn-around of Alternative Secondary Trade Notifications, the SEM Committee have decided that to enable rapid implementation there will need to be 5 Working Days' notice of a prospective trade.

This situation is consistent with the proposed modification to M.7 and is broadly consistent with any likely implementation of the enduring solution set out in Chapter H.

2.3.6. The SEM Committee note the concern about the ability of capacity to qualify for Secondary Trading in the absence of a T-1 Auction. The first occasion on which this issue might arise is with the potential T-1 Auction for CY2022/23.

2.3.7. The SEM Committee note that the proposed drafting does allow the Qualification extensions set out in section E.10 of the CMC to apply to the Alternative Secondary Trading arrangements. This should reduce the affected capacity but, recognising that this may not completely resolve the issue the SEM Committee have asked the CRM Team to investigate to see if a further Modification is required.

2.3.8. Following feedback from this consultation and discussion with the SOs, sub-section M.11.4 has been expanded to give a clearer process for the definition and publication of the Product Load Following Factor. A Product Load Following Factor will be determined for each week and should always be available for approximately the next 18 months. This new process requires the SOs to determine the factor, given their access to the load forecasts required, which will then be reviewed and approved by the RAs prior to publication.

2.3.9. In considering the applicability of the restrictions on Secondary Trade set out in M.11.7, the SEM Committee took account of the concerns about access to liquidity in the secondary market and feel it appropriate to retain these restrictions.

2.3.10. However, the SEM Committee is cognisant of their poor applicability to demand response. In seeking to better represent Legitimate Reasons for DSUs to trade, it was discovered that the term "Forced Outage" was not well-defined in the CMC. This has been replaced in M.11.7.1(b) with the broader term Outage which has been added to the Glossary. The definition of Outage has been adapted from that used in the EirGrid Grid Code and does properly cover DSUs as well as conventional generator units. In due course, a similar change will need to be made to the parallel text in Chapter H.

2.3.11. The SEM Committee notes the concerns around secondary trading by CMUs within a Locational Capacity Constraint Area (LCCA). This same issue arose in the drafting of Chapter H.

As then, the issues with restricting secondary trading to CMUs within the same LCCA are the reduction in liquidity and the reinforcement of local monopolies. These issues are even greater with the bilateral arrangements set out in this Modification than in the central auction platform of Chapter H. In consequence, the Committee have decided not to restrict secondary trade to CMUs sharing an LCCA.

2.3.12. Finally, the SEM Committee accept the widely expressed desire for full details of trades to be published and have reflected this in the final drafting of M.11.9.2.

2.3.13. The SEM Committee has decided to approve this Modification with the amended text given in Appendix C.

2.3.14. Following the discussions with the SOs, and with a minded-to position to implement this Modification in parallel with the proposed Modification CMC_11_20, the SEM Committee has decided that implementation of this Modification should go live on 26 October 2020.

2.3.15. The CRM Team will continue to engage with the SOs to develop the systems necessary to extending the scope of the Alternative Secondary Trading Arrangements to allow trading above de-rated capacity.

2.3.16. Recognising the concerns about liquidity and the accessibility of the secondary market to all players, the SEM Committee will ask the Market Monitoring Unit to monitor the operation of the Alternative Secondary Trading Arrangements.

3. CMC_07_20 - CHANGE IN TECHNOLOGY CLASS FOR AWARDED NEW CAPACITY

3.1. CONSULTATION SUMMARY

3.1.1. This aim of this modification proposal was to allow for a change in Technology Class associated with Awarded New Capacity, where such a change has been accompanied by a new or modified connection agreement that reflects the change.

3.1.2. The proposal sets out changes to sections C.3, G.3.1.4A and J.5.4 of the CMC.

3.1.3. The System Operator highlighted that Connection offers, and the associated works, are based on assumptions relating to the operating regime of a proposed generator based on its technology type and that whilst the Capacity Market Code considers all De-rated Capacity to be effectively equivalent, in reality different technology classes can have a multitude of different impacts on the power system.

