



**Single Electricity Market
(SEM)**

Capacity Market Code Working Group 14

Modification Consultation Paper

SEM-20-056

14 August 2020

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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 the Working Group held on 23 July 2020.

1.1.2 During this Working Group, two modifications were presented. This consultation paper relates to:

➤ **CMC_10_20 – Change to determinations made in F.4.1.1**

This modification proposal provides for a change in the determinations made by the SOs under F.4.1.1. These include the determination of the Locational Capacity Constraint Required Quantity (LCCRQ) and related quantities.

The change adds the determination of the quantity awarded in previous auctions to enable the quantity to be used in the auction to be made visible.

➤ **CMC_11_20 – Providing greater flexibility for the current Interim Secondary Trading Notification (ISTN) process**

This modification proposal is designed to provide greater flexibility with regards to units being subject to, what is perceived to be, a lengthy notice period to activate and/or cease an ISTN.

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 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

1.2.2 Section B.12 of the CMC outlines the process used to modify the CMC. In particular, it sets out processes for proposing modifications, as well as the consideration, consultation and implementation or rejection of modifications.

- 1.2.3 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).
- 1.2.4 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.
- 1.2.5 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.
- 1.2.6 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.
- 1.2.7 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) will reject the proposal on the grounds of being spurious, as set out in section B.12.6 of the CMC.

Urgent Modifications

- 1.2.8 A proposer may choose to mark a Modification proposal as “Urgent” (B.12.9.1). 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.
- 1.2.9 In this regard B.12.9.5 provides:

“If the Regulatory Authorities determine that a Modification Proposal is Urgent, then:

- a) the Regulatory Authorities shall determine the procedure and timetable to be followed in assessing the Modification Proposal which may vary the normal processes provided for in this Code so as to fast-track the Modification Proposal; and*
- b) subject to sub-paragraph (a), the System Operators shall convene a Workshop.”*

- 1.2.10 The RAs may request the SOs to convene a Working Group to discuss the proposed Modification.

Process for these Modifications

- 1.2.11 On 10 July 2020 the SOs notified the RAs of the two proposed modifications submitted for discussion at WG14 held on 23 July 2020, with CMC_10_20 submitted by the RAs and CMC_11_20 submitted by Energia.
- 1.2.12 Both of the proposed modifications were marked as Standard and will therefore be processed through the normal Modification process.

- 1.2.13 Following a review of the proposals, the Regulatory Authorities determined that the neither CMC_10_20 nor CMC_11_20 are spurious.
- 1.2.14 On the 6 August 2020 the RAs determined the procedure to apply to the Modification Proposals. The procedure is shown in detail in Appendix A. An overview of the timetable is as follows:
- i. The System Operators convened Working Group 14 where the Modification Proposals were considered on 23 July 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 20 Working Days (as defined in the CMC), from the date of publication of the Consultation.
 - iv. 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.

1.3 PURPOSE OF THIS CONSULTATION PAPER

- 1.3.1 The purpose of this paper is to consult on the following proposed modifications:
- CMC_10_20 – Change to determinations made in F.4.1.1;
 - CMC_11_20 – Providing greater flexibility for the current Interim Secondary Trading Notification (ISTN) process.
- 1.3.2 Further detail about the modification is set out in the appended modification proposal (Appendix B).
- 1.3.3 The Regulatory Authorities hereby give notice to all Parties and the Market Operator of a consultation on the proposed Modification.
- 1.3.4 Interested Parties and the Market Operator are invited to make written submissions concerning the proposed Modification by 14 September 2020.
- 1.3.5 Upon closure of the consultation process, the Regulatory Authorities intend to assess all valid submissions received and form a decision to either implement or reject a modification or undertake further consideration as regards to matters raised through the consultation process in regards to the proposed modification.

