



**Single Electricity Market
(SEM)**

**Capacity Market Code Modifications –
Working Group 6 Consultation Paper**

SEM-19-034

8 July 2019

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Appendix A – Capacity Market Code Modifications – Working Group 6 Timetable

Appendix B – Proposed Modifications

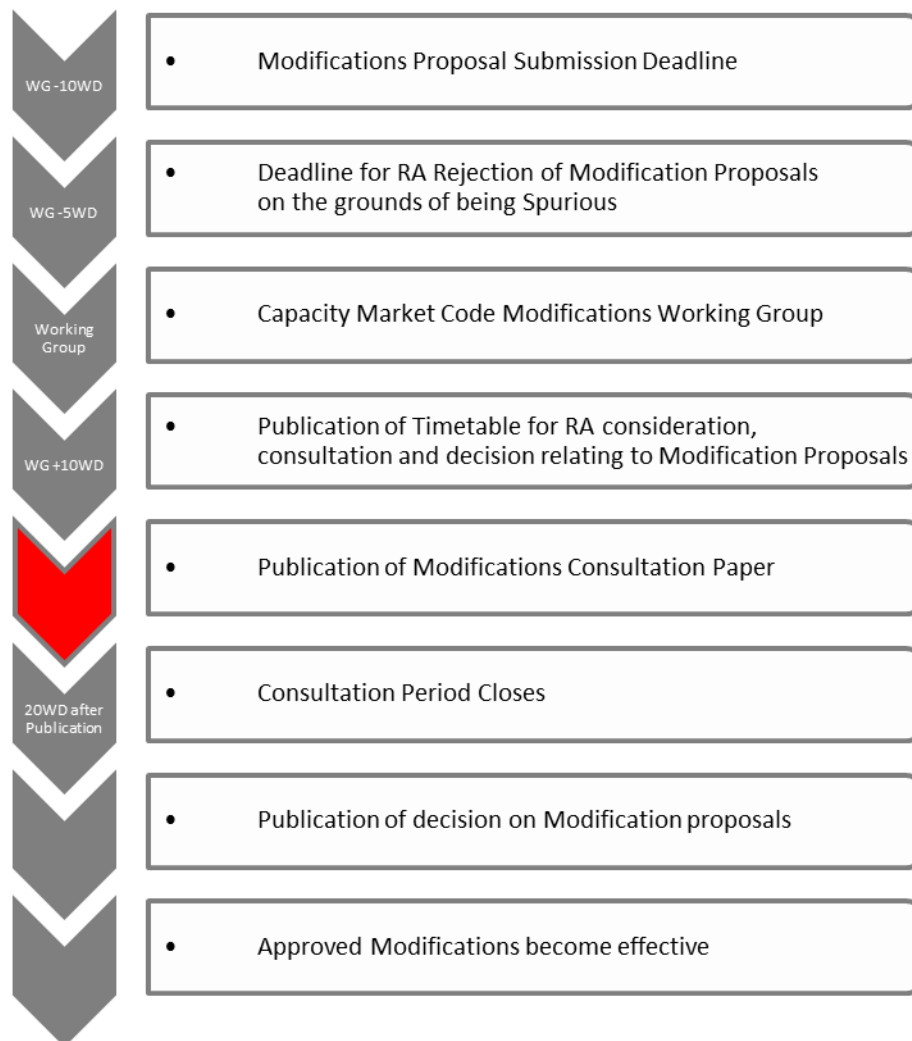
Appendix C – Response Template

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 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.
- 1.1.2 Section B.12 of the CMC outlines the process used to modify the code. In particular, it sets out the handling of proposing, consideration, consultation and implementation or rejection of Modifications to the CMC.
- 1.1.3 The purpose of the Modifications process is to allow for modifications to the CMC to be proposed, considered and, if appropriate, implemented with a view to better facilitating code objectives as set out in Section A.1.2 of the CMC.
- 1.1.4 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.
- 1.1.5 For discussion at a Working Group, Modification proposals must be submitted to the SOs 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 If a proposal is received and deemed to be contrary to the Capacity Market Code Objectives or does not further any of those objectives, the Regulatory Authorities (RAs) will reject the proposal on the grounds of being spurious, as set out in section B.12.6 of the CMC.
- 1.1.7 A proposer may choose to mark a Modification proposal as “Urgent”. In this case, the RAs, as per section B.12.9.3 of the CMC, will assess whether or not the proposal should be treated as urgent. If the RAs deem a proposal to be urgent they have the power to fast-track the proposal and request the SOs to convene a Working Group to discuss the proposed Modification.
- 1.1.8 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. Dependent on the level of complexity of proposed modifications, the RAs may choose to consult on some, or all modifications discussed during a Working Group and subsequently form a decision based on this.
- 1.1.9 The consultation period is 20 working days and following the closure of this period the RAs will form their decisions in relation to the modification(s) as soon as reasonably practical after the end of the consultation process.

Figure 1: Capacity Market Code – Modifications Process Overview



1.2 PURPOSE OF THIS CONSULTATION PAPER

- 1.2.1 Capacity Market Code Working Group 6 took place on 23rd May 2019, during which two proposed modifications were presented and discussed.
- 1.2.2 The RAs subsequently published the required timetable for moving forward with the proposed Modification on 6th June 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 8th July 2019. The modifications timetable is shown in Appendix A.
- 1.2.3 The purpose of this paper is to:
- Consult on the proposed modifications presented at Working Group 6;

- Assess responses and based on these, along with the submitted revised template by the modification proposer and the report compiled by the SOs, the RAs form a decision to either:
