



**Single Electricity Market
(SEM)**

Capacity Market Code Modifications

CMC_11_21; CMC_09_22

**RA review of SO impact assessment & Decision
regarding CMC_11_21 legal drafting implementation**

SEM-26-022

24 April 2026

1. Introduction

1.1. Background

CMC_11_21 was raised by Energia and discussed at Capacity Market Code (CMC) Modifications Workshop 19 held on 20 May 2021. The proposal sought to amend existing Alternative Secondary Trade Notification arrangements by allowing a seller to trade above a unit's de-rated capacity volume. According to the proposer, this would provide greater flexibility and liquidity within the secondary trading arrangements for market participants, and thus allow market participants increased ability to secondary trade and to better manage RO risk.

Following a consultation process (see consultation paper SEM-21-055), on the 21 September 2021, the SEM Committee issued a decision (SEM-21-077) in relation to this proposal. Generally, industry respondents were supportive of the proposal, emphasising its potential to enhance secondary trading provisions and improve flexibility for capacity holders. Numerous respondents opposed the 70-day limit, with some recommending that the limit should apply to buyers rather than to sellers. There were some concerns expressed around the practicality and risks of trading above de-rated capacity, with the SOs expressing reservations about the impact on system security and reliability.

The SEM Committee concluded that it was minded to approve the modification with the legal drafting attached in Appendix F subject to an impact assessment to be carried out by the SOs. It further noted that, based on the results of the impact assessment, it may be appropriate to make changes to the modification. Regarding the 70-day limit, the SEMC noted the rationale in the original decision (SEM-16-022) was for this to be applied to the buyer to protect against erosion of the security standard and that this limit was an important element to strike an appropriate balance between the release of liquidity to enable capacity providers to manage their positions while continuing to protect the hedge to consumers and security of supply.

On the 27 April 2026, the SOs provided an updated impact assessment to the RAs, following the submission of a previous version in Q4 2025. This assessment deals with both CMC_11_21 and CMC_09_22. The latter introduces a step in the SOs' processes to notify participants directly to confirm that their submitted Interim Secondary Trading Arrangements (ISTN) or Alternative Secondary Trading Arrangements (ASTN) has been successfully validated, with a limit of 5 working days from submission being required for the former and 2 hours from submission for the latter.

Regarding CMC_09_22, the RAs note that the effective date of this modification was the 30/09/2022. Given that no issues have been flagged by the SOs in relation to this modification, and that, unlike in the case of CMC_11_21, the legal drafting was not subject to the SOs' impact assessment, this note focuses on CMC_11_21 only. The SOs have confirmed that once the system change is launched, the time obligation introduced through CMC_09_22 will commence.

2. SO Impact Assessment

On 27 April 2026, the SOs provided their final impact assessment to the RAs. This assessment is split into various sections, which the RAs have reviewed in turn and discuss as follows.

2.1.1 Incorrect CMC references

Regarding comments on references to Section M.17 of the CMC, the RAs agree that such a section of the CMC does not exist and this appears to be a typing error. The RAs consider that the correct reference here should be to M.12.7.

In relation to the references to Chapter H, the RAs also concur that this section of the CMC is not active and thus the legal drafting should not reference this chapter.

2.1.2 Calculations

The second observation of the SOs is that the current drafting of the modification will generally fail to achieve the intent which is understood to have been intended by the modification proposer.

The RAs understand that the current legal drafting will subtract the Initial Position of the CMU, which is its Awarded Capacity minus any volumes already traded and is likely to be the same volume as its Gross De-Rated Capacity, from the lesser of the Gross De-Rated Capacity, Commissioned Capacity and Initial Capacity (Total). Given that a unit's Awarded Capacity will typically be the same as its Gross De-Rated Capacity, this will result in a Seller Limit of 0MW, essentially meaning that the modification has no real effect on the current arrangements.

The RAs are therefore open to considering alternative legal drafting which is not associated with this issue. The RAs propose that it would be helpful for the proposer to consider this and provide worked examples to illustrate clearly their intention in regard to this modification.

2.1.3 70-Day Limit

In relation to the first SO comment, as in 2.1.1, the RAs consider that references to M.17 are a typo and should relate to M.12.7.

Issue 1

The duration limit imposed by the SEM Committee was driven by the need to avoid a situation where a plant could close having traded to offset its capacity obligations from capacity contracted through the primary auctions, which would lead to a situation where the capacity requirement remains the same but there is less nameplate contracted capacity actually available on the system. This could create a security of supply risk. Instead, the intention in SEM-16-022 was for secondary trading above the de-rated capacity limit to only occur for legitimate technical reasons, particularly those considered in the determination of DRFs (forced outages, planned outages and weather-dependent variability in the capacity of intermittent plant). On this basis, the SEM Committee concluded that plant should be able to back secondary trades up to its nameplate capacity for a maximum of 70 days in any CRM capacity year, this being a reasonable duration of an outage in any 12-month period. This would imply a limit on the seller side; however, the RAs understand the risk to be targeted on the buyer side. Therefore, the RAs consider that the restriction is correctly targeted on the buyer side in the legal drafting.

