MODIFICATION PROPOSAL FORM			
Proposer *(Company)*	**Date of receipt** *(assigned by System Operator)*	**Type of Proposal** *(delete as appropriate)*	**Modification Proposal ID** *(assigned by System Operator)*
System Operators	16 January 2019	Urgent	CMC_03_19
Contact Details for Modification Proposal Originator			
Name	**Telephone number**		**Email address**
Aodhagan Downey			Aodhagan.Downey@eirgrid.com
Modification Proposal Title			
Treatment of Exempt Price-Quantity Pairs			
Documents affected *(delete as appropriate)*	**Section(s) Affected**		**Version number of CMC used in Drafting**
CMC	F.8, Glossary		1.0
Explanation of Proposed Change *(mandatory by originator)*			

In the prior round of certification, the Capacity Market Auction was not certified for use in a situation where:

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

The situation requires that capacity is qualified as having a Maximum Capacity Duration exceeding a single Capacity Year and there is exempted New Capacity. This Modification Proposal is being submitted to ensure that the certification of the Capacity Market Platform is valid were these conditions to arise in the upcoming 22/23 T-4 auction.

The background to this issue is as follows:

1. Paragraph F8.4.4.f of the Capacity Market Code requires that exempted New Capacity clear for the purpose of satisfying a Locational Capacity Constraint only after all offers with a duration of one Capacity Year have cleared.

2. The purpose of paragraph F8.4.4.f is understood to be to avoid the possibility of awarding capacity for duration longer than a Locational Capacity Constraint may exist.

3. The requirement of paragraph F8.4.4.f is addressed in the auction systems by applying a very large fixed cost adder to impacted offer prices from exempted New Capacity. To achieve this outcome the value of the fixed cost adder must be significantly greater than the value of any demand curve price or price cap used in the auction.

4. Having completed processes to satisfy Locational Capacity Constraints the Capacity Market Code allows for additional capacity be cleared if this will improve Net Social Welfare.

The source of non-compliance is that the auction systems apply the large cost adder in the processes described in point 4, but paragraph F8.4.4.f only applies to the processes for satisfying Locational Capacity Constraints.

In addition, the large cost adder means that exempted new capacity cannot be tied with other capacity with the same price or same price and quantity.

This Modification Proposal seeks to introduce text into paragraph F.8.4.4(f) that requires the System Operators to not to 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.

The word *applicable* is used here to allow exempt offers to be cleared to satisfy a Locational Capacity Constraint if none of the remaining one year duration offers can contribute to the Locational Capacity Constraint.

F.8.4.3   Any price-quantity pair associated with New Capacity with both:

(a)   a price greater than the Auction Clearing Price; and

(b)   an offered capacity duration greater than one Capacity Year,

shall be cleared to a level of zero MW and shall not otherwise be considered in the process described in this section **Error! Reference source not found.**, ~~except where the relevant Capacity Market Unit has been exempted from the application of this paragraph by the Regulatory Authorities under paragraph F.4.1.9~~unless it is an Exempt Price Quantity Pair.

> Commented [AD1]: This change is proposed to make text easier to read now that the term Exempt Price-Quantity Pair has been defined.

F.8.4.4   Subject to paragraphs **Error! Reference source not found.**, F.8.4.6A and **Error! Reference source not found.**, the System Operators shall determine the remaining price-quantity pairs contained in Capacity Auction Offers cleared in a Capacity Auction by applying the following rules:

(f)   ~~price-quantity pairs relating to a Capacity Market Unit to which paragraph F.8.4.3 applies and which has been exempted under paragraph F.4.1.9~~Exempt Price-Quantity Pairs are not to be cleared to satisfy a Locational Capacity Constraint or to maximise Net Social Welfare until all ~~Capacity Market Units~~applicable price-quantity pairs with an offered capacity duration of one Capacity Year ~~that contribute to satisfying that Locational Capacity Constraint~~ have been cleared.

> Commented [AD2]: This is core change that prevents the clearing of Exempt Price-Quantity Pairs before the clearing of *applicable* one year price-quantity pairs for Locational Capacity Constraints and also for maximising Net Social Welfare.

F.8.4.6A   Exempt Price-Quantity Pairs and price-quantity pairs with offered capacity durations of one Capacity Year that have the same price or the same price and quantity shall not be considered as tied price-quantity pairs for the purposes of paragraph F.8.4.6.

> Commented [AD3]: This is introduced to reflect that Exempt Price-Quantity Pairs are not tied with one year price-quantity pairs. E.g. a clean Exempt Price-Quantity Pair should not displace a non Clean one year price-quantity pair with the same price in case of flexible offers or same price and quantity in the case of inflexible offers.

Glossary Term

| **Exempt Price-Quantity Pair** | means a price-quantity pair with a price greater than the Auction Clearing Price and an offered capacity duration greater than one Capacity Year, where the relevant Capacity Market Unit has been exempted from the application of paragraph F.8.4.3 by the Regulatory Authorities under paragraph **Error! Reference source not found.**. |

This 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. The current 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.

The term Exempt Price-Quantity Pair is defined to make the paragraphs easier to read and to address some inconsistency in the current text. These price-quantity pairs require specific treatment in a number of places in the CMC and therefore the creation of a defined term is considered to be justified.

The use of the defined term also addresses existing circularity in the references. The current wording refers to price-quantity pair to which paragraph F.8.4.3 applies and where the Capacity Market Unit has been exempt from the application of paragraph F.8.4.3 under F.4.1.9. If the Capacity Market Unit has been exempt from F.8.4.3. then we cannot refer to price-quantity pairs to which F.8.4.3 applies as they are exempt from the application of F.8.4.3. This is resolved by defining Exempt Price-Quantity Pair in terms of the criteria that apply for F.8.4.3 rather than F.8.4.3 itself.

| **Code Objectives Furthered** |
| *(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)* |

(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;

| **Implication of not implementing the Modification Proposal** |
| *(State the possible outcomes should the Modification Proposal not be implemented)* |

Absent any appropriate change in the CMC (or software) the existing restriction on certification will remain. If there are exempt offers with a maximum duration of greater than one and an offer price greater than the auction clearing price, the auction platform would no longer certified.

| **Impacts** |
| *(Indicate the impacts on systems, resources, processes and/or procedures)* |

No systems changes are required as this approach is already implemented in CMP.

Please return this form to the System Operators by email to CapacityModifications@sem-o.com

Notes on completing Modification Proposal Form:

1. **If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.**
2. **Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Regulatory Authorities.**
3. **Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.**
4. **For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:**

   CMC / Code: means the Capacity Market Code for the Single Electricity Market

Modification Proposal: means the proposal to modify the Code as set out in the attached form

Derivative Work: means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal

The terms "System Operators" and "Regulatory Authorities" shall have the meanings assigned to those terms in the Code.

In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section B.12 of the Code, which I have read and understand, I agree as follows:

1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:

    1.1 to the System Operators and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;

    1.2 to the Regulatory Authorities to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;

    1.3 to the System Operators and the Regulatory Authorities to incorporate the Modification Proposal into the Code;

    1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.

2. The licences set out in clause 1 shall equally apply to any Derivative Works.

3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.

4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.

5. I hereby acknowledge that the Modification Proposal may be rejected by the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.