 - a. Implement the modification;
 - b. Reject the modification; or
 - c. Undertake further consideration in regards to matters raised in the modification proposal.
- 1.2.4 The RAs invite Market Participants and the System Operator to make written submissions providing feedback in regards to the proposed modifications.
- 1.2.5 Upon closure of the consultation process the RAs intend to assess all valid submissions received and form a decision to either implement or reject a modification or undertake further consideration in regards to matters raised through the consultation process in regards to the proposed modification.

2. MODIFICATION PROPOSALS

2.1 INTRODUCTION

- 2.1.1 Both proposed modifications to the CMC were presented at WG6 held on 23rd May 2019. Proposals were submitted by the RAs and SOs.
- 2.1.2 The proposed modifications were presented and feedback from attendees subsequently provided.
- 2.1.3 An overview of each proposed modification, along with the justification 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 given in Appendix B.

2.2 CMC_05_19 – GENERAL HOUSEKEEPING MODIFICATIONS

Proposer: RAs

Proposal Overview

- 2.2.1 The Modification proposes to correct a number inconsistencies and typographical errors within the CMC.
- 2.2.2 The modification proposes amendments to paragraph F.5.1.2 (b), J.4.3.5, J.5.1.2, J.5.1.3 and F.8.2.1 (b) (ii).

2.2.3 The RAs proposed this modification as it is required to avoid ambiguity in regards to the provision of the final Annual Capacity Payment Exchange Rate and corrects general typographical errors.

2.2.4 As part of the proposal the RAs intent to correct sub-paragraph F.5.1.2 (b) which states:

“F.5.1.2 The System Operators shall use reasonable endeavours to publish the Final Auction Information Pack for a Capacity Auction by the later of:

(b) two Working Days after the last of the date the **Regulatory Authorities provide** the Demand Curve and **the final Annual Capacity Payment Exchange Rate for the Capacity Auction** to the System Operators.”

2.2.5 It is the responsibility of the SOs to provide the final Annual Capacity Payment Exchange Rate. This is stated correctly in paragraph F.5.1.1.

2.2.6 Upon assessing the proposed modification CMC_06_19 it was discovered that an amendment to modification CMC_05_19 would also be required. At a follow up working group related to CMC_06_19 an attendee referred to Appendix E.3 (b) (ii) and its links to the proposed modification. After that follow up Working Group, the RAs noted that this section of the CMC contains a typographical error whereby a reference to section E.8.8.1 has been duplicated.

3 Qualification Decisions

(b) for each Capacity Market Unit:

(ii) the Gross De-Rating Factor for each Capacity Market Unit ($FDERATE\Omega$) where this is the value determined in accordance with paragraph **E.8.8.1E.8.8.1(c)**, **E.8.8.2(e)** or **E.8.8.3(d)** as applicable ...

