



**Single Electricity Market
(SEM)**

**Capacity Market Code Working Group 14
Decision Paper**

SEM-20-069

16 October 2020

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating specifically to the Proposed Modifications CMC_10_20 and CMC_11_20 to the Capacity Market Code (CMC) discussed at the Working Group held on 23 July 2020.

The decision within this paper follows on from the associated consultation (SEM-20-056¹) which closed on 14 September 2020.

This paper considers the proposed modifications presented at WG14. The proposed modifications relate to:

➤ **CMC_10_20 – Change to Determinations Made in F.4.1.1**

This modification proposal provided for a change in the determinations made by the SOs under F.4.1.1. This included the determination of the Locational Capacity Constraint Required Quantity (LCCRQ) and related quantities. The change adds the determination of the quantity awarded in previous auctions to enable the quantity to be used in the auction to be made visible.

➤ **CMC_11_20 – Providing greater flexibility for the Current Interim Secondary Trading Notification (ISTN) Process**

This modification proposal is designed to provide greater flexibility with regards to units being subject to, what is perceived to be, a lengthy notice period to activate and/or cease an ISTN.

Seven responses were received to the Capacity Market Code Working Group 14 Modification Consultation Paper, none of which were marked as confidential.

The purpose of the proposed modifications was to further the Code Objectives within the CMC, specifically:

A.1.2.1 *This Code is designed to facilitate achievement of the following objectives (the “Capacity Market Code Objectives”):*

CMC_10_20 –

(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;*

¹ Capacity Market Code Working Group 14 Consultation Paper:
<https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-056%20WG14%20Consultation%20Paper.pdf>

CMC_11_20 –

- (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;*

- (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.*

Summary of Key Decisions

Following consideration of the proposals and the responses received to the consultation the SEM Committee have decided:

Modification	Decision
CMC_10_20 – Change to determinations made in F.4.1.1	Approve
CMC_11_20 – Providing greater flexibility for the current Interim Secondary Trading Notification (ISTN) process	Approve

Contents

EXECUTIVE SUMMARY	2
1. Overview.....	5
1.1. Background.....	5
1.2. Responses to Consultation	7
2. CMC_10_20 – Change to Determinations made in F.4.1.1	8
2.1. Consultation Summary	8
2.2. Summary of Responses	8
2.3. SEM Committee Decisions.....	10
3. CMC_11_20 – Providing Greater Flexibility for the Current Interim Secondary Trading Notification (ISTN) process (Version 2).....	10
3.1. Consultation Summary	10
3.2. Summary of Responses	11
3.3. SEM Committee Decisions.....	14
4. Next Steps.....	15

Appendix A – Modification Proposals (as consulted upon)

Appendix B – Responses to *SEM-20-056 - Capacity Market Code WG14 Modification Consultation Paper*

Appendix C – Approved Modification Text Drafting – CMC_10_20

Appendix D – Approved Modification Text Drafting – CMC_11_20

1. OVERVIEW

1.1. BACKGROUND

1.1.1. 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 modification of the CMC

1.1.2. Section B.12 of the CMC outlines the process used to modify the code. In particular, it sets out the processes for proposing, consideration, consultation and implementation or rejection of Modifications to the CMC.

1.1.3. 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).

1.1.4. 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.

1.1.5. 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.

1.1.6. 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.

1.1.7. 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.

1.1.8. If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs will determine the procedure and timetable to be followed in the assessment of the Modification Proposal. The CMC states that the procedure and timetable may vary from the normal processes set out in the code, allowing for the modification to be fast-tracked.

Process and Timeline for these Modifications

- 1.1.9. On 10 July 2020 the SOs notified the RAs of the two proposed modifications submitted for discussion at WG14 held on 23 July 2020, with CMC_10_20 submitted by the RAs and CMC_11_20 submitted by Energia.
- 1.1.10. Both of the proposed modifications were marked as Standard and were processed through the normal Modification process.
- 1.1.11. On the 6 August 2020 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 14 where the Modification Proposals were considered on 23 July 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, with this paper being published on 14 August 2020.
 - 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.
- 1.1.12. The purpose of this decision paper is to set out the decision relating to Modification Proposals CMC_10_20 and CMC_11_20 discussed during Working Group 14 to either:
 - a) Implement a modification;
 - b) Reject a modification; or
 - c) Undertake further consideration in regards to matters raised in the modification proposal.
- 1.1.13. This decision paper sets out a summary of the consultation proposals and sets out the SEM Committee's decision.

