



**Single Electricity Market
(SEM)**

**Capacity Market Code Further Consideration of
Modification CMC_07_20 –**

Consultation Paper

SEM-20-071

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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 updated version of CMC_07_20, which was originally discussed at the Working Group held on 31 March 2020.

1.1.2 This proposal was submitted by the System Operators and related to:

CMC_07_20 – Change in Technology Class for Awarded New Capacity

This modification proposal aims to allow for a change in Technology Class associated with Awarded New Capacity, where such a change has been accompanied by a new or modified connection agreement that reflects the change.

1.1.3 The System Operator submitted the Modification stating that if implemented, would further the following Code Objectives:

(b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner;

(d) to promote competition in the provision of electricity capacity to the SEM;

(f) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and

(g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.

1.1.4 During Working Group 12 the immediate feedback to the proposal was that it remained unclear as to why the proposal was being raised as it did not appear to address any particular issue.

However, it was also commented that ahead of any progression, this proposal would require additional consideration in regards to the occurrence of any potential unintended consequences of implementation.

1.1.5 This proposal was originally consulted on in SEM-20-040¹ and at this point the SEM Committee had adopted a minded-to position to reject the proposal, given the feedback received at Working Group 12.

¹ https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-040%20WG12%20-%20CMC_09_19%20CMC_07%20CMC_08%20Cons%20Paper.pdf

- 1.1.6 In this consultation, the SEM Committee welcomes feedback on the proposal, with the decision on how to treat the proposal subsequently being set out in SEM-20-064².
- 1.1.7 Upon assessment of the responses to this proposal, the views on implementation were mixed.
- A number of respondents reiterated their views from the Working Group that that there was insufficient evidence as to why the proposal was needed and how it would work and that the proposal should be rejected.
- 1.1.8 A number of respondents also advised there were a number of issues that would need to be addressed before the modification could be progressed.
- 1.1.9 However, several respondents provided feedback stating that the proposal should be implemented.
- 1.1.10 A number of respondents commented that there was a strong justification to support enabling Participants to change Technology Class in certain circumstances when delivering Awarded New Capacity, further advising that this additional flexibility after qualification is important for Participants delivering new build projects which, if they were to run into difficulty, may still be able to deliver the Awarded New Capacity by changing Technology Class, or to put in place a form of temporary generation as a bridging solution to cover commissioning delays.
- 1.1.11 With this in mind, the SEM Committee decided to undertake further consideration of the modification proposal, with the aim of taking an updated version of the proposal for a secondary consultation.
- 1.1.12 Following the consultation, the SEM Committee were persuaded that there were credible reasons why new capacity might need or want to change Technology Class following Award. Such a change would both help New Capacity reduce its delivery risks while also increasing the probability that New Capacity will be delivered on time, delivering a hedge to suppliers.
- 1.1.13 However, the SEM Committee did recognise that there were a number of issues that arise with making such a change that were not fully addressed in the proposed modification and that required further consideration.
- 1.1.14 The SEM Committee recommend that, in line with B.12.11.1 (c), this modification was given further consideration.
- 1.1.15 The RAs identified the key issues which required resolution which, inter alia, related to the situation where the change in Technology Class changes the proposed de-rated capacity and issues around the Registries and the sharing of data with the T&SC.

² https://www.semcommittee.com/sites/semc/files/media-files/SEM-020-064%20CMC%20Mods%20WG12%20CMC_09_19%2007_20%2008_20%20Decision%20Paper.pdf

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 is dated 31 July 2020. 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 is dated 29 April 2020. 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 this Modification

1.2.2 On 18 September 2020, the SEM Committee published their decision relating to CMC_07_20, which set out that this proposal would undertake further consideration.

1.2.3 The decision to undertake further consideration is in line with B.12.1.1 (c) of the CMC:

B.12.11.1 Following the public consultation under paragraph B.12.8 in relation to a Modifications Proposal (or, in relation to a Modification Proposal that the Regulatory Authorities determine is Urgent, any alternative process determined by the Regulatory Authorities under paragraph B.12.9.5), the Regulatory Authorities shall decide whether to:

- (a) make a Modification;*
- (b) not make a Modification; or*
- (c) undertake further consideration in relation to the matters raised in the Modifications Proposal.*

1.2.4 Given that this proposal has been previously consulted upon, the SEM Committee are not requiring the SOs to convene a Working Group to discuss, instead the proposal will proceed directly through a secondary consultation process.