2.2.7 Given the nature of the proposed housekeeping modifications to the CMC, the RAs under, CMC B.12.11.4, deem this additional change to be covered by the principles of this modification and have therefore added this to the Housekeeping modifications proposal.

2.2.8 This change has been reflected within the proposed modification template for CMC_05_19 and an updated version has been included in Appendix B.

Working Group Feedback

2.2.9 One attendee questioned the justification for not including a timeline to which the RAs are bound when providing information crucial to the publication of the Final Auction Information Pack. They further elaborated that with there being no requirement within the code that states the RAs must provide the information to allow for the publication of the FAIP participants are in the position whereby the FAIP could be published immediately before a Capacity Auction is due to take place. Whilst they highlight that this wouldn't constitute a breach of the CMC, it does however lead to concern in regards to Auction participant's preparation for said auction.

- 2.2.10 It was pointed out that whilst in previous Capacity Auctions (T-1 CY2018/19 and T-1 CY2019/20) the FAIP was published two weeks ahead of the capacity auctions, the FAIP relating to the T-4 CY2022/23 was published significantly closer to the auction run start. This forms the basis of the concerns around future publications being even closer to a capacity Auction.
- 2.2.11 The RAs stated that the timelines relating to the publication of the FAIP are more generally represented within the Capacity Auction Timetable and that this broadly sets out the context to which the RAs work. The RAs noted that while actions can be set out in the timetable, if for any reason the RAs are unable to provide the required information, then the System Operators are unable to publish the FAIP, which is the justification for the inclusion of F.5.1.2 within the CMC. Whilst this is included, the RAs do expect that provision of the required data would take place in sufficient time so as to allow the publication to line up with the Capacity Auction Timetable.
- 2.2.12 The RAs reiterated that they would always intend to ensure that participants have sufficient notification of the FAIP in regards to a Capacity Auction and that there should normally be a two week gap between publication of the FAIP and a Capacity Auction and that they wouldn't see any clear issue at the moment.

Minded To Position

- 2.2.13 To avoid any ambiguity and to ensure duplicated references are removed, the SEM Committee are minded to approve this Modification proposal.

2.3 CMC_06_19 – MODIFICATION TO THE PROPORTION OF DELIVERED CAPACITY CALCULATION

Proposer: SOs

Proposal Overview

- 2.3.1 This modification was proposed by the System Operator and was raised as a result of issues that had been flagged up at several Q&A sessions that preceded previous auctions. The SOs advised the proposal results from participant feedback around a general lack of clarity around what constituted how the Proportion of Delivered Capacity (PDC) is calculated.
- 2.3.2 The SOs advised that the calculation of PDC in the CMC is not clear. On one hand, G.3.1.4 compares Grid Code Commissioned Capacity to Initial Capacity.

On the other hand, where there are multiple tranches of New Capacity, G.3.1.5 allows for the reduction of the Initial Capacity to be taken into account, e.g. in the drafting “that other Tranches that Qualified but were not allocated the full amount in the relevant Capacity Auction”.

2.3.3 G.3.1.4 currently implies that delivered capacity should be measured against Initial Capacity, however, the SOs highlighted several instances where Awarded New Capacity could be significantly less than the de-rated Initial Capacity (New). These include:

- Where a participant may have qualified less than its de-rated capacity based on Initial Capacity (New) using a DECTOL of a value greater than zero;
- Where a participant may decide that in approaching an auction it may consider offering less than its full qualified capacity in an auction;
- Where a participant may offer in all its qualified capacity but not all of the offered capacity is cleared. This would mean that the awarded capacity could be less than the Initial Capacity (New).

The SOs consider that it is not reasonable to expect the delivery of Awarded New Capacity to be assessed against Initial Capacity (New). They stated their belief that PDC should be measured against the Awarded New Capacity as obligations under the CMC pertain to Awarded Capacity.

Working Group Feedback

2.3.4 One attendee advised of their agreement with the principle behind the modification, however raised a concern in regards to the impact the modification may have on subsequent auctions. Looking at the qualification data to hand, DSUs that are not required to hold firm network access and the attendee stated their concerns that opening this could be seen to be encouraging speculative bidding.

