



**Single Electricity Market  
(SEM)**

**Capacity Market Code Urgent Modifications - Set 2**

**Consultation Paper**

**SEM-19-006**

**8 February 2019**

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Appendix A – Capacity Market Code Urgent Modifications – Set 2 Timetable

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# 1. OVERVIEW

## 1.1 ABSTRACT

- 1.1.1 The purpose of this consultation paper is to invite industry participants to provide feedback and comments in regards to the proposed modification to the Capacity Market Code (CMC) discussed at Working Group 4 held on 30<sup>th</sup> January 2019.
- 1.1.2 During Working Group 4, four modifications were presented with three of these modifications being deemed as Urgent. This consultation paper related to those three urgent modifications, with the fourth modification following the standard process and therefore does not form part of this consultation paper or process.

## 1.2 BACKGROUND

- 1.2.1 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 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 (TSC) (SEM-17-024) published in April 2017.
- 1.2.2 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.
- 1.2.3 The SO is required to facilitate the modification process via (but not limited to) the following:
- co-ordinating with the Parties to facilitate the development and processing of a Modification Proposal;
  - organising workshops for Parties to discuss Modification Proposals; and
  - compiling reports and making recommendations on Modification Proposals to the Regulatory Authorities.
- 1.2.4 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.
- 1.2.5 Modifications to the CMC can be proposed and submitted by anyone, at any time and 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.

1.2.6 The CMC includes the provision for a proposer to mark a Modification proposal as “Urgent”. In the event of a proposal being marked as urgent, 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 and request the SOs to convene a Working Group to discuss the proposed Modification.

1.2.7 Proposed modifications CMC\_01\_19 and CMC\_03\_19 have been deemed urgent by the RAs as they fulfil the requirement set out in B.12.9.3 (a):

*B.12.9.3 - A Modification Proposal shall be determined to be Urgent by the Regulatory Authorities where, in their opinion:*

*(a) the matter raised in the Modification Proposal is required before the next Capacity Auction or Secondary Trade Auction and could not otherwise be dealt with in time for the next such auction*

1.2.8 In the case of the proposed modification CMC\_02\_19, the RAs determined this modification is deemed urgent as it fulfils the requirement set out in B.12.9.3 (b) (i) (C) as a result of the expiry of the current contract with the SEM Bank.

*B.12.9.3 - A Modification Proposal shall be determined to be Urgent by the Regulatory Authorities where, in their opinion:*

*(b) (i) - the Modification Proposal has been proposed to deal with a matter that could reasonably be anticipated would imminently:*

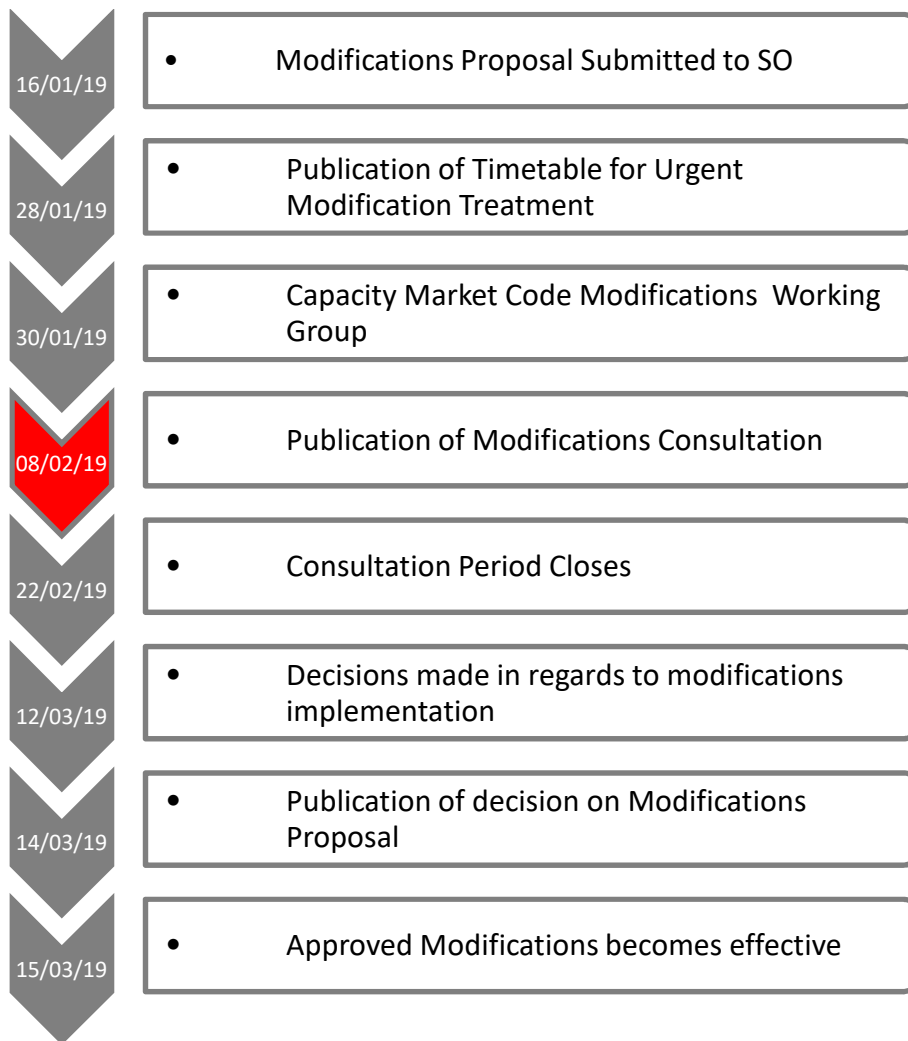
*(C) unduly interfere with, disrupt, or threaten the proper operation of the Capacity Market*

