



**Single Electricity Market
(SEM)**

**Capacity Market Code Working Group 25
Modifications Consultation Paper**

SEM-22-033

1 July 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 in regards to the proposed modifications to the Capacity Market Code (CMC) discussed at Working Group 25 held on 19 May 2022.
- 1.1.2 During this Working Group, six modifications were presented, however, not all are being consulted on. During WG25, the following proposals were presented:
- **CMC_04_22: New Reference Rates for Default Interest**
This modification has been proposed to replace the LIBOR overnight rates for euro and British pound sterling as these were discontinued from 31st December 2021.
 - **CMC_05_22: Housekeeping Mod to Update Overlap between CMC_03_21 and CMC_04_21¹**
This modification was submitted to correct an error following the unintended overlap between the approved CMC text for modifications CMC_03_21 and CMC_04_21. The overlap only arises in paragraph J.4.3.2(a) and the updated drafting is the approved text for CMC_04_21 further marked up to include the additional changes to J.4.3.2(a) needed to implement CMC_03_21 without conflict .
 - **CMC_06_22: New Interdependent Combined Units**
This proposal represents an updated version of Proposal 1 from CMC_10_21 which was originally submitted by the DRAI and proposed to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised. This was submitted by the RAs as a route to progressing the proposed Modification following SEM-21-077.
 - **CMC_07_22: Modification to provisions for Market Registration of Demand Side Units – Variation In Mix**
This proposal represents an updated version of Proposal 2 from CMC_10_21 submitted by the DRAI.
 - **CMC_08_22: Locational Capacity Constraints Maximum Quantities**
This Modification Proposal seeks to introduce a maximum limit applicable to Locational Capacity Constraint Areas. This value would be specified by the System Operators and approved by the Regulatory Authorities and published as part of the Final Auction Information Packs in accordance with the same processes that apply to current determination of minimum Locational Capacity Constraint Required Quantities.

¹ Note: this proposal is not being consulted on

➤ **CMC_09_22: Secondary trade approval notification**

This modification seeks to propose a step in the System Operators' processes in relation to secondary trades that they notify participants directly to confirm that their submitted ISTN or ASTN has been successfully validated.

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, these are all 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 (6.0)² was published on 18 February 2022 and the most recent version of the TSC³ 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.

1.2.5 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.

² <https://www.sem-o.com/rules-and-modifications/capacity-market-modifications/market-rules/>

³ <https://www.sem-o.com/rules-and-modifications/balancing-market-modifications/market-rules/>

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 these Modifications

1.2.11 On 6 May 2022 the SOs notified the RAs of the six proposed modifications submitted for discussion at WG25 held on 19 May 2022.

1.2.12 All six Modifications were marked as Standard and will therefore be processed through the normal Modification process.

1.2.13 Following a review of the proposals, the Regulatory Authorities determined that none of the proposals are spurious.

1.2.14 On the 1 June 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 25 where the Modification Proposals were considered on 19 May 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 following proposed modifications:
- CMC_04_22: New Reference Rates for Default Interest
 - CMC_06_22: New Independent Combined Units
 - CMC_07_22: Joint Market Registration Variation in Mix
 - CMC_08_22: Local Capacity Constraints Maximum Quantities
 - CMC_09_22: Secondary Trade Approval Notification
- 1.3.2 Further detail on each of the modifications is set out in the appended modification proposals (Appendix D 1 - 5).
- 1.3.3 The Regulatory Authorities hereby give notice to all Parties and the Market Operator of a consultation on the proposed Modifications.
- 1.3.4 Interested Parties and the Market Operator are invited to make written submissions concerning the proposed Modification **by no later than 17:00 on Tuesday, 2 August 2022. Please note that late submissions will not be accepted.**
- 1.3.5 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.