2.3.5 The System Operator advised that the intention is not to move away from any current practice. They explained that a participant wishing to qualify New Capacity is required to provide evidence supporting their application and that the System Operator will always consider qualification applications based on the requirements of the Code and that Implementation Plans are assessed to ensure they are achievable within the required timeframes.

2.3.6 The System Operator also stated that there is a required level of progress to be reported before a participant can get through the process which, in conjunction with the previous comments, provides a check on speculative bidding. The System Operator reiterated that if a participant enters capacity into an auction and is awarded capacity, the unit is held accountable for delivering that capacity.

2.3.7 The RAs agreed with the principle that units may not be awarded all of their qualified capacity and that performance should be measured against awarded capacity, in line with the decisions made in the CRM Detailed Design Decision Paper ¹ (SEM-16-022). The RAs agreed with the System Operator that using the De-rated Grid Code Capacity does appear to be a sensible approach.

¹ SEM-16-022 - <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-16-022%20I%20SEM%20CRM%20Detailed%20Design%20Decision%20Paper%20.pdf>

However, the RAs noted that there are some nuances in how we define the De-rated Grid Code Capacity. For example, if a unit uses a DECTOL the use of standard technology de-rating factors may not be the most appropriate to use.

2.3.8 For DSUs and Storage units, the de-rated capacity will be dependent on the length of time for which capacity can be delivered and this would need to be taken into account in determining PDC. The RAs stated that to allow for this, drafting changes to the modification proposal would be required. The System Operator agreed with these comments and advised that amendments would be made to the drafting to reflect the above comments.

2.3.9 The RAs suggested that drafting changes to cover use of DECTOL and capacity duration would best be made before proceeding with the consultation process. To facilitate this, it was agreed that:

- the SOs would provide of an updated version of CMC_06_19 alongside the System Operator Working Group report;
- a follow up working group would be scheduled date to allow for the updating text to be finessed and subsequently presented for discussion ahead of the consultation process.

2.3.10 The follow up working group took place on 19th June 2019.

Follow Up Working Group Feedback

2.3.11 The updated version of the proposed modification was circulated by the System Operators on 18th June 2019 and subsequently discussed at the follow up Working Group on 19th June 2019.

The System Operator provided the rationale for the submission of CMC_06_19 v.2, stating that at Working Group 6, whilst attendees recognised the merit in the proposed changes to the Code, there were a number of concerns raised that required attention. These issues related to:

- Where a CMU voluntarily applies DECTOL, effectively nominating less de-rated capacity and therefore being de-rated further than the published de-rating factors (DRF) published in the appropriate Initial Auction Information Pack (IAIP), this results in the delivery of capacity not being measured against the original DRF, but instead against the effective DRF that they have submitted; and
- The treatment of duration where having a longer or shorter available duration (in the case of DSUs and storage units) will have an effect on the DRF. The current drafting within the CMC in this situation is not explicit and therefore to ensure there can be no ambiguity around the calculation of PDC it is necessary to introduce more detail drafting in version 2 of the modification.

The System Operator provided a walkthrough of the proposed modification, highlighting that at WG6 the modification submitted focussed on chapter G of the CMC, specifically making changes to the Proportion of Delivered Capacity and their associated calculations.

In order to address the issues presented at WG6 and outlined in the paragraphs above, the SOs advised that the introduction of additional text within Chapter C and the Glossary was required.

They further elaborated that these changes were specifically required to bring the concept of duration, involving Maximum On Time (Down Time in the case of DSUs) when calculating DRFs, into the Code.

- 2.3.12 The RAs commented that with the updated text within the proposal the modification would work, however raised a query around the inclusion of the term Initial Maximum On Time (Total) (IMOT (T)), as defined in C.3.7.3 and C.3.7.4 of the proposal. The RAs stated that this data is not currently received by the RAs or System Operator and with this being the case this variable would need to be submitted as part of the Qualification data. The System Operator agreed with this point and queried if an update to Appendix D would be required.

The RAs confirmed this would be the most suitable section for the addition. They noted that inclusion in Appendix D of the CMC would result in this variable being included in the validation checks currently in the Code.