1.2.9 If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs shall 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.

1.2.10 The RAs, on 28<sup>th</sup> January 2019, published the timetable for the consideration, consultation and decision relating to the proposed Modifications and the Working Group to facilitate industry discussion of the modification (WG4) took place on 30<sup>th</sup> January 2019.

1.2.11 As stated within the CMC (sub-paragraph B.12.9.5 (a)) the normal processes involved in assessing a modification can vary, in this case to allow for the fast-tracking of the Modification, the RAs will proceed with a 10WD consultation period, as opposed to the 20WD period applied under the standard Modification process.

Figure 1: Capacity Market Code – Indicative Urgent Modifications Process



### 1.3 PURPOSE OF THIS CONSULTATION PAPER

- 1.3.1 Working Group 4 took place on 30<sup>th</sup> January 2019, during which three proposed modifications deemed urgent were presented and discussed.
- 1.3.2 To allow for clarity in regards to the timelines for assessing the proposed modification, the RAs published the timetable for moving forward with the proposed Modification, as required under CMC subparagraph B.12.9.5 (a) on the 28<sup>th</sup> January 2019 in advance of the Working Group subsequently held on 30<sup>th</sup> January 2019. As part of this timetable, the RAs stated the aim to progress the proposed modifications to the consultation phase, with a paper being published on 8<sup>th</sup> February 2019. The modifications timetable is shown in Appendix A.
- 1.3.3 The purpose of this paper is to consult on the proposed urgent Modifications presented at the Working Group (WG4) and the RAs invite interested parties to make written submissions providing feedback in regards to the proposed urgent Modifications.

- 1.3.4 Upon closure of the consultation process the RAs intend to assess all valid submissions received and form a decision to either implement or reject the modification or undertake further consideration in regards to matters raised through the consultation process in regards to the proposed urgent modifications.

## 2. MODIFICATION PROPOSALS

### 2.1 INTRODUCTION

- 2.1.1 The three proposed Urgent Modifications to the CMC were presented at WG4 held on 30<sup>th</sup> January 2019. The Proposals were submitted by the Regulatory Authorities (RAs), the System Operators (SOs) and the Single Electricity Market Operator (SEMO).
- 2.1.2 Each proposed modification was presented by the proposer and feedback from attendees subsequently provided.
- 2.1.3 An overview of the proposed modifications, along with the justifications and workshop feedback is set out below. For full details of the proposed Modifications, the templates for the proposals discussed at the Working Group are listed in Appendix B.

### 2.2 CMC\_01\_19 – INTERIM SOLUTION FOR CONDUCTING CAPACITY AUCTIONS

#### Proposer: RAs

#### Proposal Overview

- 2.2.1 The Modification proposes to reflect the State Aid decision<sup>1</sup> to disallow the clearing of additional capacity to resolve local capacity constraints within an auction. This is facilitated by the enduring auction solution set out in chapter F of the CMC but is prevented in the Interim Solution laid out in section M.4.
- 2.2.2 The need for this Modification was explicitly recognised in the T-4 Parameters Decision for CY2022/23 (SEM-18-155)<sup>2</sup> in paragraph 3.5.2.
- 2.2.3 The modification proposes the removal of sub-paragraph M.4.1.2(b), the removal of paragraph M.4.1.6 and the modification of sub-paragraph M.6.1.7(a).

