



**Single Electricity Market
(SEM)**

**Capacity Market Code Working Group Modification
Consultation Paper**

CMC_16_22: Secondary Trading Awarded New Capacity

SEM-22-093

01 December 2022

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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 with regard to the proposed modification to the Capacity Market Code (CMC) discussed at the Working Group held on 17 November 2022.

1.1.2 During this Working Group, one standard modification was presented. This consultation paper relates to:

CMC_16_22: Secondary Trading Awarded New Capacity¹

1.2 BACKGROUND

1.2.1 The SEM CRM detailed design and auction process has been developed through a series of consultation and decision papers with these being available on the SEM Committee's (SEMC) website. These decisions were translated into legal drafting of the market rules via an extensive consultative process leading to the publication of the Trading and Settlement Code (TSC) and the Capacity Market Code (CMC). An updated version of the CMC (v7.0) was published on 12 August 2022 and the most recent version of the TSC (v26.0) was published on 17 May 2022.

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 https://www.sem-o.com/documents/market-modifications/CMC_16_22/CMC_16_22v2SecondaryTradingdelaystoAwardedNewCapacity.pdf

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 the 03 November 2022 the Transmission System Operators (TSOs) EirGrid/SONI submitted a Modification Proposal (CMC_16_22) under the terms of B.12.4.

1.2.12 As the Modification Proposal was marked as Standard, it will be dealt with through the normal Modification process.

1.2.13 Following a review of the proposal, the Regulatory Authorities determined that it was not spurious.

1.2.14 On 01 December 2022 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 28 where the Modification Proposal was considered on 17 November 2022.
- 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. 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 no later than 17:00 on Tuesday 03 January 2023. **Please note that late submissions will not be accepted.**
- 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_16_22 – SECONDARY TRADING AWARDED NEW CAPACITY

Proposer: Transmission System Operators (TSOs) – EirGrid / SONI

Proposal Overview

- 2.1.1 This proposal aims to provide contingency, through a remedial action, where there is a delay to the delivery of New Capacity by the beginning of the Capacity Year. This would be through the

ability to trade Awarded New Capacity to an existing unit, where that unit was capable of taking on the additional capacity and subject to RA approval.

- 2.1.2 Currently, where Awarded New Capacity is not delivered by the beginning of the Capacity Year, the Participant faces risk in respect to possible termination of the first year of a multi-year award (typically 10 years) in accordance with J.6.1.6 of the Capacity Market Code (CMC).
- 2.1.3 As Awarded New Capacity is not settled until Substantial Completion, it is possible to enable an existing unit to cover the Awarded Capacity and receive payment for doing so. This would leave the rights and obligations of the Awarded New Capacity for the New Capacity untouched.
- 2.1.4 The proposal would entirely mitigate the risk of termination for the first year of the Awarded New Capacity under J.6.1.6 of the CMC.
- 2.1.5 The trade would apply for a period between the start of the Capacity Year and the date of Substantial Completion (or termination, if applicable) and the Secondary Trade would be recorded as a single register entry update to the Capacity and Trade Register.
- 2.1.6 The trade to an existing unit would be subject to the Existing Capacity Price Cap (ECPC) and the existing capacity could apply for a Unit Specific Price Cap (USPC) which would be considered by the RAs.
- 2.1.7 The trade would only be able to cover a period up to the Long Stop Date and the Awarded Capacity traded to the existing capacity would be treated as existing capacity and settled accordingly.
- 2.1.8 Failure to implement the Modification Proposals would mean Participants have limited options to manage delays to delivery of Awarded New Capacity and would face a higher risk of termination of the first year of Awarded New Capacity in accordance with J.6.1.6 of the CMC.
- 2.1.9 Further details on the Modification Proposal are set out in the appended Modification Proposal Appendix B, which includes the draft changes to the CMC.

