



**Single Electricity Market  
(SEM)**

**Capacity Market Code Modifications –  
Working Group 7 Consultation Paper**

**SEM-19-052**

**20 September 2019**

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# 1. OVERVIEW

## 1.1 ABSTRACT

- 1.1.1 Capacity Market Code Working Group 7 took place on 29<sup>th</sup> August 2019, during which one proposed modification was presented and discussed.
- 1.1.2 The proposed modification discussed at WG7 was deemed urgent as set out in paragraph B.12.9.3 of the CMC.
- 1.1.3 The proposed modification is designed to allow the Net De-rated Capacity of a unit to be adjusted even after the Final Qualification Decisions have been confirmed. If implemented the modification would allow for this adjustment to occur in the event that the Awarded Capacity for a CMU in a Capacity Auction has changed since the Final Decisions have been made as a result of the publication of the Auction Results of an earlier auction.
- 1.1.4 The proposal aims to mitigate the risk of a CMU, participating in multiple auctions, being given a multi-year contract award for the same capacity in both auctions.

## 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, with an updated version being published in June 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 (TSC) (SEM-17-024) published in April 2017.
- 1.2.2 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.
- 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.
- 1.2.4 Modifications to the CMC can be proposed and submitted by anyone, at any time and 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 SOs 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 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.

1.2.7 The CMC includes the provision for a proposer to mark a Modification proposal as “Urgent”. In the event of a proposal being marked as urgent, 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 and request the SOs to convene a Working Group to discuss the proposed Modification.

1.2.8 Proposed modification CMC\_07\_19 has been deemed urgent by the RAs as they fulfil the requirement set out in B.12.9.3 (a):

*B.12.9.3 - A Modification Proposal shall be determined to be Urgent by the Regulatory Authorities where, in their opinion:*

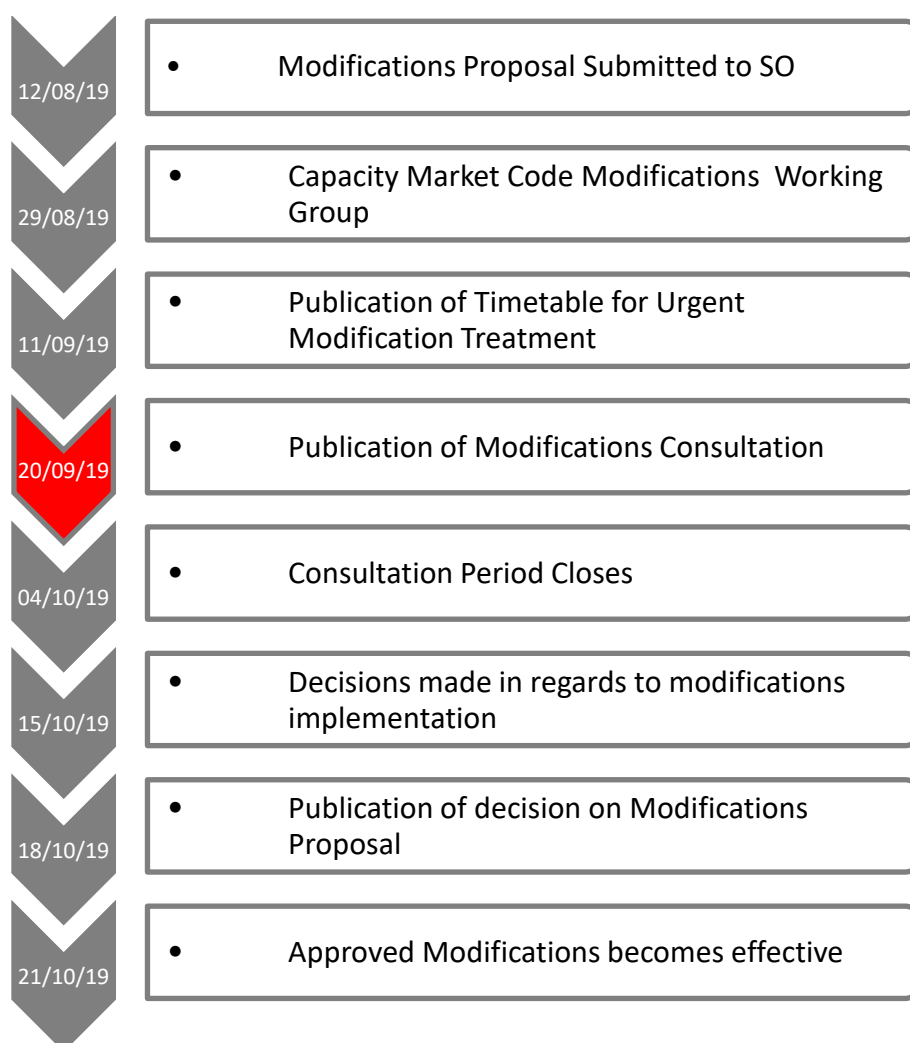
*(a) the matter raised in the Modification Proposal is required before the next Capacity Auction or Secondary Trade Auction and could not otherwise be dealt with in time for the next such auction*