1.4 APPROVED FOR IMPLEMENTATION: CMC_05_22 - HOUSEKEEPING MOD TO UPDATE OVERLAP BETWEEN CMC_03_21 AND CMC_04_21

- 1.4.1 This was submitted by the Regulatory Authorities and is intended to correct an error following the unintended overlap between the approved CMC text for modifications CMC_03_21 and CMC_04_21.
- 1.4.2 The overlap only arises in paragraph J.4.3.2(a) and the updated drafting is the approved text for CMC_04_21 further marked up to include the additional changes to J.4.3.2(a) needed to implement CMC_03_21 without conflict.
- 1.4.3 Given both CMC_03_21 and CMC_04_21 have both been fully consulted, agreed upon and approved, the RAs are not consulting on this housekeeping proposal. Instead, this proposal will be implemented with immediate effect.
- 1.4.4 The SEM Committee therefore require that the SOs incorporate the approved Modifications contained within this paper into the CMC via an appropriate version control process and the Modifications are to become effective immediately and upon publication of this consultation paper (1 July 2022).

- 1.4.5 The proposal presented at WG25 is contained in Appendix B and the approved modification text drafting is contained in Appendix C.

2. MODIFICATION PROPOSALS

2.1 CMC_04_22 – NEW REFERENCE RATES FOR DEFAULT INTEREST

Proposer: System Operators

Proposal Overview

- 2.1.1 This proposal aims to replace the LIBOR overnight rates for euro and British pound sterling as these were discontinued from 31st December 2021.

- 2.1.2 Within their proposal, the SOs highlight that section B.7.3.1 of the CMC specifies, for any payment which is overdue, that *‘Default Interest shall accrue from the relevant due date until the date of actual payment in full of the overdue amount by remittances for full value, such Default Interest to accrue daily and both before and after any judgement’*.

- 2.1.3 The SOs state that Default Interest is currently defined with reference to LIBOR – *the London Interbank Offered Rate* and are benchmark interest rates used by a variety of financial markets and services. The relevant rates for the Code are the LIBOR overnight rates for euro and British pound sterling which were discontinued from 31st December 2021.

Therefore, the SOs propose to replace LIBOR with suitable alternatives.

- 2.1.4 The SOs are intending to delete the definition for LIBOR from the CMC and add the following definitions:

For euro the suitable replacement is the euro short-term rate (€STR or ESTER for the purposes of the Capacity Market Code). ESTER is administered by the European Central Bank. ESTER replaced EONIA which was previously the euro equivalent to SONIA.

ESTER means the Euro Short-Term Rate (€STR) published by the European Central Bank on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.

SONIA means the Sterling Overnight Index Average published by the Bank of England on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.

- 2.1.5 This proposed modification to the CMC would ensure alignment with the Trading and Settlement Code, as a modification (Mod_04_22 Alternatives to LIBOR) to amend the Trading and Settlement Code was approved.

2.1.6 Further detail on the Modification Proposal are set out in the appended Modification Proposal Appendix D (1).

Working Group Feedback

2.1.7 There were no questions put forward with regards to this proposal, however, the DRAI commented that they had reviewed the proposed changes associated with the modification and what has taken place with regards to the TSC modification.

2.1.8 Further to this the DRAI stated that they were content this was a necessary housekeeping change and there was no deviation from the intent of the TSC modification.

Minded to Position

2.1.9 The SEM Committee welcome feedback and comments with regards to this proposed modification.

2.1.10 The SEM Committee also recognise the need for the submission of CMC_04_22, given the LIBOR overnight rates for euro and British pound sterling were discontinued as of 31st December 2021.

2.1.11 It is also noted that this change has already been applied to the TSC and the SEM Committee are cognisant that a failure to implement this proposal would lead to there being a disparity between the CMC and TSC.

2.1.12 Therefore, the SEM Committee are minded to approve this proposal for implementation.

2.2 CMC_06_22 – NEW INTERDEPENDENT COMBINED UNITS

Proposer: Regulatory Authorities

Proposal Overview

2.2.1 This modification proposal represents an updated version of CMC_10_21 which was originally submitted by the DRAI and proposed to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised.

2.2.2 As part of the original proposal, two ‘sub-proposals’ were put forward –

Proposal 1: sought to move the Reliability Obligation to the portfolio level by allowing DSU Aggregators to create combined candidate units of their portfolio of DSUs at time of Qualification; and

Proposal 2: sought to move the physical backing of the Reliability Obligation to the portfolio level by allowing all IDs within a DSU aggregator’s qualified portfolio to assist in the delivery of the Reliability Obligation regardless of the DSU they are assigned to through the Operational Certificate process.