3.1.4. The proposal further states that where a Participant secures a new or modified Connection agreement, in regards to Technology Class, this modification would ensure that all required conditions continue to be met.

3.1.5. This Modification Proposal aimed to extend the flexibility introduced with modification *CMC_06_19 - Modification to the Proportion of Delivered Capacity Calculation* (implemented following the decision made in SEM-19-046[2]) by further allowing for Technology Class change in particular circumstances and also provides for situations where the participant delivers capacity that has a better derating factor without changing Technology Class.

3.2. SUMMARY OF RESPONSES

3.2.1. A total of 12 responses were received to the consultation. Of the 12 responses received, one didn't provide comment on this modification and one was marked as confidential.

3.2.2. In summary the responses to the proposal were split. Several respondents, including the confidential response stated they would support the proposal whilst the other respondents were not in a position to support proposal.

3.2.3. ESB GT stated they support greater flexibility in the CMC, especially a modification like this that provides participants with flexibility to meet their obligations in light of other aspects that may be out of their control. They advised that whilst they believe the modification does facilitate objective C of the CMC, there are a number of issues (USPC applications and exit signals as per point 2.2.29 of the consultation paper) highlighted that would need to be addressed before the modification could be progressed.

3.2.4. ESB GT advised the potential impacts on future auctions and the USPC application process have not been fully determined. Considering the RAs comments that an issue with the USPC would most likely be improbable (but did recognise that whist the probability would be low any impact could be high), this impact needs to be further assessed before the modification could be progressed.

3.2.5. SSE stated that given there was insufficient evidence as to why the proposal was needed and how it would work, the proposal should be rejected.

3.2.6. Tynagh advised that whilst they agree with the RAs minded to position to reject the proposal, they do agree with the over-arching goal of the proposal to provide more flexibility regarding the delivery of capacity.

They state that there appears to be a lack of clarity regarding areas of the current modification. One area that was unclear was the timelines/deadlines of allowable changes in technology class and how they fit in with the underlying T-1 auction timelines, e.g. should a change in technology class decrease the amount of de-rated MW of capacity a participant could offer, then would it have to be before T-1 Final Auction Information Pack stage when the auction capacity requirement is published?

[2] https://www.semcommittee.com/sites/semc/files/media-files/SEM-19-046%20-%20CMC%20Mods%20WG6%20Decision%20Paper.pdf

Taking their comments into account Tynagh have advised they are unable to support this modification due to the lack of detail on how it can be achieved and managed.

3.2.7. The EAI, BnM, BGE and Energia all stated they were opposed to this proposed modification and support the minded to position of the RAs to reject it.

3.2.8. However, a number of respondents were in favour of implementing the proposal. The DRAI, Enel X, ESI and the confidential response all stated they disagreed with the RAs minded to position to reject the proposal.

3.2.9. It should be noted that the one confidential response submitted provided their support for this proposal. However, given the confidential nature of the response further detail cannot be included in this decision paper.

3.2.10. The DRAI and Enel X stated it is their belief that there is a strong justification to support enabling Participants to change Technology Class in certain circumstances when delivering Awarded New Capacity.

3.2.11. They advised that this additional flexibility to change Technology Class after qualification is important for Participants delivering new build projects which, if they were to run into difficulty, may still be able to deliver the Awarded New Capacity by changing Technology Class, or to put in place a form of temporary generation as a bridging solution to cover commissioning delays. They stated the proposed Modification would provide additional flexibility to ensure Awarded New Capacity is delivered, which would be in the best interests of consumers and system security of supply.

3.2.12. The DRAI believes that Performance Securities, gradually increasing with proximity to the delivery year, ensure that Participants are already strongly committed to deliver Awarded New Capacity. In addition, the DRAI believes that it is the delivery of the (de-rated) Awarded Capacity that is of the highest importance, and that under certain circumstances providers should have the flexibility to deliver this with a different technology, or even to deploy a temporary / bridging generation solution to cover project delays. The DRAI's view is that allowing the proposed additional flexibility (irrespective of technology, unit type, etc.) is in the best interests of both developers and consumers.

