



**Single Electricity Market
(SEM)**

Capacity Market Code Working Group 11(b)

Modification Consultation Paper

SEM-20-018

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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 urgent Working Group held on 5 March 2020.

1.1.2 During this Working Group, one modification was presented and was deemed as Urgent. This consultation paper relates to:

➤ CMC_03_20 – Modification to the Long Stop Date for the CY2023/24 T-4 Capacity Auction

The modification proposes amending the definition of the Long Stop Date (as set out in J.1.1 (b) (i)). This would be set at $42 + 18 = 60$ months from the Capacity Auction Run Start for Awarded New Capacity with a multi-year award and maintain the delivery window foreseen in the drafting of the CMC whilst also remaining consistent with the last date to achieve Substantial Financial Completion. It should be noted that this extension to the Long Stop Date is only applicable for the T-4 CY2023/24 Capacity Auction.

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 This paper is concerned with an urgent modification proposal.
- 1.2.9 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.
- 1.2.10 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.”
- 1.2.11 The RAs may request the SOs to convene a Working Group to discuss the proposed Modification.

Process for this Modification

- 1.2.12 On 26 February 2020 the Regulatory Authorities submitted a modification proposal (CMC_03_20) under the terms of B.12.4. The Modification Proposal was marked as Urgent.
- 1.2.13 The Regulatory Authorities determined that the Modification Proposal was Urgent. This was because the Modification Proposal was proposed to deal with a matter that could reasonably be anticipated would imminently and unduly interfere with, disrupt, or threaten the proper operation of the Capacity Market. The Modification Proposal addresses concerns that were raised in responses to the consultation paper associated with the modification CMC_02_20¹.
- 1.2.14 As highlighted in the subsequent decision paper associated with modification CMC_02_20² several respondents raised concerns around the effect delaying the auction may possibly have in regards to losing time related to project planning and construction. In their decision, the SEM Committee recognised that whilst these concerns were valid, they didn't form part of the proposal.
- 1.2.15 The SEM Committee committed to the proposal of an additional modification to the Code that would directly deal with the comments provided by respondents in regards to any additional steps that may be required as well as changes to the Long Stop Date. This would therefore allow industry to provide feedback on any changes that could be applied.
- 1.2.16 On the 28 February 2020 the RAs determined the procedure to apply to the Modification Proposal. The procedure is designed to fast-track the Modification proposal and is shown in detail in Appendix A. An overview of the timetable is as follows:
- i. The System Operators are to secure that the Modification Proposal is considered at a workshop no later than 5 March 2020.
 - ii. The System Operators are to prepare a report of the discussions which took place at the workshop, provide the report to the RAs and publish it, promptly and in any event no later than two Working Days, (as defined in the CMC), after the workshop.
 - iii. The RAs will then consult on the Proposed Modification, with a response time of seven 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 SEM-20-005: Capacity Market Code Modifications WG11 – Consultation Paper
<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-005%20CMC%20WG11%20Consultation.pdf>

² SEM-20-008: Capacity Market Code Modifications WG11 – Decision Paper
<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-008%20%20CMC%20Mods%20WG11%20Decision%20Paper.pdf>

1.3 PURPOSE OF THIS CONSULTATION PAPER

- 1.3.1 The purpose of this paper is to consult on the proposed modification. More detail about the modification is set out in the appended modification proposal (Appendix B).
- 1.3.2 The Regulatory Authorities hereby give notice to all Parties and the Market Operator of a consultation on the proposed Modification.
- 1.3.3 Interested Parties and the Market Operator are invited to make written submissions concerning the proposed Modification by 20 March 2020.
- 1.3.4 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 PROPOSAL

2.1 CMC_03_20 - MODIFICATION TO THE LONG STOP DATE FOR THE CY2023/24 T-4 CAPACITY AUCTION

Proposer: Regulatory Authorities

Proposal Overview

- 2.1.1 This Modification was submitted by the Regulatory Authorities on 26 February 2020 and marked as Urgent. A Workshop was convened for 5 March 2020 at which the Modification was discussed.
- 2.1.2 This modification proposes to make an additional change to the recently implemented section, proposed in CMC_02_20 - *M.10 PROVISIONS APPLICABLE TO THE T-4 CAPACITY AUCTION FOR CAPACITY YEAR 2023/24 ONLY*.
- 2.1.3 This modification was proposed, and subsequently implemented, to allow for the shortening of the time between the CY2023/24 T-4 Auction and the start of the delivery year to less than the 42 months set out in the main body of the CMC. The addition of section M.10 then allowed the Regulatory Authorities to approve an amendment to the Capacity Auction Timetable under D.2.10.
- 2.1.4 Following the closure of the consultation period for CMC_02_20, respondents raised the issue of the reduced delivery window for new capacity and noted the increased delivery risk that would arise. Some requested that the Long Stop Date be adjusted to maintain the full 42+18 months from the Auction to the latest date for delivery.