<sup>1</sup> State Aid Decision: [http://europa.eu/rapid/press-release\\_IP-17-4944\\_en.htm](http://europa.eu/rapid/press-release_IP-17-4944_en.htm)

<sup>2</sup> Parameters for T-4 2022/23 Capacity Auction: <https://www.semcommittee.com/sites/semc/files/media-files/SEM-18-155%20CRM%20T-4%20CY202223%20Parameters%20Decision%20Paper.pdf>

- 2.2.4 With M.4.1.6 in place, this over-writes sub-paragraph F.8.4.4(c) resulting in the Interim Solution for the auction being prevented from reducing the volume scheduled for both flexible and inflexible offers determined from the unconstrained schedule produced in sub-section F.8.3. This prevents compliance with the State aid decision.
- 2.2.5 This modification has been deemed urgent as implementation is required in advance of the publication of the upcoming T-4 CY2022/23 Capacity Auction, due to take place on 28<sup>th</sup> March 2019.

### **Working Group Feedback**

- 2.2.6 The RAs noted that an alternative approach to the proposed Modification would be for the RAs to use their powers under M.4.1.1 not notify the System Operators to stop applying the Interim Auction Solution set out in M.4. This would deal with the issue of M.4.1.6 but would also lose the sequence of tied offer clearing set out in M.4.1.2 to M.4.1.5.
- 2.2.7 The SOs stated that the continued use of the Alternative Auction Solution Methodology, established under M.6, would mean that there would be no impact on the auction results from the loss of M.4.1.2 to M.4.1.5.
- 2.2.8 Attendees highlighted that there was not enough detail on the alternative approach (ending use of the Interim Auction Solution) to be certain that it would produce the same results from the auction as the proposed Modification. A worked example showing both approaches and their impact, with focus on tie breaking, was requested in the consultation paper. The SOs agreed to provide the RAs with such an example
- 2.2.9 The RAs clarified that the consultation paper would cover both approaches and would include the worked examples provided by the SOs. See the Appendix for these worked examples<sup>3</sup>.

### **Minded To Position**

- 2.2.10 The SEM Committee are minded to approve this Modification proposal to ensure compliance with EC State Aid approval.

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<sup>3</sup> The Appendix will be made available following its provision by the System Operators.

## 2.3 CMC\_02\_19 – NEGATIVE INTEREST

### Proposer: SEMO

#### Proposal Overview

- 2.3.1 This modification proposes to permit SEMO to introduce Negative Interest on credit balances held with the SEM Bank in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators.
- 2.3.2 The modification proposes amendments to section J.3.3.2 of the CMC to include reference to Reserve Account being an interest-bearing account, with this interest being either a negative or positive amount.
- 2.3.3 SEMO highlighted that reference rates have been negative since June 2014 and at a value of -0.4% since March 2016. The further elaborated that the SEM Bank has not applied these negative rates to SEM deposits to date and have absorbed this cost.
- 2.3.4 It was stated that the inability of the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.

#### Working Group Feedback

- 2.3.5 SEMO advised that the role of SEM Bank would shortly be re-tendered as the existing contract expires in 2019. SEMO expected that all responses to the tender would seek to charge negative interest and so the current situation could not continue.
- 2.3.6 A query was raised around the tendering process in relation to the SEM Bank and whether as part of this process would Market Participants be informed of any negative interest rates that have been proposed. SEMO stated that as part of the tender process they will be advised of negative interest rates by those applying, they have also advised that upon confirmation of the successful tenderer, Market Participants will be advised of the interest rates that would be applied.
- 2.3.7 SEMO also confirmed that the Tender process has been initiated, however weren't in a position to confirm when the tender process would be concluded.
- 2.3.8 One attendee requested clarity around replenishment of accounts if negative interest rates were to be applied. It was put forward that this would create an extra burden on Participants and whether there would be a grace period applied to allow for accounts to be replenished. SEMO confirmed that Participants would be able to avail of account statements and would be updated on a quarterly basis allowing them time to replenish accounts if required.
- 2.3.9 SEMO also confirmed, upon a request to clarify, that performance securities in the form of a Letters of Credit would not be affected by this proposed modification and that this modification would only be applicable to Performance Securities and not the Socialisation Fund, as the latter



is part of the TSC rather than the CMC. However, the SEMO did advise that there are plans to propose a modification to the TSC to introduce negative interest rates to the Socialisation Fund.

2.3.10 SEMO wished to highlight that the introduction of negative interest rates would only be applicable to Euro (€) figures and not to Pound Sterling (£) values.

### Minded To Position

2.3.11 The SEM Committee are minded to approve the Modification to enable successful conclusion of the tender for the SEM Bank, subject to the provision by SEMO of satisfactory drafting for the proposed modification to B.7.2.1.