1.2. RESPONSES TO CONSULTATION

1.1.14. This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-20-056) which was published on 14 August 2020.

1.1.15. A total of seven responses were received by close of the consultation period and none were marked confidential. The respondents are outlined below and copies of each response can be obtained from the SEM Committee website.

- Demand Response Association Ireland (DRAI)
- Moyle Interconnector Limited
- ESB GT
- Bord Gáis Energy (BGE)
- EirGrid/SONI
- Electricity Association of Ireland (EAI)
- Energia

2. CMC_10_20 – CHANGE TO DETERMINATIONS MADE IN F.4.1.1

2.1. CONSULTATION SUMMARY

- 2.1.1. This modification proposed to make a change with regard to the determinations made by the SOs under F.4.1.1 of the CMC.
- 2.1.2. In the proposal, the RAs advised these determinations included the determination of the Locational Capacity Constraint Required Quantity (LCCRQ) and related quantities.

LCCRQ is a gross quantity, i.e. it does not take account of any capacity already awarded in a Locational Capacity Constraint Area. When LCCRQ is used in establishing the parameters for the auction (in F.8.2.1) it is used as a net quantity and previously awarded capacity is netted off.
- 2.1.3. The proposal intends to add the determination of the quantity awarded in previous auctions to enable the quantity to be used in the auction to be made visible.
- 2.1.4. In addition, the timing of the determination is made consistent with the analogous process in F.3.1.1 for the determination of the key inputs to the determination of the Demand Curve.
- 2.1.5. The RAs were of the view that Proposal fills an information gap in the ability of the RAs to understand the impact of previously awarded capacity on a Locational Capacity Constraint Area and the volume of capacity that needs to be awarded in the current auction in respect of that area. This gap has previously been bridged through co-operative working between the RAs and SOs but it seems appropriate to recognise it in the CMC.
- 2.1.6. The proposal was also intended to align the timing of the determination of the elements of LCCRQ with the determination of key elements of the Demand Curve. Given the strong links between these quantities and the impact of Locational Capacity Constraints on the auction, it is important that the RAs are able to understand the expected level of LCCRQ that will be used in the auction.

2.2. SUMMARY OF RESPONSES

- 2.2.1. A total of seven responses were received to the consultation and in summary, all respondents provided support for the implementation of the proposal stating that the implementation of the proposal will provide clarity, improve transparency and further code objectives, specifically (b) and (e).
- 2.2.2. The DRAI commented that the proposal appears to effectively be a housekeeping modification, focussed on improving clarity and transparency in how this important auction parameter is calculated, and therefore they have no objection to proposal and support the SEM-Committee minded to position to approve the Modification.
- 2.2.3. Moyle highlighted that, given the proposal improves the communication of auction parameters, assisting transparency and reducing potential for misinterpretation of parameters among market participants, they support the SEM Committee minded-to position to approve the modification.

- 2.2.4. ESB GT stated that the proposal improves the efficiency of the CMC in relation to the transfer of information between the RAs and the SO.

They advised that, as suggested in the working group, they believe the inclusion of the additional information (previously Awarded Capacity) in the Initial/Final Auction Information Pack facilitate the efficient operation of the participants as well. They have also requested that, if this isn't to be included in this modification could the reason(s) please be provided.

- 2.2.5. ESB GT also suggested that changes could be made to the proposal drafting to provide participants with the information in an easily acceptable format. They suggested the following amendments:

D.3.1.2 (e) at the date of the Initial Auction Information Pack, how much Awarded Capacity has already been procured for the relevant Capacity Year and per Locational Capacity Constraint Area;

- 2.2.6. In their response, BGE stated their support for the proposal, which was to clarify in the CMC that the 'locational capacity constraint required quantity' determined for each capacity auction is a "net" figure not a "gross" figure, i.e. the figure should take account of any capacity already awarded in a locational capacity constraint area.

They elaborated that this is welcomed as will allow for additional transparency in understanding how these volumes are calculated for each auction and the capacity requirement(s).