2. MODIFICATION PROPOSALS

2.1 CMC_10_20 – CHANGE TO DETERMINATIONS MADE IN F.4.1.1

Proposer: Regulatory Authorities

Proposal Overview

- 2.1.1 This modification a change in the determinations made by the SOs under F.4.1.1.
- 2.1.2 In the proposal, the RAs have advised these determinations include determination of the Locational Capacity Constraint Required Quantity (LCCRQ) and related quantities.
- LCCRQ is a gross quantity, i.e. it does not take account of any capacity already awarded in a Locational Capacity Constraint Area. When LCCRQ is used in establishing the parameters for the auction (in F.8.2.1) it is used as a net quantity and previously awarded capacity is netted off.
- 2.1.3 The change the proposal is intended to add the determination of the quantity awarded in previous auctions to enable the quantity to be used in the auction to be made visible.
- 2.1.4 In addition, the timing of the determination is made consistent with the analogous process in F.3.1.1 for the determination of the key inputs to the determination of the Demand Curve.
- 2.1.5 The RAs are of the view that Proposal fills an information gap in the ability of the RAs to understand the impact of previously awarded capacity on a Locational Capacity Constraint Area and the volume of capacity that needs to be awarded in the current auction in respect of that area. This gap has previously been bridged through co-operative working between the RAs and SOs but it seems appropriate to recognise it in the CMC.
- 2.1.6 This modification proposal is also intended to align the timing of the determination of the elements of LCCRQ with the determination of key elements of the Demand Curve. Given the strong links between these quantities and the impact of Locational Capacity Constraints on the auction, it is important that the RAs are able to understand the expected level of LCCRQ that will be used in the auction.
- 2.1.7 This modification proposes the following amendments to the CMC:
- F.4.1.1 For each Locational Capacity Constraint, the System Operators shall, **when requested to do so by the Regulatory Authorities and as required under this section F.4.1, determine the following for a Capacity Year:**
- (a) the Locational Capacity Constraint Required Quantity, being:
- (i) the minimum de-rated capacity quantity that is required to satisfy the Locational Capacity Constraint determined under paragraph C.2.2.2(c); less

(ii) the de-rated value of capacity that is not existing Awarded Capacity for the relevant Capacity Year but which the System Operators forecast to be operational during the relevant Capacity Year and will not participate in the Capacity Auction;

(b) the total quantity of Gross De-Rated Capacity (Total) in respect of Capacity Market Units that are Qualified as contributing to satisfying the Locational Capacity Constraint;

(c) the absolute value of the amount (if any) by which the total quantity determined under sub-paragraph (b) falls short of the Locational Capacity Constraint Required Quantity for the Locational Capacity Constraint;

(d) the total quantity of Gross De-Rated Capacity (Existing) in respect of Capacity Market Units that are Qualified as contributing to satisfying the Locational Capacity Constraint; ~~and~~

(e) the absolute value of the amount (if any) by which the total quantity determined under sub-paragraph (d) falls short of the Locational Capacity Constraint Required Quantity for the Locational Capacity Constraint; ~~and~~

~~(f) the existing Awarded Capacity for the Capacity Year in respect of Capacity Market Units that contribute to satisfying the Locational Capacity Constraint.~~

~~For the avoidance of doubt, the minimum de-rated quantity determined in C.2.2.2(c) does not take account of the existing Awarded Capacity for the Capacity Year in respect of Capacity Market Units that contribute to satisfying the Locational Capacity Constraint.~~

2.1.8 Further detail on the Modification Proposal is set out in the appended Modification Proposal (Appendix B).

Working Group Feedback

2.1.9 The SOs provided comment with regard to the term “existing capacity” used within the proposal. They had requested confirmation from the RAs that this term related to Awarded Capacity that had previously been awarded in a prior Capacity Auction. The RAs confirmed that the use of this wording could be construed as ambiguous and advised that the wording was based on the contents of F.8.2.1 (b)B) of the CMC.

2.1.10 The RAs stated that given the term “existing” does have meaning in other parts of the code it would make sense to amend this. The SOs advised that the simple step of removing the word existing could mitigate the issue.

2.1.11 The RAs confirmed they would make this change to the text for representation within the consultation paper.

- 2.1.12 ESB stated that the term “existing awarded capacity” is still contained within section F.8.2.1 of the CMC and queried whether the use of the term was still valid in this case.
- 2.1.13 The RAs advised that section F.8.2.1 sets out how much capacity the SOs should be aiming to procure. At this point the capacity that has already been awarded must be netted off and given that the use of this term has another meaning it would be prudent to extend the modification to amend the text of this section to remove any ambiguity or confusion.
- 2.1.14 ESB queried whether moving this section to C.2.2.2 of the CMC for the avoidance of doubt. The RAs advised that section C sets out high-level concepts however, these are developed elsewhere in the code. The RAs elaborated that given the modification aims to use the concepts created in section C, within F.4.1.1 it would seem more natural to keep this text where it is being applied, as opposed to where the concept is introduced. The RAs were of the view that it would sit more comfortably where it is within the proposal.
- 2.1.15 ESB queried whether it would be possible to add, within the Final Auction Information Pack (FAIP) for an auction, the values of awarded capacity from previously run capacity auctions. They advised this would add a greater level of transparency to the process.
- 2.1.16 The RAs advised this is a valid point and would seem a sensible approach. They noted that given there have been a number of auctions run to date, this would ensure that the data is readily accessible.