3.2.13. They highlighted that as well as providing additional flexibility to enable a change in Technology Class in certain circumstances, the Modification proposes enhanced flexibility to Participants when delivering New Capacity within the same Technology Class.

3.2.14. They referred to the a previous modification, CMC_06_19, which introduced additional flexibility to meet Awarded New Capacity obligations with a larger unit with shorter duration unit than those envisaged at qualification, within the same Technology Class, the CMC currently prevents a unit from being able to meet its Awarded New Capacity obligations with a smaller but longer duration unit than envisaged at qualification. The DRAI believe this "one way" flexibility to meet Awarded New Capacity by delivering capacity with a different de-rating factor is not justified, and this restriction should be removed.

ESI also referred to the previous modification, CMC_06_19, mirroring the comments from the DRAI.

3.2.15. The DRAI further elaborated that CMC_07_20 sought to remove this limitation and provide for the situation where a Participant delivers capacity (without changing Technology Class) that has a better derating factor (such as where a Participant delivers lower Initial Capacity but with a longer Maximum Down Time).

They stated they believe this element of Modification CMC_07_20 is now of material impact, in particular to DSUs and other storage technologies which can achieve a significant improvement in de-rating factor by extending their duration (Maximum Down Time / Maximum On Time). They stated their opinion that the market has sent a strong signal with the recent change in derating factors for short duration run-hour limited units, and Participants should be allowed the flexibility to respond to that signal by reshaping their units to a higher de-rating factor if they are technically able to do so. They highlight that ultimately the derating methodology ensures that 1 MW of de-rated capacity is of the same value to the system and to security of supply, independent of Technology Class, Maximum Down Time, etc. and they do not see justification for only enabling this flexibility in one direction. Again, this was also included in the submission from ESI.

3.2.16. In their response, ESI have referred to the RAs minded to position to reject the proposal as they cannot see the rationale for allowing changes in technology class.

They countered that, at a minimum, the element of the mod in relation to changes within technology class, and allowing this two-way flexibility, is something that is reasonable and should be progressed.

3.2.17. In regards to the drafting contained within the proposed modification text, whilst the DRAI and Enel X recommended the Modification should be progressed and approved they stated that as a minimum, even if the rest of the Modification focussed on allowing flexibility to change Technology Class is rejected, allowing "two way" flexibility within Technology Class as proposed should be progressed. They have recommended the drafting within the proposal around G.3.1.4A should be modified to deliver this change:

G.3.1.4A For a Capacity Market Unit, the De-Rated Grid Code Commissioned Capacity shall be the Grid Code Commissioned Capacity of the Generator Unit or Interconnector multiplied by ~~the lesser of:~~

~~(a)~~ the De-Rating Factor applicable to a unit of the Technology class of that Generator Unit or Interconnector and with an Initial Capacity equal to the Grid Code Commissioned Capacity and an Initial Maximum On Time equal to the Grid Code Commissioned Maximum On Time of that Generator Unit or Interconnector as specified in the Initial Auction Information Pack for the relevant Capacity Auction in which the relevant Awarded New Capacity was allocated.

~~(b) the Gross De-Rating Factor, as specified in item 3 (b) of Appendix E "Qualification Capacity Register Data";~~

3.3. SEM COMMITTEE DECISIONS

3.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process.

3.3.2. From the feedback received, the SEM Committee believes that there are sensible reasons to allow change of Technology Class. Allowing such a change will be of benefit to both Capacity Providers, in terms of reducing their delivery risk, and Suppliers, in terms of making it more likely that capacity will be delivered on-time.

3.3.3. The SEM Committee notes that events related to the COVID-19 pandemic may increase the need for Capacity Providers to make use of such additional flexibility either to achieve the Substantial Financial Completion or Substantial Completion milestones. The first potentially affected milestones fall on 7 November 2020.

3.3.4. However, the SEM Committee notes that there are a number of issues with the proposed Modification as drafted, in particular, a range of issues that it does not address. These include the situation where the change of Technology Class also changes the de-rated capacity of the CMU, interactions with the Exception Application process set out in E.5.1 and interaction with the TSC through the Registries.