- 2.2.7. EirGrid/SONI took this opportunity to advise that, whilst this proposal seeks to add additional information on previously Awarded Capacity for areas which are subject to a Locational Constraint to F.4.1.1, it should be noted that this information is available and has been provided to the RAs on request for previous auctions and is likely to be useful in making it easier to determine the volume of additional capacity which would have to be procured to satisfy a given Locational Capacity Constraint for each auction.

As such, EirGrid and SONI stated they agree that it is logical to codify the provision of this information. They also support the alignment of the timing detail in F.4.1.1 so that it is consistent with the analogous process detailed in F.3.1.1.

- 2.2.8. In relation to the question of inclusion of this information in Final Auction Information Packs (FAIP), EirGrid/SONI stated that it is possible to include this detail, without the need for any system change via a relatively straightforward process change and they are happy to facilitate this to enhance transparency for Participants. However, they elaborated that they are conscious that the timing of FAIP publication is different from the proposed timing of the determinations detailed in F.4.1.1 and suggest that this is considered if including legal drafting changes to add this detail into the set of information to be included in each FAIP.

2.3. SEM COMMITTEE DECISIONS

- 2.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process.
- 2.3.2. The SEM Committee notes the request to provide information of previously Awarded Capacity in the Auction Information Packs and that the SOs believe this can be accomplished without system changes. The drafting of the proposed Modification has been modified to include this change.
- 2.3.3. Given its minded-to position and the positive response to the modification, the SEM Committee approves the modification with the legal text given in Appendix C.

3. CMC_11_20 – PROVIDING GREATER FLEXIBILITY FOR THE CURRENT INTERIM SECONDARY TRADING NOTIFICATION (ISTN) PROCESS (VERSION 2)

3.1. CONSULTATION SUMMARY

- 3.1.1. This aim of this modification proposal was to provide a greater degree of flexibility in terms of the notice period to activate and/or cease an ISTN.
- 3.1.2. This proposal was submitted by Energia and, in their proposal, they highlighted that in the absence of an enduring solution for Secondary Trading as provided for in Section H of the CMC, an interim solution was put in place as per Section M.7 which enables Capacity Market Units (CMUs) to suspend their Reliability Options (ROs) during Planned Outages by providing an Interim Secondary Trade Notification (ISTN) to the System Operators (SOs).
- 3.1.3. Energia stated that they believe the current Interim Secondary Trading Arrangements are highly restrictive, specifically with regard to:
 - Being limited to ‘Planned Outages’ (as designated by the SO), in circumstances where the ISTN does not appear to dynamically adjust if a plant delays going on outage, is on partial outage or returns from outage early; and
 - Being subject to a lengthy notice period to activate and/or cease an ISTN.
- 3.1.4. Energia stated that as part of the current process, an ISTN must be submitted to the SO no later than ten Working Days prior to the beginning of the Month specified in the ISTN, which they believe is overly restrictive, especially where the ISTN does not dynamically adjust.
- 3.1.5. Consequently, an ISTN that must be activated or ceased in accordance with the current notice periods could needlessly suspend an RO in circumstances where the start date of the outage has been delayed, or a plant becomes partially available during the outage (e.g. a CCGT in open cycle mode), or returns from outage early.

- 3.1.6. Energia argued that this unfairly penalises plants that are fully or partially available and are unable to amend their ISTN accordingly, which in turn exacerbates the 'hole in the hedge' and weakens the incentive for plants to adjust their outages to maximise availability and accommodate system requirements.
- 3.1.7. Energia propose that the time frame for submitting an ISTN be reduced to 5 Working Days in advance of becoming active and allow an existing ISTN to be amended by providing notice of one Working Day.

3.2. SUMMARY OF RESPONSES

- 3.2.1. A total of seven responses were received to the consultation and in summary all respondents were supportive of the minded-to position to approve the proposal for implementation.
- 3.2.2. Several respondents stated that that the proposal furthers the CMC code objects (b) and (g) as it will improve the flexibility for generators to mitigate risk and also reduces the possibility of a hole in the hedge for the customer.
- 3.2.3. The DRAI stated that, similarly to Modification proposal CMC_09_19 (Supplementary Interim Secondary Trading v2) which seeks to enhance their scope, they support the general intent of the proposal to provide greater flexibility within the existing interim secondary trading arrangements.
- 3.2.4. In addition to progressing the proposal, the DRAI reiterated their view that having a full set of enduring arrangements in place to enable the secondary trading of Reliability Obligations is an important part of the development of the Capacity Market, and part of the original European state aid approval for the mechanism was based on this being in place.