The RAs confirmed they will consider this suggestion and would query with the SOs as to this as to whether a system update would be required to facilitate.

Minded to Position

- 2.1.17 Given that the aim of this proposal is to ensure that any information gaps between the RAs and SOs are filled, with specific regard in this case to the impact of Locational Capacity Constraints and requiring one-off requests for additional data from the SOs, outside of the CMC, the SEM Committee are of the view that the proposal has merit.
- 2.1.18 Taking on board the updates to the proposal discussed at WG14, the SEM Committee are minded to approve this modification.

2.2 CMC_11_20 – PROVIDING GREATER FLEXIBILITY FOR THE CURRENT INTERIM SECONDARY TRADING NOTIFICATION (ISTN) PROCESS

Proposer: Energia

Proposal Overview

- 2.2.1 This proposed modification intends to provide a greater degree of flexibility in terms of the notice period to activate and/or cease an ISTN.

- 2.2.2 In their proposal, Energia highlighted that in the absence of an enduring solution for Secondary Trading as provided for in Section H of the CMC, an interim solution was put in place as per Section M.7 which enables Capacity Market Units (CMUs) to suspend their Reliability Options (ROs) during Planned Outages by providing an Interim Secondary Trade Notification (ISTN) to the System Operators (SOs).
- 2.2.3 They have elaborated, stating that they believe the current Interim Secondary Trading Arrangements are highly restrictive, specifically with regard to:
- Being limited to ‘Planned Outages’ (as designated by the SO), in circumstances where the ISTN does not appear to dynamically adjust if a plant delays going on outage, is on partial outage or returns from outage early; and
 - Being subject to a lengthy notice period to activate and/or cease an ISTN.
- 2.2.4 Energia have stated that as part of the current process, an ISTN must be submitted to the SO no later than ten Working Days prior to the beginning of the Month specified in the ISTN, which they believe is overly restrictive, especially where the ISTN does not dynamically adjust.
- 2.2.5 Consequently, an ISTN that must be activated or ceased in accordance with the current notice periods could needlessly suspend an RO in circumstances where the start date of the outage has been delayed, or a plant becomes partially available during the outage (e.g. a CCGT in open cycle mode), or returns from outage early.
- 2.2.6 Energia argue that this unfairly penalises plants that are fully or partially available and are unable to amend their ISTN accordingly, which in turn exacerbates the ‘hole in the hedge’ and weakens the incentive for plants to adjust their outages to maximise availability and accommodate system requirements.
- 2.2.7 Energia propose that the time frame for submitting an ISTN be reduced to 5 Working Days in advance of becoming active and allow an existing ISTN to be amended by providing notice of one Working Day.
- 2.2.8 They have advised that this would provide much needed flexibility to market participants and would help to address some of the deficiencies of the current process which exacerbates the ‘hole in the hedge’ and weakens the incentive for plants to adjust their outages to maximise availability and accommodate system requirements.
- 2.2.9 Further detail on the Modification Proposal as well as the amendments to the text within the CMC is set out in the appended Modification Proposal (Appendix B).

Working Group Feedback

- 2.2.10 The SOs advised that the current ISTN text was codified ahead of the market going live and believe there are therefore improvements that can be made given the stage we are at now.

The SOs elaborated stating that they are open to making the ISTN process outage specific and would be open to the intent behind this proposal.

2.2.11 In terms of timings, the SOs highlighted that this currently is a manual process with regard to applying changes and there is the requirement for a period of time to be set aside to ensure that the details are correct. They further stated that given we are entering a period of change within the Capacity Market it is key to ensure accuracy is maintained.

2.2.12 However, they have advised they believe the 5WD turn around, suggested within the proposal is achievable.

2.2.13 With regard to the cessation and amendments of an ISTN, the SOs confirmed that this poses a difficulty on their side. They have advised that the “end point” of a trade is effectively considered as a new trade and are not modifying an existing entry in the trade register, instead they are adding a new entry to the register.

They elaborated, by way of an example that, where an outage has occurred a negative quantity would be added to the register, and with the cessation of this outage, a positive quantity is added to the register and would most likely net to zero when summed together.

The SOs advised that in this instance a 5 WD period would be associated with each entry to the trade registered.

