



**Single Electricity Market  
(SEM)**

**Capacity Market Code Working Group 13**

**Modification Consultation Paper**

**SEM-20-043**

**29 June 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 26 May 2020.
- 1.1.2 During this Working Group, one modification was presented. This consultation paper relates to:
- CMC\_09\_20 – Modification to the Long Stop Date for the CY2020/21 T-1 Capacity Auction
- This modification proposes the introduction of an Interim Arrangement that would adjust the Long Stop Date for awarded new capacity that was secured for the 2020/21 Capacity Year. This Interim Arrangement would **only** be applicable to new capacity, with a capacity duration of one year, which was secured in the T-1 CY2020/21 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 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 this Modification**

- 1.2.11 On 6 May 2020 the SOs notified the RAs of one proposed modification submitted for discussion at WG13 held on 26 May 2020. Upon submission, the proposer marked the modification proposal as Urgent.
- 1.2.12 The Regulatory Authorities determined that the Modification Proposal was potentially “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. However, during Working Group 13, it was decided that, whilst the modification is marked “urgent” there was enough time for this proposal to follow the normal modification process.
- 1.2.13 This being the case, the proposal can follow a 20 Working Day consultation period which will allow for respondents the full period to comment whilst also ensuring that, if approved, implementation would be facilitated well ahead of the beginning of the 2020/21 Capacity Year.

1.2.14 On the 9 June 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 convened Working Group 12 where the Modification Proposal was considered on 26 May 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 proposed modification *CMC\_09\_20 - Modification to the Long Stop Date for the CY2020/21 T-1 Capacity Auction*. Further 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 27 July 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\_09\_20 – MODIFICATION TO THE LONG STOP DATE FOR THE CY2020/21 T-1 CAPACITY AUCTION

#### Proposer: DRAI

#### Proposal Overview

2.1.1 This modification proposes to introduce a new section within the CMC – *M.11 Provisions Applicable to the T-1 Capacity Auction for Capacity Year 2020/21 only.*

2.1.2 In their proposal, the DRAI have proposed to adjust the Long Stop Date for the 2020/21 Capacity Year, for any CMUs that have successfully been awarded a one year Reliability Option (RO) contract. The current Long Stop Date is 31 October 2020.

The initial proposal submitted proposes this date should be adjusted to 31 December 2020.

2.1.3 This modification proposes the introduction of the following text:

*M.11.1 The provisions of this section M.11 apply only to the T-1 Auction for Capacity Year 2020/21, (the T-1 2020/21 Auction).*

*M.11.2 Paragraph J.6.1.1 (b) (ii) shall be replaced with “in the case of a Capacity Award with a capacity duration of one year or less, the last day of the third full calendar Month after the start of the first Capacity Year in which the Awarded New Capacity is to be provided, or such later date as may be determined by the Regulatory Authorities, due to restrictions implemented in response to COVID-19, and notified to the System Operators.*

*M.11.3 In the event of any inconsistency or conflict between a provision of this section M.11 and any other provision of this Code, the provision of this section M.11 shall prevail to the extent of the inconsistency or conflict. Save as expressly amended by this section M.11 the Capacity Market Code shall continue to apply to the T-1 2020/21 Auction in accordance with its terms.*

2.1.4 The proposal states that restrictions implemented due to the ongoing COVID-19 pandemic are having a significant negative impact on 28 CMUs which successfully secured an RO for Awarded New Capacity for CY2020/21 in the T-1 auction which took place on 26 November 2019.

2.1.5 The DRAI state that these current restrictions are preventing Participants from completing construction works to install and commission equipment and also from completing the required testing with the System Operator. They highlight concerns that restrictions will prevent Participants from achieving Substantial or Minimum Completion prior to the Long Stop Date at many of the industrial and manufacturing sites where DSUs/AGUs have contracted to commission New Capacity.