They stated that the rationale set out in support of the proposal is clear, and elaborated that they recognise the significant lack of flexibility afforded within the current ISTN process.
- 3.2.5. The DRAI focused on their belief that, in particular, the requirement to submit an ISTN no later than 10 Working Days (WD) prior to the beginning of the month specified in the ISTN seems overly restrictive, and they support the proposal to reduce this notification period to 5 days prior to the ISTN becoming active.

They also stated they are supportive of the proposal to allow Participants to amend or de-activate an ISTN if it becomes possible to return a unit to service earlier than originally envisaged. They elaborated that this will benefit capacity providers availing of the ISTN process as well as security of supply and the value of the CRM hedge to consumers.

- 3.2.6. The DRAI summarised that, in advance of the enduring secondary trading arrangements being in place, they support the proposal to make the existing ISTN process more flexible, in terms of notice periods and flexibility to amend an ISTN if returning earlier than envisaged from an outage.

The DRAI therefore supports the SEM Committee minded to position to approve the Modification.

- 3.2.7. Moyle highlighted that the secondary trading of capacity contracts is a fundamental part of the design of the new market arrangements and a key requirement in the state aid approval of the capacity mechanism.

They stated that the ongoing absence of arrangements for secondary trading of capacity contracts (as opposed to their effective suspension through the interim process in section M.7) means that presently participants have very limited and inflexible means to de-risk exposure in the event of outages.

Moyle highlighted their belief that this problem is exacerbated by the long notice times for changing the ISTNs in response to unanticipated changes in availability.

- 3.2.8. Moyle stated that the changes proposed in this modification proposal, while not a substitute for proper secondary trading arrangements (development of which should remain a priority), are a welcome improvement and will permit participants more flexibly to manage exposure due to outages.

They consider that the modification positively contributes to code objectives (b) and (g) and taking this, along with their comments on board, they strongly support the minded to position to approve the modification, subject to resolution of the associated business process.

- 3.2.9. BGE stated they support the proposal to allow for greater flexibility in the current capacity market Interim Secondary Trading Notification (ISTN) process.

They advised it is their view that the current ISTN process is limited and that more flexibility will allow early returns from outage which would mitigate 'hole in hedge' concerns and maximise generator availability and better accommodate system requirements.

- 3.2.10. This view was mirrored by a number of respondents, including EAI and Energia, who advised the current Interim Secondary Trading Arrangements are highly restrictive and that the proposed modification is essential in providing additional flexibility that will assist market participants in managing the risk of their Reliability Option (RO).

- 3.2.11. BGE stated that the 5WD timeline suggested for submission of an ISTN in advance of it becoming active is supported and they understand the SOs believe this to be achievable. They also advised they would support the move to amending existing ISTNs with 1WD notice (from 3WD notice) over time.

- 3.2.12. However, they wished to reiterate the view that the timeline associated with CMC_09_19 – Supplementary Interim Secondary Trading (Version 2) should not be impacted by this proposal. BGE state that this proposal is a complement to that if CMC_09_19 is approved.

This view was reiterated by several respondents.

- 3.2.13. EAI stated they would also be supportive of reducing the notice times to both active an ISTN (5WD) at the commencement of a planned outage and to amend the ISTN (ideally 3 WD but with a commitment to reducing to 1WD over a 12 month period from implementation) during the course of a planned outage to reflect varying volumes of Net Capacity Quantity.

Furthermore, they have taken this opportunity to emphasise the urgency of implementation of the proposed modification as soon as possible so that market participants and the SO can avail of the much-needed additional flexibility that this creates. Furthermore, the EAI highlighted that this proposal should supplement the proposal CMC_09_19.