3.3.5. The SEM Committee does not believe there will be any particular difficulty in resolving these issues nor that this resolution will have material impact on other market participants. However, as the resolution of these issues did not form part of the original consultation, the Committee intends to launch a further, brief consultation to obtain feedback on the further changes needed before the Modification could be approved.

3.3.6. In this decision paper, the SEM Committee has decided that this Modification requires further consideration. However, the SEM Committee is minded-to approve an updated version of the Modification before the start of November 2020.

4. CMC_08_20 - CHANGE OF AWARDED EXISTING CAPACITY TO AWARDED NEW CAPACITY

4.1. CONSULTATION SUMMARY

4.1.1. This aim of this modification proposal was to allow for the introduction of a means by which Substantial Completion can be reversed such that Existing Capacity that is not delivering is considered as Awarded New Capacity again.

4.1.2. The System Operator provided justification for the proposal stating that, in the Capacity Market, there are strong provisions regarding the delivery of Awarded New Capacity; however, once Substantial Completion has been achieved and the Awarded Capacity is considered as Existing, there are no provisions to deal with the instance where the Generator Unit has a Registered Capacity that is no longer >90% of the Awarded Existing Capacity.

They further state that the proposal is necessary to ensure that Awarded Existing Capacity is treated on a similar basis to Awarded New Capacity, therefore creating a more level playing field.

4.1.3. The proposal aims to modify the CMC by way of the introduction of a new section *I.1.4 Non-delivery of Existing Capacity.*

4.2. SUMMARY OF RESPONSES

4.2.1. A total of 13 responses were received to the consultation and of these 11 provided feedback on this modification proposal. In summary the majority of respondents were opposed to the proposed modification. Whilst there was a degree of understanding provided by respondents, none supported the execution of the proposal.

4.2.2. As with their response to CMC_07_20, SSE stated that there was insufficient evidence provided as to why the proposal was needed and how it would work. They concluded that the proposal should therefore be rejected.

4.2.3. The DRAI stated they agree with the RAs conclusion that the proposal appears specifically targeted to address TSO concerns with DSU performance as opposed to broader market issues, and supports the RAs minded to position to reject the Modification.

4.2.4. When interpreting DSU real-time availability, the DRAI stated that it is important to consider the market signals being sent to DSUs.

They elaborated that within the European Commission state-aid decision, DSUs do not receive energy payments, and therefore the real-time signals and incentives provided to all other SEM participants to maximise their availability are not present. They highlighted that whilst DSUs endeavour to maximise their availability within the technical and commercial constraints of operation, in the current market design they believe there is little incentive for DSUs to increase real-time availability above their capacity market load following obligation.

4.2.5. While the DRAI advise they are open to consultations on the wider principles of compliance with the reasonable endeavours obligation set out in CMC I.1.2 (including the potential inclusion of further compliance obligations with CEP CO2 Limits) they reiterated that defining a new interpretation of how compliance will be measured and enforced would be a material change to the risk profile upon which Participants have bid for capacity.

They highlight that such a material change should not be introduced retrospectively and should be analysed in detail before being implemented.

They further state that any such material change would apply from Capacity Year 2024/25 at the earliest and such a material change may also trigger a need for the capacity market's state aid approval to be reassessed.

4.2.6. ESB GT queried whether this proposed modification furthers the objectives of the CMC and did not support implementation of this proposal.

4.2.7. They referred to the obligation under section I.1.2.1.b which requires a participant, with respect to each of its CMUs to dedicate and use its reasonable endeavours, to make available the Awarded Capacity. They elaborated that this obligation should ensure "that less reliable existing capacity does not enjoy a cost advantage over more reliable capacity" rather than introducing an additional requirement which would appear to be opposite to objective (c) of the code, by increasing the difficulty of participating in the capacity market.

4.2.8. Tynagh agreed with the minded-to position to reject this modification advising that rejection should be on the basis of a lack of detail regarding the implementation of the proposal.

