

ENEL X RESPONSE TO SEM-20-040

SUMMARY INFORMATION

Respondent's Name	Enel X
Type of Stakeholder	Demand-Side Unit
Contact name (for any queries)	Mairead Cousins
Contact Email Address	mairead.cousins@enel.com
Contact Telephone Number	086 0711020

CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_09_19 - Supplementary Interim Secondary Trading (Version 2)	<p>We welcome this interim measure to allow secondary trading while the enduring secondary trading platform remains under development. A reasonably liquid secondary market is important for the efficient functioning of any capacity market, as well as being specifically required under the I-SEM CRM's state aid approval.</p> <p>There is a mistake in the drafting of Chapter H of the Capacity Market Code which was unfortunately overlooked during the 2017 consultations on the code drafting, and has been copied into the proposed Code section M.11 in this modification.</p> <p>The mistake relates to the concept of Legitimate Reasons. This concept was introduced during the I-SEM CEM Detailed Design process – specifically in Decision Paper 2 (SEM-16-022). It was introduced as a safeguard when trades involved capacity above de-rated limits – i.e. the same</p>		<p>Changes from the drafting proposed in Appendix B(1b):</p> <p>Omit M.11.2.2 and M.11.7</p>

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	<p>circumstances in which the 70-day limit is intended to apply to the Seller. This intent is explained in paragraph 4.4.16 of SEM-16-022, and made explicit in the decision paragraph 4.4.29:</p> <p style="padding-left: 40px;">“Those looking to purchase capacity through the secondary trading platform will be required, as part of their submission to the centralised marketplace, to identify whether their trade is for a legitimate technical reason. This will be a flag used by the auction platform which will then allow purchase of capacity from counterparties selling capacity above their de-rated level.”</p> <p>i.e. The safeguard of requiring a legitimate technical reason is only needed in the special case of trades involving capacity above a unit’s de-rated level. Trades should still be allowed in circumstances where a legitimate technical reason is not provided by the Buyer, but the “flag” will not be set, so the trade cannot be fulfilled by capacity from a Seller that is using capacity above their de-rated level. This is a restriction on the Buyer that mirrors the 70-day limit on the Seller.</p> <p>This subtlety was not properly captured in Chapter H, where it instead reads as if a Legitimate Reason should be provided for all trades. This appears to be an accident, as there does not seem to have been any consultation or decision document setting out any deliberate intent to restrict secondary trading far more tightly than described in the detailed design decision papers.</p> <p>This makes sense, as deliberately imposing such a requirement would be a very strange design decision: it would undermine the liquidity of the secondary market, and could also (given the limited list of very generator-centric Legitimate Reasons) prevent many DSUs from undertaking secondary trades. This would go against all the strong reasons to enable secondary trading that were clearly spelled out in the detailed design consultation and decision papers.</p>		

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	<p>Fully correcting this error will require some re-working of H.1.1.1 and H.7.1.3, and possibly some consequential changes elsewhere in the section. However, this is not urgent, as Chapter H will not be used until the enduring secondary trading platform is ready.</p> <p>In the meantime, it is fortunately straightforward to modify the drafting of the proposed section M.11 to remove the error, because the proposed Supplementary Interim Secondary Trading arrangements do not support trades using capacity above de-rated limits. (This is why there is also no need to implement the 70-day limit in this section.)</p> <p>We strongly recommend that this correction to M.11 should be made now.</p> <p>Implementing this modification with our suggested correction would support Code Objectives B, C, and G.</p> <p>Implementing the modification without our suggested correction would have more limited benefits, and also be contrary to Code Objective F, in that the specified Legitimate Reasons specified are very generator-centric, and hence unlikely to allow DSUs to make necessary or desirable secondary trades.</p> <p>(An alternative approach, of adding a Legitimate Reason relevant to DSUs, would solve the immediate practical problem, so is preferable to taking no action, but it is not as good a solution as fixing the original error.)</p>		

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CMC_07_20 - Change in Technology Class for Awarded New Capacity	For the reasons set out in the DRAI’s submission, we support this modification, and ask that the RAs change their “minded to” position, and implement this modification, complete with the DRAI’s recommended drafting change.		See the DRAI submission.
CMC_08_20 - Change of Awarded Existing Capacity to Awarded New Capacity	For the reasons set out in the DRAI’s submission, we strongly oppose this modification.		