- 3.2.14. Energinet, the proposer of the modification, stated they wish to emphasise the requirement for modification CMC_11_20 to be implemented as soon as possible and noted the RA decision is due on 16 October 2020, they recommended that implementation is effective on this date as no system changes are required.
- 3.2.15. They highlighted that, at WG14, the SOs outlined that the end point of a secondary trade was when the unit returned from outage, even if this was earlier than the planned outage date. They further stated that they would welcome clarity with regard to the changed drafting to the CMC as appropriate, but note that this change would not be required to give effect to the proposed modification.
- 3.2.16. Energinet noted that the proposal is essential to provide the necessary flexibility to manage RO risk and they strongly support the proposal to provide greater flexibility to the ISTN process and the 'minded to' position of the RA's to approve the modification proposal. They further stated that implementation should occur as soon as possible and that the proposal is applied supplementary to modification proposal CMC_09_19.
- 3.2.17. EirGrid/SONI stated they support the intent of the changes outlined in the proposal to provide greater flexibility in the current ISTN process, which will have clear benefits in terms of the accuracy of the ISTNs in terms of alignment to outages. They further advised this would in turn bring benefits in the efficient application of Reliability Options (ROs) both for RO holders in terms of limiting unnecessary exposure to Difference Charges and the appropriate application of Capacity Charges, and for Suppliers, in terms of the benefits associated with the hedge as funded via Difference Charges.
- 3.2.18. They advised that whilst they wish to facilitate as much flexibility in this process as is practically possible, they reiterated concerns raised at WG14 relating to allowing time for the necessary checks and process steps to be carried out. The initial proposal indicated a 1WD turnaround for amendments to ISTNs and the second version indicates a 3WD turnaround.

EirGrid/SONI restated their belief that this is not practically implementable due to it not being possible to amend a Trade Registry entry. They advised that an amendment to a trade requires the manual insertion of a new entry. As such, EirGrid/SONI recommend that the timeline for amendments must be the same 5WD as is proposed for a new entry in order to ensure that the necessary process steps can be completed.

They highlighted that to codify an obligation to carry this out in a shorter period would result in placing an obligation on the SOs which they believe is not practically possible to comply with.

- 3.2.19. In terms of the question of whether a sculpted outage could be achieved with a single ISTN or would require multiple notifications, EirGrid/SONI confirmed that this would currently require multiple notifications.

They have suggested that a single ISTN approach could be considered for the enduring solution to secondary trading. If this is considered a more optimal approach, and is practically implementable, it could then be pursued following appropriate investigation into what is involved.

- 3.2.20. In relation to the question around whether or not M.7.2.6 (b) is sufficiently clear that a secondary trade will end whenever a unit returns to service, EirGrid/SONI are of the view that whilst this could be interpreted as being the implication, it is not currently as clear and unambiguous as it could and should be. As such, they suggested adding detail specifying that an end date should be included along with the submission of all trades to ensure clarity and certainty, either as part of the decision on this proposal or via a separate proposal if necessary.

3.3. SEM COMMITTEE DECISIONS

- 3.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process.
- 3.3.2. On the basis of the responses received, including the practicality of implementation by the SOs, the SEM Committee believe that the modification can only currently be delivered on the basis of 5 Working Days' notice to modify an existing Interim Secondary Trade Notification. This is consistent with the Additional Secondary Trade Arrangements set out in CMC_09_19 and approved in decision SEM-20-064.
- 3.3.3. The SEM Committee have taken note of the concerns around the definition of the end of the Outage and Outage Period. The legal drafting of the modification has been amended to make clearer that the ISTN includes both the start and end date of the Outage Period and M.7.2.6(b) now includes a condition to end the notional Secondary Trade at the end of the Outage Period.
- 3.3.4. The SEM Committee approve this Modification with the amended legal text given in Appendix D. It is their intent that this Modification and CMC_09_19 will operate in parallel.
- 3.3.5. As set out in SEM-20-064, the SEM Committee have decided that this Modification should be implemented in conjunction with CMC_09_19 no later than 26 October 2020.

4. NEXT STEPS

- 5.1.1 Given that the Proposed Modifications approved within this decision paper do not have any immediate systems implications, the SEM Committee require that the SOs incorporate the approved Modification, CMC_10_20, contained within this paper into the CMC via an appropriate version control process.
- 5.1.2 The SEM Committee has decided that CMC_10_20 is to be implemented and effective by no later than 26 October 2020.
- 5.1.3 Following the discussions with the SOs, and the decision to implement Modification CMC_09_19 (SEM-20-064) in parallel with Modification CMC_11_20, the SEM Committee has decided that CMC_11_20 is to be implemented and effective by no later than 26 October 2020.
- 5.1.4 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com