- 2.2.3 Taking account of all the comments and responses received to the original consultation, the SEM Committee decided that there was value in the Modification undergoing further Working Group discussion with the intention of identifying a clear way forward which can deliver against the Code Objectives for DSUs while avoiding undue discrimination.
- 2.2.4 Proposal 1 was favoured by the RAs as being more straightforward to implement and therefore CMC_06_22 builds upon the discussions and out workings of the decision taken in SEM-21-077⁴.
- 2.2.5 Further detail on the Modification Proposal is set out in the appended Modification Proposal (Appendix D (2)).

Working Group Feedback

- 2.2.6 The SOs took this opportunity to raise a number of observations relating to this proposed modification to the CMC.
- 2.2.7 The SOs requested confirmation that, as the proposal is drafted (and presented at WG25), the limits that apply where a unit must be a Variable / De-minimis unit are being replaced with, in the case that a participant is not a Variable / De-minimis that this limit applies to the size of a units Price Quantity Pairs that are submitted in an Auction are limited to the size of your gross de-rated capacity.
- 2.2.8 The RAs confirmed that if a participant doesn’t meet the criteria set out in E.7.6.1(i), which asks whether a unit is variable / below de-minimis then this condition put forward will apply.
- 2.2.9 The SOs suggested that another approach that could be used would be to remove the requirement in E.7.6.1(i) and apply a limit in Chapter F of the CMC which would limit participants dependant on the size of their Price Quantity Pairs totalled.
- 2.2.10 The RAs agreed that this could be an option, however, advised there were a number of factors that swayed the RAs away from this course. The RAs advised that main reason was, with regards to participants wanting to understand their options, there was merit in placing this text in Chapter E, as any consequences resulting from this is part of the Qualifications process.
- 2.2.11 The RAs were of the view that it would add transparency to include this within the Qualification text in the CMC.

⁴ <https://www.semcommittee.com/sites/semc/files/media-files/SEM-021-077%20CMC%20Mods%20WG19%20Decision%20Paper.pdf>

- 2.2.12 However, the RAs advised that the idea of placing the text in Chapter E, is not set in stone and would welcome feedback as part of the consultation from Industry as to whether they would have a preference as to where the text should belong or be best placed.
- 2.2.13 With regards to the proposed text contained in E.7.6.4, the SOs were of a view that the text 'Where the Candidate Units to be combined meet all of the conditions set out in E.7.6.1 with the exception of E.7.6.1(i), then the System Operators shall not reject the application' is quite broad. The RAs accepted this comment and advised it could be worth looking at the drafting of this again.
- 2.2.14 With regards to possible implementation of this proposal, the SOs advised that this would require system changes to be made. They elaborated that this would require changes to be made to the validation rules at the Auction stage.
- 2.2.15 A number of attendees queried whether the RAs were concerned about larger units aggregating.
- 2.2.16 The RAs note that the proposed Modification only allows a maximum inflexible offer across the whole aggregated unit equal to the size of the largest component. This means all capacity above this level must be offered flexibly. The RAs stated that given this is the case, they were not of the view that this was problematic, however, would welcome views on this in the responses to the consultation paper.
- 2.2.17 ESB requested clarification that this is not a replacement for the text currently in the CMC, but instead represents an extension.
- 2.2.18 The RAs confirmed this is correct and is an extension. The RAs further clarified that the drafting within the proposal has been designed so that everything that would have previously have been run through E.7.6.1(i) will continue to go through this process and will be unaffected by this modification.
- 2.2.19 The RAs further clarified that this proposal will only affect units that had not previously been able to aggregate under E.7.6.1(i).

Minded to Position

- 2.2.20 The RAs note the feedback from the SOs and Market Participants and, in particular, that the Modification will require system changes, as anticipated.
- 2.2.21 The RAs note that the proposed modification aims to encourage entry by DSUs and other aggregated capacity without any clear negative impact on consumers.
- 2.2.22 In consequence, the SEM Committee are minded to approve this proposed modification.