1.2.9 If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs shall 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.

1.2.10 The RAs, on 11<sup>th</sup> September 2019, published the timetable for the consideration, consultation and decision relating to the proposed Modification with the Working Group to facilitate industry discussion of the modification (WG7) took place on 29<sup>th</sup> August 2019.

1.2.11 As stated within the CMC (sub-paragraph B.12.9.5 (a)) the normal processes involved in assessing a modification can vary, in this case to allow for the fast-tracking of the Modification, the RAs will proceed with a 10WD consultation period, as opposed to the 20WD period applied under the standard Modification process.

Figure 1: Capacity Market Code – Urgent Modifications Process



### 1.3 PURPOSE OF THIS CONSULTATION PAPER

- 1.3.1 Capacity Market Code Working Group 7 took place on 29<sup>th</sup> August 2019, during which one proposed modification was presented and discussed.
- 1.3.2 The RAs subsequently published the required timetable for moving forward with the proposed Modification on 11<sup>th</sup> August 2019. As part of this timetable, the RAs stated the aim to progress the proposed modifications to the consultation phase, with a paper being published on 20<sup>th</sup> September 2019. The modifications timetable is shown in Appendix A.

1.3.3 The purpose of this paper is to:

- Consult on the proposed modification presented at Working Group 7;
- Assess responses and based on these, along with the submitted revised template by the modification proposer and the report compiled by the SOs, the RAs form a decision to either:
  - a. Implement the modification;
  - b. Reject the modification; or
  - c. Undertake further consideration in regards to matters raised in the modification proposal.

1.3.4 The RAs invite Market Participants and the System Operator to make written submissions providing feedback in regards to the proposed modifications.

1.3.5 Upon closure of the consultation process the RAs intend to assess all valid submissions received and form a decision to either implement or reject the modification or undertake further consideration in regards to matters raised through the consultation process in regards to the proposed urgent modification.

## 2. MODIFICATION PROPOSALS

### 2.1 INTRODUCTION

2.1.1 The proposed modification to the CMC was presented at WG7 held on 29<sup>th</sup> August 2019 and was submitted by the Regulatory Authorities (RAs).

2.1.2 The proposed modification was presented and feedback from attendees subsequently provided.

2.1.3 An overview of the proposed modification, along with the justification and workshop feedback is set out below. For full details of the proposed Modification, the template for the proposal discussed at the Working Group is contained in Appendix B.

## 2.2 CMC\_07\_19 – TREATMENT OF MULTIYEAR CONTRACTS IN THE EVENT OF SIMULTANEOUS CAPACITY AUCTIONS

### Proposer: RAs

### Proposal Overview

- 2.2.1 The Modification proposes to allow the Net De-rated Capacity of a unit to be adjusted, even after the Final Qualification Decisions, if the Awarded Capacity for a CMU in the Capacity Auction has changed since these Decisions were made as a result of the publication of the Auction Results of an earlier auction.
- 2.2.2 When two auctions are timetabled to run close together, it is possible that the Final Qualification Decisions for the second auction will occur before the results of the first auction are known.
- 2.2.3 If a CMU, which is participating in both auctions, is given a multi-year award in the first auction this would normally be netted off its Gross De-rated Capacity for the second auction to produce the Net De-rated Capacity: however, in the situation described the timing does not permit such a change under the current CMC drafting. In this situation, the CMU could be given a multi-year contract award for the same capacity in both auctions.
- 2.2.4 This is clearly not in line with the Code Objectives and this proposed Modification seeks to deal with this situation in the CMC.
- 2.2.5 This modification had been deemed as Urgent.