1.2.5 The SEM Committee have, in Appendix A, determined the procedure to apply to the Modification Proposal. An overview of the timetable is as follows:

- i. The RAs will 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.
- ii. As contemplated by B.12.11 the RAs will make their decision as soon as reasonably practicable following conclusion of the consultation.

1.3 PURPOSE OF THIS CONSULTATION PAPER

- 1.3.1 The purpose of this paper is to consult on the following proposed modification:
 - CMC_07_20 – Change in Technology Class for Awarded New Capacity (Version 2)
- 1.3.2 Further detail about the modification is set out in the appended modification proposal (Appendix C).
- 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 **25 November 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_07_20 – CHANGE IN TECHNOLOGY CLASS FOR AWARDED NEW CAPACITY (VERSION 2)

Proposer: Regulatory Authorities (Version 1 submitted by SOs)

Proposal Overview

- 2.1.1 The issues raised with the drafting of the Modification largely related to the interaction between the proposed Modification and other CMC processes, in particular the Exception Application process, and with the TSC.
- 2.1.2 While it is possible that the change to the Technology Class of a specific unit may change one of the assumptions used by the RAs in their determination of Unit Specific Price Caps (USPCs), we consider this has a low probability given the fact that not all proposed New Capacity will be assumed to be constructed and that a broad view of the likely future plant mix is used.

To the extent that the change of Technology Class did directly impact one of the assumptions used by the RAs in determining USPCs, this is only one of many assumptions about the future that this determination includes.
- 2.1.3 A change to Technology Class is likely to change the nature of the investment being made and so will influence the investment cost per de-rated kW. This will impact any Exception Application being made under E.5.1.1 (a) for a Maximum Capacity Duration of more than one year.

As a result, the legal drafting has been extended to include a repeat of the test against the New Capacity Investment Rate Threshold (NCIRT) set out in E.5.1 within the new Modification. If the revised investment no longer reaches the NCIRT, the Maximum Capacity Duration will be reduced to one year.

- 2.1.4 The original Modification prevented a change in Technology Class from Clean capacity to capacity that would no longer be considered clean. This avoids a potential issue that could arise if in the original auction the tie-breaking, set out in F.8.4.6 (a)(iii) and (b)(iii), was used to choose between potential New Capacity. While this could occur, it is the last step of the algorithm to separate tied capacity and so would be expected to incur very infrequently.
- 2.1.5 Imposing the condition that a capacity award can only move from one Clean Technology Class to another is likely to dramatically curtail the benefits of being able to change Technology Class. On balance, the RAs believe it is more important to facilitate the timely delivery of New Capacity and the amended legal drafting allows switching to any Technology Class.
- 2.1.6 On changing Technology Class it is likely that both the Initial Capacity and De-Rating Factor of the revised investment will be different from that which Qualified and was Awarded Capacity and that the Substantial Financial Completion milestone (SFC) and, potentially some later milestones, may need to be repeated.
- 2.1.7 The potential change to Initial Capacity and need to repeat Substantial Financial Completion milestone can already occur under the CMC with a change to EPC as described under J.5.1.1. The proposed Modification uses the same approach as J.5.1.1 and does not formally require re-demonstration of SFC or place any additional limits on the permissible change to Initial Capacity.
- 2.1.8 Change of EPC Contractor does not lead to a change in the Gross De-Rating factor used for settlement under the TSC. By contrast, change of Technology Class will impact Gross- De-Rating Factor ($FDERATE_{\Omega}$) which has an impact on settlement under the TSC. The amended legal text makes clear that this value needs to be re-determined.
- 2.1.9 The original drafting did not cover the need to update the Registries (Qualification Capacity (Appendix E) and Capacity and Trade (Appendix F)) following the change to Technology Class. The amended legal text makes clear this needs to be done, especially in the case of changes to Gross De-Rating Factor to the Maximum Capacity Duration.

Further detail on the Modification Proposal is set out in the appended Modification legal text (Appendix C).

Minded to Position

- 2.1.10 The SEM Committee would be interested in any feedback on the approach taken to managing the potential issues set out above or any issues that have not been identified in the earlier consultation and Working Group discussion.
- 2.1.11 The SEM Committee are minded to approve the Modification with the amendments discussed above and with the text given in Appendix C.

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 December 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 Wednesday, 25 November 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.