2.3 CMC_07_22 – MODIFICATION TO PROVISIONS FOR MARKET REGISTRATION OF DEMAND SIDE UNITS – VARIATION IN MIX

Proposer: DRAI

Proposal Overview

- 2.3.1 This modification proposal also represents an updated version of Proposal 2 from CMC_10_21 submitted by the DRAI.
- 2.3.2 This intention of this modification is to raise a new proposal reflecting the intent of Proposal 2, as discussed above, so that it can be given due consideration via the Capacity Market Modifications process.
- 2.3.3 This modification proposes that DSU aggregators be allowed to vary the Mix of IDs within their portfolio providing the physical backing that is delivering on their Reliability Obligation.
- 2.3.4 Within their proposal, the DRAI state that their updated proposal seeks to modify section I.1.3.2 Variation in Mix and elaborate that all market providers have a physical backing to deliver on their Reliability Obligation including DSU aggregators.

Further to this they advised that provision I.1.3.2 in the code allows for DSU aggregators to vary the Mix of IDs within their DSU providing the physical backing that is delivering on their Reliability Obligation.

- 2.3.5 Further detail on the Modification Proposal as well as the amendments to the text within the CMC is set out in the appended Modification Proposal (Appendix D (3)).

Working Group Feedback

- 2.3.6 The RAs referred to comments that were raised as part of the consultation process for CMC_10_21, from which CMC_07_22 is derived, was that whilst this proposal allows for the variation of the Mix between units, however it doesn't address impacts on the settlement process. The RAs were of the view that this would also be applicable to this updated proposal.

Further to this the RAs advised that there isn't anything in I.1.3.2 that adjusts the Capacity and Trade Register. The RAs suggested that there may be additional text that would be required to ensure that Capacity and Trade Register recognises that capacity may have moved.

- 2.3.7 The RAs also advised that it may be necessary to make a change to section G of the CMC to ensure that the calculation associated with the Proportion of Delivered Capacity works correctly.
- 2.3.8 The DRAI advised that this makes sense and they are keen to ensure that the proposal is both legal and effective. They elaborated that they are ready to have the conversations has to closing the loop on this process and making the changes implementable.

The DRAI stated that they want to make sure that the proposal is still 'on the table' and that further conversations and actions take place.

- 2.3.9 The SOs echoed the comments made by the RAs and advised that it would be important to link this proposal to previous modifications in terms of the concept of Combined Capacity Units. They were concerned that fully implementing the proposed Modification would have multiple impacts across the CMC.
- 2.3.10 ESB were of the opinion that, following the comments provided during the Working Group, what is now being proposed appears to be a significant change to the drafting of this proposal. Further to this, they queried if the intention would be for the DRAI to review CMC_07_22 again and then resubmit for the next Modifications Working Group.
- 2.3.11 The RAs advised that it would be of merit to progress with the consultation process, flagging up the areas above, and ask for feedback.

The RAs also highlighted that it may be of use to have the RAs add some additional text / modify the proposal to give effect to the required changes to settlement.

- 2.3.12 The SOs confirmed they will provide the required information as part of their response, but reiterated that they foresee significant changes being necessary.

Minded to Position

- 2.3.13 The RAs note that this proposed Modification is unchanged from Proposal 2 in CMC_10_21.
- 2.3.14 The RAs would agree that successful implementation of the modification would require extensive changes throughout the CMC to ensure that the proposed Variation in Mix across units within a portfolio can be properly commissioned under the CMC and settled appropriately under the TSC.
- 2.3.15 The RAs would note that moving capacity from one CMU to another will face many of the same issues as a secondary trade, in particular the need to maintain the price of the original trade and, for NI units, the original exchange rate. Without this capability, the scope for variation would have to be very tightly restricted which is unlikely to meet the aims of the modification.
- 2.3.16 The RAs have already noted that details of the "trade" will need to be recorded in the Capacity and Trade Register but if the aggregated CMU is to be able to participate in secondary trades, the Gross De-Rated Capacity will also need to be updated in the Qualification Capacity Register. The additional records in the Capacity and Trade Register may need to an alternative state to the existing Primary or Secondary Trade Flag (Appendix D (3)).
- 2.3.17 Changing the registries will have an impact on the finality of both the Qualification Decisions (E.9.4.8) and Final Qualification Results (F.9.4.4). This in turn may lead to a requirement to republish the affected Decisions and Results.