In addition, the RAs consider that, in order to deal with this risk on the buyer side, it is irrelevant whether the buyer is buying from a seller that is trading above its Gross De-Rated Capacity or not, and therefore, the RAs' view is that one Buyer Limit should apply.

Regarding the 70-day limit, the RAs note that this figure is based on analysis from All-Island Outage Plans published by SEMO for the years 2014-17. Therefore, in its consideration of a revised Modification Proposal, the RAs may consider it appropriate to request up-to-date data from SEMO to establish whether this figure is still representative, or whether it should be higher/lower.

Issue 2

Regarding the second point raised here by the SOs, which includes an example where a Buyer has four days left to use of the 70-day limit but submits a Secondary Trade for nine days, the RAs consider that it is a Buyer's responsibility to keep track of the number of days remaining of the 70-day annual limit. Therefore, the RAs consider it reasonable that in an example such as the above,

where a Buyer has submitted in excess of their remaining limit, that the SOs would only consider the first four days and null the rest of the trade.

Issue 3

As outlined above, the RAs' understanding is that, logically, the limit should be applied to the Buyer side to address the risk raised there. Therefore, the RAs do not currently consider the need for a day-limit on the seller side. Nonetheless, there is a risk to the system if sellers are taking an unrealistic view of the volumes of capacity that can be made available above their Gross De-Rated Capacity. This is further discussed in section 2.1.4.

[2.1.4 Potential unintended consequences of current drafting](#)

The SOs' impact assessment highlights that there are several technology classes which have very low de-rating factors, due to factors such as low availability, short maximum on times, annual run hour limits and variability. The current drafting would allow all units to secondary trade up to their nameplate capacity regardless of what that figure is relative to their Gross De-Rated Capacity.

The RAs note that the use of derating factors is very important in the CRM given that they should reflect the actual contribution of capacity to system adequacy. If this drafting were implemented as currently written, the RAs are concerned that this could lead to gaming behaviour whereby units may decide to secondary trade far above their derated capacity. This concern is particularly felt due to the limited number of occasions that the Reliability Option has been triggered in recent years, which may incentivise higher risk-taking behaviour, including from Sellers.

The RAs therefore require a proposal to be made by the proposer to mitigate this risk. Such a proposal may include limiting the volume that a unit can secondary trade above their de-rated capacity volume to a certain percentage of their Gross De-Rated Capacity. Any proposal would need careful assessment, given that, for example, limiting the volume to a certain percentage of the GDRC would be more favourable to larger units. The RAs may also consider ways to ensure contract holders with poor availability are not incentivised to trade above their Gross De-Rated Capacity if they are unavailable.

3. SEM Committee decision on implementation

The SEM Committee notes that the go-live of the next phase of the Alternative Secondary Trading Arrangements will be implemented shortly (expected 29/04/26). This system change will introduce a new module within the CMP called 'Secondary Trading' and will allow participants to create, save, edit and submit Alternative Secondary Trade Notifications (ASTNs) and Interim Secondary Trade Notifications (ISTNs), and match ASTNs.

In order to facilitate this next phase of the programme, the SEM Committee has considered the legal drafting¹ for CMC_11_21 in the context of the SOs' impact assessment. There are two elements of CMC_11_21 which have not been flagged in the SOs' impact assessment and that are needed to ensure implementation of this next phase.

Regarding CMC_11_21, the change proposed to M.12.3.1 and M.12.3.2 are required at this stage; specifically, this change relates to the changing of the limit of 5 working days in these paragraphs to 2 hours. This change has the effect of:

- a. Altering the obligation on the SOs to validate Alternative Secondary Trade Notifications (ASTNs) and the Capacity and Trade Register within 2 hours, rather than 5 working days as per the current CMC.
- b. Altering the obligation on the SOs to reject a proposed Secondary Trade set out in an ASTN if the start of the proposed trade is prior to 2 hours, rather than 5 working days as per the current CMC.

The SEM Committee has therefore decided that these changes to **M.12.3.1 and M.12.3.2** included in CMC_11_21 are approved, and **that the effective date shall be the go-live date of the next phase of the Alternative Secondary Trading Arrangements.**

Regarding the other elements of the CMC_11_21 legal drafting, this effective date does not apply, given the considerable issues identified with the legal drafting outlined in the SOs' impact assessment and opined upon above. The RAs' expectations regarding next steps are outlined below.

¹ https://www.sem-o.com/sites/semo/files/documents/market-modifications/CMC_11_21/CMC_11_21ApprovedModificationTextDrafting.pdf

4. Next steps

It is clear from the RAs' review of the SOs' impact assessment that revised legal drafting is required in order to address the numerous issues identified with the current legal drafting. Given the possible nature of the proposed changes and the need for other market participants to be consulted in the process, the RAs invite the proposer to review this assessment and submit a revised Modification Proposal. This proposal should explicitly consider the issues raised in this note and focus on legal drafting to address these.

The RAs will then work with the SOs and the proposer to review the legal drafting, assess whether it addresses the issues raised and ensure that it can be implemented.