### Working Group Feedback

- 2.2.6 The RAs provided the justification behind the proposed modification and the requirement for the proposal to be deemed Urgent. The RAs highlighted the need for the modification, if approved, to be implemented in advance of the upcoming T-1 CY2020/21 and T-2 CY2021/22 Capacity Auctions.
- 2.2.7 The RAs advised attendees that, due to the aforementioned Capacity Auctions being run within such a close period of time, the second Capacity Auction would occur before the results of the first Capacity Auction have been notified to Participants. This would result in the Net De-rated capacity for the second Capacity Auction being determined before a Participant has been made aware of the capacity that has been awarded Reliability Option (RO) in the first Capacity Auction.

This would result in the situation whereby a Unit could be awarded a RO for the same capacity in both Auctions. This would not be in line with the Code Objectives and makes it clear that where two auctions are held in such close proximity to each other this creates a conflict within the CMC.

- 2.2.8 The RAs wished to highlight that the drafting aimed to avoid the situation where either the System Operator or the RAs are required to adjust an offer made into a Capacity Auction by a participant as a result of a change to their Net De-rated Capacity.
- 2.2.9 The RAs stated the proposed modification has been drafted so as to allow Participants to have sight of their Net De-rated Capacity as early as possible and, if necessary, have the ability to adjust their offer into the Capacity Auction in time to allow the second Capacity Auction to run with the corrected data set.
- 2.2.10 The RAs noted that while the immediate need for the modification was to manage the forthcoming T-1 and T-2 Auctions, the drafting was designed to be evergreen.
- 2.2.11 The SOs advised that whilst the proposed modification is sensible, they had a number of queries with the detail. They advised that in regards to the upcoming Capacity Auctions, the Provisional Auction results are due to be published on 5<sup>th</sup> December, the same date as they closure of the T-2 Capacity Auction Offer submission window. They have elaborated that in this instance this would mean that paragraph E.9.3.3A would be invoked, which was undesirable.
- 2.2.12 The SOs noted potential issues in the drafting of paragraph E.9.6.1, particularly in respect of whether Auction Results were provisional or final.
- 2.2.13 They further noted that paragraph E.9.6.4 seemed to have confused notification of results to the Participant and publication of summary results to the whole market.
- 2.2.14 The RAs agreed to look at the drafting of these two paragraphs and, if possible, provide modified drafting with the consultation paper.
- 2.2.15 ESB queried this point advising publication of the Provisional Auction Results for the T-1 Capacity Auction is due on the 5<sup>th</sup> December, which is the date the T-2 Capacity Auction is due to run. This would not leave sufficient time for the planned process to operate. The RAs noted that the timeframes were exceptionally tight and that to resolve this, changes to the Capacity Auction Timetables may be required.
- 2.2.16 ESB requested clarity as to whether any changes to the Capacity Auction Timetables would be made in advance of the decision surrounding this proposed modification. The RAs advised that to facilitate responses to the consultation it would be advisable to make any changes to the timetable in tandem with implementation of the proposed modification.
- 2.2.17 Energia queried whether changes to the Capacity Auction Timetables would be applicable to both the T-1 and T-2 timetables to which the RAs advised that it is possible that changes would be required to both timetables to ensure they work together as required.
- 2.2.18 ESB noted that F.9.3.3A was likely to require the RAs to make changes to a Participant's offer and that the process for how this would be done was unclear. The RAs agreed that use of subparagraph (a) was likely to be problematic in all but the most trivial of cases, e.g. a small unit where 100% of its capacity had qualified in the first auction: in which case, the capacity could just be removed from the auction results.