- 2.3.18 Such extensive changes to the existing functioning of the CMC will clearly require significant changes to the SOs CRM systems.
- 2.3.19 Given the above, the SEM Committee are minded to reject the modification in its current form. Significant effort would be needed to work up the legal drafting to create the basis for a viable modification to accomplish the objectives of CMC_07_22. Such a worked-up proposal could be brought to a future Working Group for discussion and subsequent consultation.

2.4 CMC_08_22 – LOCATIONAL CAPACITY CONSTRAINTS MAXIMUM QUANTITIES

Proposer: System Operators

Proposal Overview

- 2.4.1 This modification Proposal seeks to introduce a maximum limit applicable to Locational Capacity Constraint Areas.
- 2.4.2 Within their submission, the SOs state that this value would be specified by the SOs and approved by the RAs and published as part of the Final Auction Information Pack (FAIP) in accordance with the same processes that apply to current determination of minimum Locational Capacity Constraint Required Quantities.
- 2.4.3 The SOs state this proposal is being introduced to address scenarios where more capacity could be cleared in a part of the power system than can be feasibly be accommodated in the timeframes involved in the delivery of capacity.
- 2.4.4 They elaborate that, where more capacity applies to qualify in a particular area than can be technically accommodated in the delivery timeframes of a Capacity Auction, the SOs and ultimately the RAs are faced with a difficult dilemma:
- a) to qualify all of the capacity and run the risk that the capacity clears and it cannot be utilised due to locational constraints on the power system; or
 - b) to qualify none of the capacity mitigating this risk but resulting in an outcome that is not satisfactory, reduces competition and increases the risk that there will be insufficient capacity to meet the requirements of the Capacity Auction.
- 2.4.5 The SOs highlight that where some capacity can be accommodated but not all, this Proposal would allow the SOs and the RAs to qualify more capacity than can be accommodated in a particular locational capacity constraint area and allow this capacity to compete for the amount of capacity that can be accommodated.

2.4.6 The SOs are of the view that this strikes a balance between the two extremes set out above and does so in a manner that promotes competition, does not unduly discriminate between capacity market participants and ultimately promotes the short and long-term interests of consumers of electricity in Ireland and Northern Ireland.

2.4.7 The proposed modification drafting introduces:

- The concept in Chapter C alongside the existing minimum quantities and that they are determined by the System Operators in accordance with the approved Locational Capacity Constraints methodology;
- The new maximum requirements into the auction process in Chapter F;
- Net Required Quantity definition; and
- Net Maximum Quantity definition.

2.4.8 Further detail on the Modification Proposal is set out in the appended Modification Proposal (Appendix D (4)).

Working Group Feedback

2.4.9 TEL queried whether there was the possibility that this proposal could result in existing units being displaced, which would result in there still being a problem with new connections.

The SOs advised that they had thought this could be raised as a potential concern, however advised that there may be the potential to include additional text within the proposal that would allow this to be used in the situation where they are facing a limit and in terms of where new capacity is coming on to the System in certain locations.

2.4.10 Energia echoed the points raised by TEL and advised that the rules around clearing of constraint areas which could help mitigate risk, were this codified.

2.4.11 Energia further stated that the current rules which don't allow multi-year contracts to be awarded to meet constraint requirements, unless there is no other available option, and queried whether this is currently codified.

The SOs confirmed that this is contained within F.8.4.4 of the CMC and part (f) contains the codified rules on this.

2.4.12 Energia queried whether the scenario could arise whereby existing capacity is rejected in favour of new capacity. The SOs advised this could occur in the event that new capacity was submitted for a one year contract, with a bid price below the clearing price.

The SOs reiterated that this occurrence is part of a concept within the CMC which is already known.

Energia clarified that their comments were not intended to be read that the rules should be changed to prevent existing capacity from being displaced.