- 2.1.5 As part of the decision relating to CMC_02_20, the SEM Committee recognised the concerns raised and deemed it appropriate for a further Urgent Modification to the CMC be raised. This proposed modification, CMC_03_20, is aimed at directly dealing with the comments provided by respondents in regards to any additional steps that may be required as well as changes to the Long Stop Date.
- 2.1.6 It was also decided that the proposing of a new modification would also allow industry to provide feedback on any changes that could be applied.
- 2.1.7 The purpose of this modification is to modify section M.10 of the CMC to include a new paragraph, M.10.1.4A.
- 2.1.8 The SEM Committee believe that it is reasonable to make such an adjustment in the case of a multi-year contract award as this reduces risk for new capacity providers without material impact on security of supply and the value of the CRM hedge to consumers. The SEM Committee therefore, are minded to approve this modification for implementation.
- 2.1.9 Further detail on the Modification Proposal is set out in the appended Modification Proposal (Appendix B).

Working Group Feedback

- 2.1.10 The RAs provided the justification behind the proposed modification, the link between the previous modification CMC_02_20 and an overview of the timelines associated with processing the modification. They further elaborated that whilst this issue was raised in the responses to the CMC_02_20 consultation, it was deemed inappropriate to amend the previous modification without notification to industry and requesting feedback.
- 2.1.11 The System Operator requested clarification in regards to the draft text within the modification. Confirmation was requested that the proposal is aimed at amending the Long Stop Date only for units that are successful in gaining a multiyear RO for New Capacity and those units that are successful in gaining an RO for new Capacity, for a single year will see the Long Stop Date associated with this remain the same.
- 2.1.12 The RAs confirmed the modification is only applicable to a unit that is successful in gaining a Multiyear RO for New Capacity, whilst also reiterating that this change will only be allowed for the T-4 CY2023/24 Capacity Auction.
- 2.1.13 The System Operator advised that the reference to section J.6.1.1 (b) of the CMC should be amended to ensure is explicitly clear that the proposal only applies to generators who gain a multiyear RO. They have advised that section J.6.1.1 (b) is made up of two sub-paragraphs, (i) and (ii), with (i) being specific to the Long Stop Date for a multiyear contract. The RAs confirmed they will amend this in a revised version of the proposal to make it clear that this is only applicable for multiyear ROs.

2.1.14 The draft text of the modification has been amended to read as follows:

M.10.1.4A The following paragraph shall replace paragraph J.6.1.1 (b):

“Long Stop Date: the Long Stop Date in respect of Awarded New Capacity means

(i) in the case of a Capacity Award with a capacity duration greater than one year, the last day of the sixtieth full calendar Month after the Capacity Auction Run Start; or

(ii) in the case of a Capacity Award with a capacity duration of one year or less, the last day of the first full calendar Month after the start of the first Capacity Year in which the Awarded New Capacity is to be provided.”

2.1.15 One attendee queried the reasoning behind the proposed extension to the Long Stop Date for those units that gain a multiyear RO but not for those that gain an RO for a single year.

2.1.16 The RAs advised that an extension to the Long Stop Date applicable to a unit that gains a single year RO, would result in the Long Stop Date encroaching on the winter months associated with CY2023/24. The RAs highlighted that extending the Long Stop Date associated with a single year RO could result in moving risk on to consumers and weakening the hedge.

2.1.17 Confirmation was requested as to whether the RAs have considered changing the timelines associated with the Implementation Progress Reports for the T-4 CY2023/24 Capacity Auction and, if so, were the RAs in a position to advise when details would be made available.

2.1.18 The RAs advised that they don't envisage making changes to current dates. The RAs stated that, upon review, there appeared to be no advantage to amending the dates at this point. However the RAs advised that these can be amended at a later stage if required. The RAs advised attendees, that if they believe there is a justification for amending these dates, this should be reflected in the response to the consultation.

2.1.19 The System Operator advised that, if the proposal were to be approved, the change to the dates associated with the Long Stop Date for multiyear ROs, would be reflected in the upcoming Final Auction Information Pack (FAIP).

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 C for the provision of responses.

4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision in March 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 Billy Walker (Billy.Walker@uregni.gov.uk) by 17.00 on Friday, 20 March 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.