- 2.2.19 The RAs further elaborated that in the situation where there is no obvious solution using F.9.3.3A(a) it would be likely that the use of F.9.3.3A (b) – “*annul the auction pursuant to paragraph F.9.3.3*” would be required. ESB advised that they would be wary of the inclusion of the text “may choose” within F.9.3.3A and that the use of sub-para (a) in particular could present more problems than solutions. The RAs agreed that while it was desirable not to automatically annul the auction, the alternative may be worse given the difficulty of uniquely defining the circumstances in which sub-para (a) would be applied and invited participants’ feedback through the consultation process.
- 2.2.20 ESB made a request that under F.3.1.10 a definite timeframe is included where it states that a Final Demand Curve will be provided “as soon as reasonable practical”. They proposed the inclusion of a guarantee that the demand curve would be made visible a certain number of days before the Capacity Auction.
- 2.2.21 They also noted that changes to Net-De-Rated Capacity may also impact nodes in the definition of a Locational Constraint as well as the Demand Curve. The RAs agreed to investigate and amend the drafting, if appropriate.
- 2.2.22 While recognising the desire to make the modification evergreen, ESB expressed concern that doing so made the main text of the CMC more complex. They wondered if, by losing the evergreen capability, the Modification could form part of the Interim Arrangements set out in Chapter M of the CMC.
- 2.2.23 Powerhouse requested an example of how the process to amend Net De-Rated Capacity would work.
- 2.2.24 The System Operator took this opportunity to advise that there are several complexities in regards to making changes to qualified Capacities. They elaborated, stating that upon the closure of the Qualification Submission window the system is effectively locked down and the process of reopening this is complicated. They have also stated that RA / SO interactions around changes to the Capacity Auction Timetables would be essential, to which the RAs agreed.

### RA's Response

- 2.2.25 Checking the Capacity Auction Timetables for the forthcoming T-1 and T-2 auctions, the RAs note that the provisional Auction Results for the T-1 auction are provided to the relevant Participants on 28 November which is the date on which submission to the T-2 auction *opens*. Submissions for the T-2 auction do not *close* until 5 December, giving most of a week for Participants to respond to any change to Net De-Rated Capacity. This may allow sufficient time for the planned process to take place without modifying either Capacity Auction Timetable. Respondents are invited to provide comments on whether they still believe the timetables need adjusting to leave more time between Participants receiving the results of the T-1 auction and the closure of the submission window for the T-2 auction.
- 2.2.26 The drafting of E.9.6.1, E.9.6.4 and F.3.1.10 have been amended in the Modification Template to respond to feedback received at the Working Group.

2.2.27 In response to the request for a worked example of the planned process, see below.

Consider a New CMU of 100MW which applies for a multi-year capacity award in both the T-1 and T-2 auctions.

Example 1: The CMU is granted a multi-year capacity award in the T-1 auction for 100MW, after the Final Qualification Decisions are notified to Participants (under E.9.4.9). In this situation, the Gross De-rated Capacity of the CMU (100MW) is reduced by the awarded capacity to give a Net De-Rated Capacity of 0MW. This compares to a Net De-Rated Capacity of 100MW in the original Final Qualification Decisions.

Example 2: The CMU is granted a multi-year capacity award in the T-1 auction for 60MW, after the Final Qualification Decisions are notified to Participants (under E.9.4.9). In this situation, the Gross De-rated Capacity of the CMU (100MW) needs to be reduced by the awarded capacity to give a Net De-Rated Capacity of 40MW. This compares to a Net De-Rated Capacity of 100MW in the original Final Qualification Decisions.

Example 3: The CMU is not granted a multi-year capacity award in the T-1 auction after the Final Qualification Decisions are notified to Participants (under E.9.4.9). In this situation, the original Final Qualification Decisions stand and the CMU has a Net De-Rated Capacity of 100MW.

### Minded To Position

2.2.28 The SEM Committee are minded to approve this Modification proposal (as amended) to ensure compliance with the Code objectives, specifically in relation to Section A.1.2.1 (a) of the CMC:

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

*(e) to provide transparency in the operation of the SEM”*

### 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.;
  - the need to modify the Capacity Auction Timetables for either (or both) of the forthcoming T-1 and T-2 Auctions to facilitate the process set out in the Modification; 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 the 15<sup>th</sup> October 2019 on the implementation of the Modification outlined within this consultation paper.
- 4.1.2 Responses to the consultation paper should be sent to Kevin Lenaghan ([Kevin.Lenaghan@uregni.gov.uk](mailto:Kevin.Lenaghan@uregni.gov.uk)) and Billy Walker ([Billy.Walker@uregni.gov.uk](mailto:Billy.Walker@uregni.gov.uk)) by 17.00 on Friday, 4<sup>th</sup> October 2019.
- 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.