2.2.14 Referring to the worked example provided in the proposal, the SOs confirmed that from their side, this would represent four additional trades and would be concerned with the current set up in that it wouldn't be possible to deal with the turn around on a 1WD turn around period.

2.2.15 Energia noted the points raised by the SOs and advised that although there may be difficulties in amending the process, the current structure contains no incentive for a generator to come back from an outage at an earlier stage than expected as they would be unable to benefit from RO payments.

They stated that it is their belief that this proposal would introduce an incentive and encourage flexibility, given that outages are planned well in advance of the outage and would allow for the reflection of the real-time aspects of an outage and this would be beneficial for all parties involved.

2.2.16 The SOs stated that if an outage ends at an earlier than expected time, this is reflected in the “end point” of a secondary trade and would therefore be captured (cf M.7.2.6(b)(i)). They argued that there currently would be an incentive to return early, however advised that this may not be completely clear in the Code at the moment.

Energia argued they don't believe this is the case as if you return at full availability early and have submitted an ISTN, the planned outage program will still show the ISTN as active and a unit would not be able to avail of an RO.

- 2.2.17 The SOs stated that there would be merit in looking at this area to look at the current flexibility on return from a full outage. They highlighted that this could be something that is fully captured under the current rules.
- 2.2.18 Energia queried if there was some ability to introduce flexibility during a partial outage with an associated timeframe of less than 5 WD. The SOs advised that the change to 5 WD is something that would be feasible, however it would be difficult to reduce this period, especially if the SOs receive multiple submissions.
- 2.2.19 ESB queried whether the intention is that if a planned outage ends early, that is considered to be the end of the ISTN. The SOs advised that if a unit were to return early this is deemed the end of the planned outage.
- 2.2.20 The SOs advised that there are a number of conditions that must be in place to allow for the Interim Secondary Trading process to proceed. The first is that an ISTN is in place and that there is a planned outage in place.
- 2.2.21 The SOs highlighted that a planned outage is defined as the reduction (partial or total) in the outturn availability of a unit, due to an outage on the commitment program. In this case the ISTN acts as the authorisation in this situation.
- 2.2.22 ESB stated they agree with the proposed modification in the sense that it is important that if a unit were to return from a planned outage early and there is no obligation on them and there is a subsequent RO event that occurs, this could result in a “hole in the hedge”. ESB further elaborated that it would seem sensible to tie this proposal in with *CMC_09_19 – Supplementary Interim Secondary Trading (Version 2)*. The SOs advised that the suggestion to tie both this and CMC_09_19 (if it were to be approved and implemented) together did have merit.
- 2.2.23 The RAs stated that there is merit in integrating these modifications as this would be of benefit to all involved. Upon receipt of the responses to the proposal CMC_09_19, the RAs advised they would take into account, when forming a decision, what could happen with this proposal.
- 2.2.24 BGE advised that whatever model is agreed, we shouldn’t proceed down the road whereby there are delays in implementation to facilitate the joining of the proposals.
- 2.2.25 One participant queried the nature of the ISTN that would be required to implement a sculpted outage as set out in the Energia example: could this be achieved with a single ISTN or would it require multiple notifications? Energia agreed to clarify the process.
- 2.2.26 Ahead of the consultation period it was agreed that there was a requirement to update the proposal based on the discussions during WG14. This was confirmed by Energia who had stated that additional changes would be made to the legal drafting.

Minded to Position

- 2.2.27 Given the delays to implementation of the enduring arrangements for secondary trading set out in chapter H, the RAs recognise the importance of improving access to secondary trading for market participants.
- 2.2.28 The RAs believe that the proposal from Energia provides a sensible way to improve the usability of the existing ISTN process and, in conjunction with Modification CMC_09_19, could deliver many of the benefits of the enduring solution.
- 2.2.29 The SEM Committee would be interested in the views of respondents as to whether the drafting of M.7.2.6(b)(i) is sufficiently clear that the notional Secondary Trade will end when the unit returns to service, even in the absence of an Interim Secondary Trade Notification to cease the Interim Secondary Trading Arrangements in respect of the unit.
- 2.2.30 As a result, and subject to resolution of the process issues around notification raised at the Working Group, the RAs are minded to approval this modification.

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 D for the provision of responses.

4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision in October 2020 on the implementation of the Modification outlined within this consultation paper.
- 4.1.2 Responses to the consultation paper *must* be sent to Kevin Lenaghan (Kevin.Lenaghan@uregni.gov.uk) and Kevin Baron (Kevin.Baron@uregni.gov.uk) by **17.00 on Monday, 14 September 2020**.

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.