- 2.1.6 If a CMU is unable to achieve Substantial or Minimum Completion prior to the current Long Stop Date of 31 October 2020 (for Awarded New Capacity with capacity duration of 1 year) this will result in the CMU's Awarded New Capacity being terminated by the System Operators, and the CMU incurring the Termination Charge (currently 30,000 €/MW, rising to 40,000 €/MW from 1st October 2020).
- 2.1.7 The DRAI justified the submission stating that an adjustment to the Long Stop Date will significantly reduce the risk for new capacity providers caused by the Covid-19 restrictions, without material impact on security of supply and the value of the CRM hedge to consumers.
- 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 Statkraft stated that they are currently being impacted by this issue and would be fully supportive of the proposal. They elaborated that they have invested in new capacity and are currently processing the commissioning. However they stated that it is likely that delivery will be later than initially anticipated.

They elaborated that they are keen to move forward with the process of commissioning and noted that the use of the force majeure processes would prove to be highly complex and inefficient.

- 2.1.10 The RAs queried the decision to submit the proposal marked as urgent. The RAs advised that the interpretation of the proposal would be that, if approved, if implementation occurs ahead of the new Capacity Year, beginning on 1 October 2020, this should be sufficient to solve the issue at hand.
- 2.1.11 The DRAI highlighted that the urgency behind the proposal is driven by the need to have this implemented, at the latest by the beginning of the upcoming 2020/21 Capacity Year.
- 2.1.12 The RAs questioned if it would be acceptable from the DRAI side for the RAs to publish a timetable that would facilitate a full (20WD) consultation, if it was permissible to have a modification implemented, if approved, ahead of the beginning of the next Capacity Year.
- 2.1.13 The DRAI stated this would be acceptable.
- 2.1.14 The RAs requested it be noted, that if the proposal is implemented, section B.16 of the CMC would remain active. This would ensure that were there to be the risk that a participant wasn't able to deliver by the adjusted Long Stop Date, they would still be able to follow the Force Majeure route, although the likelihood of this would hopefully be minimised with the inclusion of this proposal.
- 2.1.15 Energia queried whether the DRAI could provide some detail on the difficulties that were being experienced at sites as a result of the COVID-19 restrictions.

2.1.16 The DRAI advised that the impact on participants is strongly concentrated among DSUs and AGUs.

They have noted that a large number of the sites in question are situated at large commercial and industrial sites, which have been experiencing heavy restrictions which are aimed at ensuring that the sites can continue to operate and ensure production can continue.

2.1.17 They highlighted that the ability to allow for contractors to access sites, to test or install equipment, has proven to be quite challenging as a direct result of the restrictions.

2.1.18 One participant requested details as to whether, in the worst case scenario, any consideration has been given to what potential existing capacity would do if an RO event occurred and what the potential missing capacity could do if an RO even occurred.

2.1.19 The DRAI advised that as yet they haven't performed analysis with regards to this. They stated that with this being the case they were unable to provide the exact volume of capacity that is impacted. However, they have stated that, in the worst case scenario, the maximum volume affected is estimated around 145MW, although it would be unlikely that such a volume would be impacted.

2.1.20 Whilst they haven't performed a full analysis piece, the DRAI expect that if any volume is affected, it should be less than 100MW. They have advised that the capacity within the 145MW was new at the time of qualification for the T-1 CY2020/21 Capacity Auction and it is likely that a portion of this capacity has already been commissioned.

2.1.21 The SOs stated that in general, it would be good to understand the impacts in further detail. They believe there are several considerations that must be taken into account and further commented that any capacity that isn't delivered by the current Long Stop Date will have an impact on scarcity which will impact the entire market.

2.1.22 The SOs highlighted that the peak demand period must be considered as, given that these are one year ROs, the winter period for this capacity year is key. They elaborated that availability of capacity during the winter period is critical and capacity that isn't available at during this period is of less value to the system when available later in the year.

2.1.23 The SOs also noted that with the lockdown, a volume of planned outage work which would normally have taken place during the summer may be shifted into the winter of CY2020/21 increasing the risk of scarcity.

2.1.24 The SOs requested whether an earlier amended Long Stop Date could be tabled to facilitate the testing requirements associated with the commissioning process. They have stated that from a scarcity point of view, a Long Stop Date set prior to December would be something that should be considered.