2.2 WORKING GROUP FEEDBACK ON CMC_16_22

- 2.2.1 Capacity Market Modifications Workshop 28 took place on Thursday 17 November 2022 where the modification was presented and discussed.
- 2.2.2 FERA welcomed the Modification Proposal and the fact it was not deemed urgent. However, they questioned whether a generator in one LCC area would be able to trade with a generator in another and why the price was limited.

- 2.2.3 The TSOs responded that they did want to limit options and would give consideration to the points raised.
- 2.2.4 EPEDL and Kilshane Energy both questioned the benefit of the proposed Modification to the developer given the developer would still only receive payment through settlement at Substantial Completion, even if that was delayed.
- 2.2.5 The TSOs replied that the benefit to the developer was mitigation against the risk of termination under J.6.1.6 of the CMC. The proposed modification provides an avenue for a developer to provide for any delay by undertaking a secondary trade with existing capacity, thus helping to cover their obligation.
- 2.2.6 The issue around trading between LCC areas was also raised by Energia who argued that this should be a fundamental high level design issue rather than something to be addressed in the modification.
- 2.2.7 BGE also had concerns around LCC restrictions and believed that the modification, if it had locational restrictions, could favour incumbent generators who had a lot of generation across the island and disadvantage newer participants who had to trade with one or two counterparties in a certain location.
- 2.2.8 The TSOs agreed that this was an important consideration and was related to market power and liquidity.
- 2.2.9 Discussions also took place around the mechanism by which an Existing unit could trade the capacity by taking on the difference between their Initial Capacity and De-Rated Capacity. It was suggested that this could be opened further to include the difference between the De-Rated Capacity and the Load Following Capacity which changes over the year with demand.
- 2.2.10 Kilshane Energy suggested that if there was a mechanism whereby developers could mitigate some of their potential loss for a six month capacity award by secondary trading, there might be more liquidity from Awarded New Capacity.
- 2.2.11 The TSOs stated that this could be complicated but would take it away for consideration.
- 2.2.12 The TSOs noted that the changed drafting in E.10 would allow the existing extended duration provisions to continue beyond a single Capacity Year, potentially providing additional liquidity from capacity that is closing.

Minded to Position

- 2.2.13 The SEM Committee welcome feedback and comments with regard to this proposed modification.

- 2.2.14 Recognition is given to the fact the proposal offers a contingency to participants where delays arise to the delivery of New Capacity by the beginning of the Capacity Year.
- 2.2.15 The SEM Committee notes the significant work the SOs have put into re-working their proposal to take account of feedback from the Working Group and that the new proposed modification offers two alternative approaches to the formation of the secondary trade.
- 2.2.16 The SEM Committee has concerns that the changes to E.10, allowing extended duration beyond the end of the Capacity Year, potentially come into conflict with the opt-out process and, in particular, with the condition in paragraph E.3.1.1(a).
- 2.2.17 The SEM Committee observe that that there may be interaction between this modification and the proposed Third Party Delay Extension Modification(s) (CMC_12-15_22). Both modifications seek to use the Capacity Payments awarded at the time of the original auction, albeit in different ways. In consequence, it would not be appropriate for both modifications to apply to the same new capacity. This may require some further drafting in this modification and, potentially, the Extension Modification to ensure only one option can be used by any given tranche of new capacity.
- 2.2.18 While the SEM Committee are minded to approve this proposal for implementation, a final version will need to select the method to be used for the secondary trade and resolve the conflict with the opt-out process.

3. CONSULTATION QUESTIONS

- 3.1.1 The SEM Committee welcomes views and responses on the proposed modification raised within this consultation paper.
- 3.1.2 Respondents are invited to provide comments and feedback 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 by 31 January 2023 on the implementation of the Modification outlined within this consultation paper.

- 4.1.2 Responses to the consultation paper **must** be sent to the CRM Submissions inbox (CRMsubmissions@uregni.gov.uk), Ian McClelland (Ian.McClelland@uregni.gov.uk) and Donna Maye (Donna.Maye@uregni.gov.uk) **by no later than 17:00 on Tuesday 03 January 2023. Please note that late submissions will not be accepted.**
- 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.