2.4.13 Energia stated their belief that this is a significant modification to the CMC and referred to the reasoning behind having to develop Maximum limits. Energia elaborated that this justification needs to be understood better before a modification is made to the code.

They were of the view that, with regards to the methodology to be used and rationale for making the change, there is no understanding provided and they would be nervous about implementing changes without a full understanding of the proposal.

The SOs confirmed that, in parallel with this, the methodology for determining the required values would be undergoing due process.

However, the SOs advised that they take these comments from Energia on board and as part of this process they would seek Participants feedback and for them to express their views on this proposal.

2.4.14 The RAs advised that they can add some points to this for inclusion within the consultation paper, having the benefit of viewing the outcomes of the most recent Capacity Auction, which are not all in the public domain.

The RAs also confirmed they are not intending to pre-suppose the out-ranking of existing capacity over new capacity and that the auction should be on the basis of competitive forces.

2.4.15 PHG advised they have an issue with the LCCs and the transparency with regards to how the calculation is set. They have also advised that having the LCC values published as part of the Final Auction Information Pack (FAIP) exacerbates the issue with regards to transparency.

PHG stated that if these issues occur with the Minimum Required Quantities, it is likely this will also be the case with the Maximum Quantities.

2.4.16 PHG proposed that an indicative Minimum / Maximum value should be published within the Initial Auction Information Pack (IAIP), which Energia also agreed with.

The SOs advised that they appreciated the comments provided by PHG and encouraged them to submit a modification proposal to aid in mitigating their concerns in this area.

2.4.17 ESB agreed with Energia's comments around the rationale behind the need for the proposal and that the proposal appears to address the issues of delivering connections as opposed to the actual cause.

ESB also advised they would have concerns around the complexity of introducing a Maximum limit.

2.4.18 The SOs advised this proposal is broader than just connecting projects instead it is more about when projects are connected that they can be operated simultaneously without the result being them operating outside of the standards of the code.

2.4.19 ESB referred to the requirement under the CMC to hold a Grid Connection to qualify to take part in a Capacity Auction. ESB stated it would be their assumption that if the rules are followed for all subsequent Auctions the issue at hand disappears.

They then queried whether the proposal is needed as it will no longer be a requirement to hold a grid connection for subsequent Auctions

2.4.20 The SOs advised that this proposal is also aimed at addressing the directions they have been receiving as part of previous auctions from the RAs.

2.4.21 ESB queried whether this proposal should be an interim modification that would be actionable only when the current rules requiring a Grid Connection cannot be followed.

They advised that the use of a Maximum value should technically only come into play when the current qualification rules haven't been followed.

The SOs advised there could be merit in this suggestion and the issue is more pronounced when the issues going through the qualification process haven't taken part in the connection process. However, they are of the view that there is a need to be cognisant that the capacity coming forward should be maximised.

ESB commented that applying a Maximum value is not sending the right signal to investors entering the Market.

2.4.22 TEL agreed with ESB on this and it would impact on forming a business case for any new investment.

In response to this the SOs advised they would welcome all feedback on this proposal and encouraged Industry to provide their comments on how to make this more friendly towards new investments.

2.4.23 Energia referred to the possible changes to the LCCA methodology that the SOs highlight may be required. They have reiterated previous comments that this would need to be fully understood and advised that additional clarity is required for this proposal.

2.4.24 Energia also raised concerns as to how this proposal may impact a tie break situation within an Auction where a number of units have offered Capacity at the same price and subject to a Maximum limit.

2.4.25 The SOs referred to the tie break rules that are already in place and that this proposal wouldn't impact on this process as it currently works.

Minded to Position

2.4.26 The RAs note the concerns expressed at the working group whereby it would be of concern if implementation of the modification were to act to dissuade new capacity from being brought forward to auction.

- 2.4.27 Equally, the RAs noted that the modification is seeking to address a real issue that exists currently and without some changes to the existing process the CMC is likely to fail to achieve its key objective “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” (A.1.2.1(b)).
- 2.4.28 The RAs have noted an issue in the proposed drafting of F.8.4.4(e) and updated drafting is attached in Appendix D (4ii).
- 2.4.29 Given the current capacity issues in the SEM and the approaches being pursued by governments and the RAs, the SEM Committee is minded to approve a version of this modification.