They also highlighted further concerns they have with the Long Stop Date set at end of December. Given the amended Long Stop Date would fall in the middle of the Christmas holiday period this would put additional stress on resources in terms of the level of activity that would be required for any units who are aiming to complete delivery ahead of this Long Stop Date.

- 2.1.25 The DRAI stated they would take this offline for consideration and to analyse how, or if, the proposal could be adjusted. They did however query the request to adjust the Long Stop Date to ahead of December, advising that if this was adjusted to the end of November, a one month extension may not be viewed as sufficient.
- 2.1.26 Clarity was requested around the projections relating to the delivery of capacity between now and the beginning of the Capacity Year and at what point the DRAI would know the exact volume of capacity would be affected.
- 2.1.27 The DRAI advised weren't in a position to provide an exact value at this stage. They noted that to get a firm answer they would be required to survey each of the nine participants affected and request how much of this capacity has been delivered and what remains outstanding. From the volume outstanding they would then need to request detail on how they see that being affected and whether it is likely as to whether it would be available for the new Capacity Year, or whether it would be later.
- 2.1.28 BGE queried whether there are any plans in place to obtain this information to which the DRAI highlighted that they submitted the proposal in light of the fact that some capacity will be affected, however, not all of the participants affected have come together to collate this. They elaborated that, whilst some of the information could be confidential, they could look into whether this is something they could provide.
- 2.1.29 BGE also requested confirmation as to whether there has been any consideration has been given to any alternative measures to mitigate this issue, outside of amending the Long Stop Date or following the Force majeure process.
- 2.1.30 The DRAI stated that with regard to the options available to provide relief to participants affected here, no other options were considered.
- 2.1.31 By way of an alternative solution to the issue, ESB questioned whether the ability for participants to utilise Secondary Trading, to trade the volume in question ahead of the termination period, could be utilised, given that proposal *CMC\_09\_19 - Supplementary Interim Secondary Trading* is currently being processed.

They highlighted that with this solution the concerns of the SOs with regard to scarcity and the concerns associated with termination charges put forward by the DRAI, could be mitigated.

- 2.1.32 The RAs advised that, whilst this is an interesting point, Secondary Trading was not yet implemented in the CMC, beyond the very basic interim process set out in M.7. While the extension to the scope of secondary trading set out in *CMC\_09\_19* was being progressed, the timing of the two mods, progressing in parallel, would not enable this to be used in the situation this modification was seeking to tackle. Additionally, the existing proposal would need extending to allow it to be usable for capacity that hasn't yet been commissioned which might be possible in the future, but not for October 2020.

2.1.33 The SOs commented on this, stating that it is their understanding that in the as part of the enduring solution within the CMC, Secondary Trading is restricted to commissioned capacity and a participant would be unable to trade out of a position whereby the capacity hasn't yet been delivered. However, the SOs advised that this could be something that could be considered.

### **Additional Submission of Comments by the Modification Proposer**

2.1.34 The DRAI submitted to the RAs, on 4 June 2020, additional information relating to the modification CMC\_09\_20. In their submission that have referred to several areas that were discussed during Working Group 13.

2.1.35 A summary of the details contained within the additional submission is set out below. Further details on this can be found in the submission, contained in Appendix C.

#### **Affected Capacity**

2.1.36 They highlighted that nine Participants secured New Capacity with a 1 year Capacity Duration for the 2020/21 Capacity Year in the T-1 auction held during late 2019, securing a total of 144.6 MW (de-rated) spread across 27 CMUs.

2.1.37 Following the discussions at Working Group 13 they have undertaken a detailed survey of the potentially impacted Participants and confirmed that 81.4MW of this capacity (de-rated) has already been delivered, meaning that a total of 63.2MW of capacity (de-rated) remains still to be commissioned and is impacted by the ongoing Covid-19 restrictions.

2.1.38 The 63.2 MW of affected capacity is spread across 19 units, with a highly concentrated impact upon seven relatively small market Participants. The DRAI's view is that the amount of capacity impacted is such that a reasonable Long Stop Date extension, proportionate to the level of restrictions faced in the delivery of this capacity is highly justified without material impact on security of supply and the value of the CRM hedge to consumers.