They highlighted that the modification should provide more specifics and details on what problem the modification is addressing and whether there are certain technology classes that have been under-delivering in availability to date, e.g. is this modification addressing issues with all generation, demand-side generation, conventional generation or other.

4.2.9. BnM stated that whilst they were opposed to the proposed modification, they acknowledge there is value to ensuring that contracted units are reliable. They have advised that the current proposal is too broad in its scope, but would welcome alternative proposals to those presented.

4.2.10. This point was mirrored by BGE, who stated that they support the need to ensure the Capacity Market Code has the correct incentives and penalties to ensure that availability of contracted capacity is maximised for the SEM within unit and system operational constraints.

They elaborated that they are supportive of encouraging participants to meet their obligations under the Code (I.1.2.1.b) and believe further discussion with industry on the issue is required.

4.2.11. Moyle have stated that to implement this proposal would require a significant amount of work and that any underlying concerns the SOs may have should be more carefully addressed alongside wider consideration of the reasonable endeavours obligation in the code.

4.2.12. They have provided the opinion that the proposed 90% available / 50% of the time tests do not discriminate between planned and unplanned outages. A unit may have a legitimate need for a significant outage for maintenance or refurbishment in order to sustain its long-term capacity.

They state that such an outage would have been agreed with the relevant system operator in the annual outage schedule, in coordination with the similar needs of other units so that the outage would not significantly affect security of supply.

Moyle advise that according to this proposed modification such an outage could result in a major change of status of the unit, with very significant implications.

This modification could subsequently deter a unit from taking a significant outage to ensure future reliability, instead encouraging the unit to take a potentially sub-optimal approach to ensuring availability with the potential to result in lower availability in times of scarcity.

4.2.13. ESB GT referred to the consultation paper, where it was highlighted that the modification does not address the cross-default issues and the undesirable knock-on effects in the Trading and Settlement Code. ESB GT advised that to address this issue it would require an industry consultation and a significant review as it could have substantial implications to market participants in future auctions and participants that hold existing contracts from previous auctions.

4.2.14. ESB GT stated it was their understanding that the outage rates (forced and scheduled) are taken into consideration when determining the de-rated capacity for the auction. They advise that section I.1.4.1.b would appear to be a double count of the outage rates of the unit and they further commented that this approach would appear to be neither proportionate, nor an effective means of determining the contribution of the unit classification to system security during stress events.

4.2.15. ESB GT considers the methodology and role of de-rating must be reviewed before the proposed I.1.4.1.b modification was to be considered in the future.

4.3. SEM COMMITTEE DECISIONS

4.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process.

4.3.2. SEM Committee recognises the issues faced by the SOs in carrying out its duties under the CMC in relation to default against the obligation associated with awarded capacity. However, in light of the concerns raised at the Working Group and as part of this consultation, the Committee do not believe that the proposed Modification offers a viable way forward for addressing these issues.

4.3.3. In consequence, the SEM Committee has decided to reject this proposed Modification.

5. NEXT STEPS

5.1.1 Given that the Proposed Modifications approved within this decision paper do not have any immediate systems implications, the SEM Committee require that the SOs incorporate the approved Modification, CMC_09_19, contained within this paper into the CMC via an appropriate version control process.

5.1.2 Following the discussions with the SOs, and with a minded-to position to implement Modification CMC_09_19 in parallel with the proposed Modification CMC_11_20, the SEM Committee has decided that this modification is to be implemented and effective by no later than 26 October 2020.

5.1.3 It should be noted that the consultation paper SEM-20-056[3], which covered CMC_11_20, closed on 14 September 2020 and the SEM Committee intends to publish its decision on 16 October 2020.

5.1.4 With regard to CMC_11_20, the SEM Committee had adopted a minded-to position to approve this proposal. If the final decision remains unchanged from this, the SEM Committee expect CMC_11_20 to be implemented in conjunction with CMC_09_19.

5.1.5 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com

[3] https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-056%20WG14%20Consultation%20Paper.pdf