2.5 CMC_09_22 – SECONDARY TRADE APPROVAL NOTIFICATION

Proposer: Energia

Proposal Overview

- 2.5.1 This modification proposes the introduction of a step in the SOs processes in relation to secondary trades that they notify participants directly to confirm that their submitted ISTN or ASTN has been successfully validated.
- 2.5.2 Energia advised that this step is aimed at removing any ambiguity for market participants and to avoid any confusion that can currently arise when carrying out secondary trades.
- 2.5.3 Within their proposal, Energia highlight that in the absence of a fully developed Secondary Trading auction, market participants are able to avail of Interim Secondary Trade Notifications (ISTN) as per section M.7 of the CMC or Alternative Secondary Trade Notifications (ASTN) as per section M.12 of the CMC.
- Both of which play a key role in allowing market participants to manage their capacity market obligations and risk associated with clearing in a capacity auction and the accompanying Reliability Option (RO).
- 2.5.4 Energia are of the view that there is ambiguity for Market Participants in terms of being notified that their submitted ISTN or ASTN have been validated and processed.
- Further to this they state that, currently, the CMC stipulates that the Capacity and Trade Register is required to be updated by the System Operator after submission of the respective ISTN or ASTNs. However, they state that from their view this process is not always clear in confirming that the submitted secondary trade notifications have been successfully validated and causes unnecessary concern and confusion for market participants in respect of trying to manage their obligations and risks.
- 2.5.5 Further detail on the Modification Proposal as well as the amendments to the text within the CMC is set out in the appended Modification Proposal (Appendix D (5)).

Working Group Feedback

- 2.5.6 The SOs advised that they would be supportive of the proposal in principle. With regards to the ASTN the SOs advised that they currently require a trade to be submitted 5WDs prior to the trade start date, and highlighted that the reason for this is to allow for the trade to be assessed and ensure it fulfils the validation requirements.
- 2.5.7 The SOs recognised the request for the 2 hour timeframe as set out in CMC_11_21, however, advised that under the current process this wouldn't be possible given the volume of trades and the complex nature of some trades.
- 2.5.8 The SOs did however state that, upon the implementation of the Secondary Trading Platform, the 2 hour timeframe would be within the scope of the system design. They elaborated advising that, under the new platform, when a trade is submitted online an applicant would receive a validation notice within 2 hours of the point of submission.
- Until, this platform is in place however, the five day period is required.
- 2.5.9 Energia highlighted it was their intention to codify this to mitigate instances where a trade has been submitted as required, but feedback / confirmation has not been received.
- 2.5.10 The SOs advised that in the event this happens, any applicants should contact the Capacity Market team as soon as possible.
- 2.5.11 Energia requested clarification with regards to if they change the ASTN to 5WDs, would there be merit in aligning the rejection process with the 5WD. Energia highlighted that if validation takes place within this period it should then be possible to provide confirmation of rejection at this time.

Minded to Position

- 2.5.12 The SEM Committee note the intention of the proposal is to provide clarity with regards to Secondary Trade Applications and the SOs determination following submission by Market Participants.
- 2.5.13 However, the SEM Committee are cognisant of the limitations as a result of the Secondary Trading Platform not yet being in place. The Committee welcome the confirmation by the SOs that, upon implementation, notifications will be provided within 2 hours of submission.
- 2.5.14 Until then, and taking account of the volume of work and complexity involved in validating Secondary Trades under the current process, the SEM Committee are minded-to approve the proposal, with the initial 5WD notification which will then reduce to the intended 2 hour period, upon implementation of the required systems.

3. CONSULTATION QUESTIONS

- 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 E for the provision of responses.

4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision in October 2021 on the implementation of the Modifications 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 Donna Maye (Donna.Maye@uregni.gov.uk) **by no later than 17:00 on Tuesday, 2 August 2022. 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.
- 4.1.4 With regards to the approval of CMC_05_22, the SEM Committee require that the SOs incorporate the approved Modifications contained within this paper into the CMC via an appropriate version control process and the Modifications are to become effective immediately and upon publication of this consultation paper (1 July 2022).