2.1.39 The DRAI also highlighted that, if any particular unit is unable to reach Minimum Completion by the Long Stop Date, all of that unit's Awarded New Capacity would be terminated. The elaborated that this would likely mean that, even though only 63.2 MW of new capacity remains to be commissioned, delays to commissioning this capacity could lead to a much larger portion of the 144.6 MW which secured New Capacity in the 2020/21 T-1 capacity auction being terminated.

#### **Additional Insights into Challenges Faced**

2.1.40 They have provided additional information with regard to the difficulties that have been experienced on site, whilst attempting to further the commissioning of New Capacity. These include difficulties with regard to:

- Contractor access to sites;
- Restrictions at sites where DSUs/AGUs have committed to commission New Capacity;

- Host site temporary closures;
- SO testing restrictions;
- End customer ability to prioritise capacity market participation;
- Risk to employees
- Continuing restrictions

### **Proposal Urgency**

2.1.41 The DRAI have confirmed that whilst the modification was initially submitted as “urgent”, it is acceptable that the Modification be progressed under the standard modifications process. They have however highlighted the importance that a decision is reached, at the very latest, prior to the start of the 2020/21 Capacity Year on 1st October 2020.

### **Long Stop Date Extension Duration**

2.1.42 The DRAI stated they recognise the points raised by the SO regarding the importance of ensuring as much capacity as possible is available during the winter period when peak demands typically occur. However, they highlighted that peak demands can also historically occur during January and February, illustrating the system benefit from extending the Long Stop Date, by enabling some capacity to be delivered by the end of 2020 and therefore being available during the two winter months of January and February that would otherwise have been terminated by the current Long Stop Date of 31 October.

2.1.43 They have also acknowledged the practical challenges associated with setting the modified Long Stop Date to 31 December, due to the Christmas holiday period and the impact of potentially concentrating commissioning and testing activity around this date. However, they disagree with the SO suggestion to set the revised Long Stop Date prior to December, as they believe it does not provide a sufficient extension proportionate to the impact of the restrictions faced due to COVID-19.

### **In response to the concerns raised about the practicality of 31 December as the extended Long Stop Date, the DRAI propose that the Long Stop Date instead be extended to 20 January 2021.**

2.1.44 DRAI state it is their belief that extending the Long Stop Date to less than 4 months from the start of the Capacity Year, for less than 65 MW of capacity, is reasonable given the severity of the current situation.

### **Minded to Position**

2.1.45 The RAs recognise the issues identified by DRAI with progressing the process of bringing New Capacity on-line during the lockdown period. The implementation of the proposed Modification would represent a simpler route for managing such delays than use of the Force Majeure provisions of the CMC (sub-section B.16). We would further note that this route still remains accessible even with the proposed Modification.

- 2.1.46 Equally, we recognise the concerns raised by the SOs about the greater risk of scarcity events during the winter period and the increased risk of scarcity which may arise as planned outage work (on both generation and transmission assets) is forced into the winter period following the lockdown.
- 2.1.47 In an attempt to balance these competing concerns, the RAs feel that extension of the Long Stop Date to **18 December 2020**, for capacity with a single year award, avoids the issues around 31 December without encroaching further into the winter period with the potential adverse consequences for the supplier hedge that could involve.
- 2.1.48 The RAs note that to use the Force Majeure provisions of the CMC, a participant needs to provide evidence in support of their claim. Given that not all single-year awarded capacity appears unable to deliver by the existing Long Stop Date, the RAs question whether an automatic extension of the date for all participants is appropriate. We would be interested in respondents' views as to whether the extension should be contingent on provision of some degree of evidence to the RAs. This could be as simple as a letter from the participant confirming the reason for the delay and requesting the extension.
- 2.1.49 Subject to the change of the Long Stop Date extension to 18 December 2020 and the feedback as to whether the extension should be automatic or, to some degree, contingent, the RAs are minded to approve the proposed 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 August 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](mailto:Kevin.Lenaghan@uregni.gov.uk)) and Kevin Baron ([Kevin.Baron@uregni.gov.uk](mailto:Kevin.Baron@uregni.gov.uk)) by 17.00 on Monday, 27 July 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.