2.3.12 The SEM Committee will seek to ensure that this Modification remains consistent with the Modification required to handle the same issue in the Trading and Settlement Code.

## 2.4 CMC\_03\_19 – TREATMENT OF EXEMPT PRICE-QUANTITY PAIRS

### Proposer: SOs

### Proposal Overview

2.4.1 This modification has been proposed to ensure that certification of the Capacity Market Platform is valid were the following conditions to arise in the upcoming CY2022/23 T-4 auction:

- New Capacity has qualified with a Maximum Capacity Duration exceeding a single Capacity Year; and
- The Regulatory Authorities have exempted New Capacity under paragraph F.4.1.9 of the Capacity Market Code.

2.4.2 This situation requires that capacity is qualified as having a Maximum Capacity Duration exceeding a single Capacity Year and there is exempted New Capacity.

2.4.3 The SOs highlighted that in the previous round of certification the Capacity Market Auction was not certified to cover a situation where the above conditions occur.

2.4.4 The Modification proposes to introduce text into sub-paragraph F.8.4.4 (f) of the CMC that would require the System Operators to not clear any price quantity pairs with a price greater than the Auction Clearing Price and an offer capacity duration of greater than one year to satisfy a Locational Capacity Constraint or to maximise Net Social Welfare until all applicable price-quantity pairs with an offered capacity duration of one year have been cleared.

2.4.5 The modification also proposes to add the definition of *Exempt Price-Quantity Pair* to the glossary section within the CMC.

- 2.4.6 The SOs advised the modification is required to ensure that the System Operator can apply the rules of the Capacity Market Code in respect of the Capacity Auction when considering Exempt Price Quantity Pairs. They further elaborated that currently the CMC prevents Exempt Price Quantity Pairs from being accepted before one year offers for Locational Capacity Constraints; however, the algorithm for clearing the auction cannot distinguish between preventing Exempt Price-Quantity Pairs from being accepted before one year offers for Locational Capacity Constraints and preventing Exempt Price-Quantity Pairs from being accepted before one year offers for the purposes of maximising Net Social Welfare.

### Working Group Feedback

- 2.4.7 A query was raised in regards to whether or not the proposed drafting of the modification has been legally reviewed. The SOs advised that the Algorithm itself requires certification before it can be used and this certification ensures that it is compliant with the CMC. The SOs have advised that processes to date have identified this issue which the CMC did not cover in terms of exempted units being used to resolve ‘lumpiness’.

With this being the case, the SOs confirmed that were the modification be approved for implementation the algorithm would undergo re-certification. Whilst this process provided a degree of assurance, it was not equivalent to conducting a legal review.

- 2.4.8 Several attendees queried the use of the word “applicable” within the proposed drafting of subparagraph F.8.4.4 (f) of the modification. Clarification was requested as to the use of the word, as opposed to specifying Locational Capacity Constraints (LCC). The SOs stated that this term was used in the sense that “applicable price-quantity pairs” are those that can satisfy both LCCs and Social Welfare. However, the SOs will look at the drafting of the modification to make this clearer.

- 2.4.9 An attendee was concerned that the modification could allow the auction to a unit not in a LCC zone, with a long term contract, before a unit that has obtained a one year contract. The SOs stated that new units can clear ahead of existing capacity *only* if they have a lower price, i.e. they cleared in the “unconstrained” auction solution set out in F.8.3.

### Minded To Position

- 2.4.10 The SEM Committee are minded-to approve the Modification, subject to a review of the detailed drafting, to ensure that the auction systems are fully compliant with the CMC.

### 3. CONSULTATION QUESTION

- 3.1.1 The SEM Committee welcomes views and responses on the proposed modifications raised within this consultation paper.
- 3.1.2 Respondents are invited to provide comments and feedback for each of the proposed Modifications in respect of:
- the proposed modification and its consistency with the Code Objectives;
  - any impacts not identified in the Modification Proposal Form, e.g. to the Agreed Procedures, the Trading and Settlement Code, IT systems etc.; and
  - the detailed CMC drafting proposed to deliver the Modification.
- 3.1.3 A template has been provided in Appendix C for the provision of responses.

### 4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision by the middle of March 2019 on the implementation of the Modifications outlined within this consultation paper.
- 4.1.2 Responses to the consultation paper should be sent to Kevin Lenaghan ([Kevin.Lenaghan@uregni.gov.uk](mailto:Kevin.Lenaghan@uregni.gov.uk)) and Billy Walker ([Billy.Walker@uregni.gov.uk](mailto:Billy.Walker@uregni.gov.uk)) by 17.00 on Friday, 22<sup>nd</sup> February 2019.
- 4.1.3 Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.