- 2.3.13 The RAs also noted that if a storage unit or DSU did not submit this data a value for IMOT could be required to be deemed from data currently included in existing certificates for the unit. The RAs justified this by advising it is to ensure the completeness of data. The System Operator advised this was considered, however would require a large amount of text to cover this when there is already text included that covers what would happen when initial capacities are different. They did however acknowledge the point and stated there is justification for the inclusion of a paragraph to reference this.

It was also highlighted that with the change to Appendix D being required, the impacts statement within the modification template would also require updating.

- 2.3.14 One attendee requested the System Operator provide an explanation as to the use of IMOT(E) in some cases and IMOT(T) in others within the proposal text. The SOs explained that IMOT(E) covered existing capacity while IMOT(T) covered all capacity, both Existing and New. The convention followed that already used for Initial Capacity in the Code.

- 2.3.15 One attendee highlighted a typographical error within the proposed text. They advised that in paragraph C.3.7.2 the text states “... based on the Final Compliance Certificate, Operational Certificate or Final Operational Notification for that **Generator Unit or Interconnector** under the applicable Grid Code”.

It was queried whether this should be updated as this should refer to DSUs. The System Operator agreed with this and advised this is to be updated to reflect the correct text.

- 2.3.16 A query was raised as to how the Performance Securities values would be calculated going forward and clarification was requested whether it was the intention of the modification to deal with this. The System Operator advised that for the calculation for calculating Performance Securities has broadly been the same for each auction to date. They advised that this calculation was originally based on the text within chapter G of the CMC.

The calculation deals with un-derated terms and compared Grid Code Commissioned Capacity (also un-derated) against Initial Capacity.

The System Operator further elaborated that C.3.1.5 deals with the reduction in Initial Capacity values where capacity has not been allocated resulting in essentially measuring against what was awarded, rather than what was qualified.

The System Operator however advised that the current process of calculating Performance Securities would remain the same if this modification proposal were to be implemented.

2.3.17 It was queried the term “Gross De-Rated Factor” in the proposed drafting under G.3.1.4A (b) was referring to. The System Operator noted that this is covered in E.8.8 of the CMC, while the RAs noted that the specific value to be used is the one set out in Appendix E.3 (b) (ii):

(ii) the Gross De-Rating Factor for each Capacity Market Unit ($FDERATE_n$) where this is the value determined in accordance with paragraph E.8.8.1E.8.8.1(c), E.8.8.2(e) or E.8.8.3(d) as applicable (and allowing for paragraph E.8.8.4), with the exception that this is to be replaced by the value determined in accordance with paragraph E.8.8.1(b), E.8.8.2(d) or E.8.8.3(c) as applicable in the event that New Capacity is not Awarded Capacity in the Capacity Auction or if all the Awarded Capacity in respect of New Capacity is terminated. For the avoidance of doubt, the Gross De-Rating Factor for a Capacity Market Unit which has Qualified in respect of New Capacity does not change solely as a result of it being allocated an amount of Awarded New Capacity in the Capacity Market Unit but the amount allocated is less than the amount of New Capacity Qualified in respect of that Capacity Market Unit

2.3.18 During the follow up Working Group, and as outlined above, a number of additional updates to the proposed modification were discussed. These changes were included in the updated Modification CMC_06_19 v.3 which was published on 28 June 2019. This updated version can be found in Appendix B.

Minded To Position

2.3.19 To ensure clarity and remove any ambiguity in regards to the calculation of the Proportion of Delivered Capacity within the CMC the SEM Committee are minded to approve this proposed modification for implementation.

3. CONSULTATION QUESTION

- 3.1.1 The SEM Committee welcomes views and responses on the proposed modification 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 modifications and their consistency with the Code Objectives;
 - any impacts not identified in the Modification Proposal Forms, e.g. to the Agreed Procedures, the Trading and Settlement Code, IT systems etc.; and
 - the detailed CMC drafting proposed to deliver the Modifications.
- 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 mid-September 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) and Billy Walker (Billy.Walker@uregni.gov.uk) by 17.00 on Wednesday, 7th August 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.