



**Single Electricity Market
(SEM)**

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

SEM-19-161

25 October 2019

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to the Proposed Modification to the Capacity Market Code (CMC) discussed during Working Group 7 on 29th August 2019.

The decisions within this paper follow on from the associated consultation (SEM-19-052) which closed on 4th October 2019.

This paper considers the proposed modification presented at WG7 which was deemed urgent. The proposed modification related to the *Treatment of Multiyear Contracts in the Event of Simultaneous Capacity Auctions*.

➤ CMC_07_19 – Treatment of Multiyear Contracts in the Event of Simultaneous Capacity Auctions

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.

Five responses were received to the Capacity Market Code Modifications – Working Group 7 Consultation Paper, none of which were marked as confidential. All responses to the consultation (SEM-19-052) will be published on the SEM Committee website and are summarized within this decision paper.

Summary of Key Decisions

Following consideration of the proposals and responses received to the consultation the SEM Committee have decided to reject the proposed modification – *CMC_07_19 – Treatment of Multiyear Contracts in the Event of Simultaneous Capacity Auctions*.

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Appendix A – Responses to SEM-19-052 - Capacity Market Code Modifications – Working Group 7

1. OVERVIEW

1.1 BACKGROUND

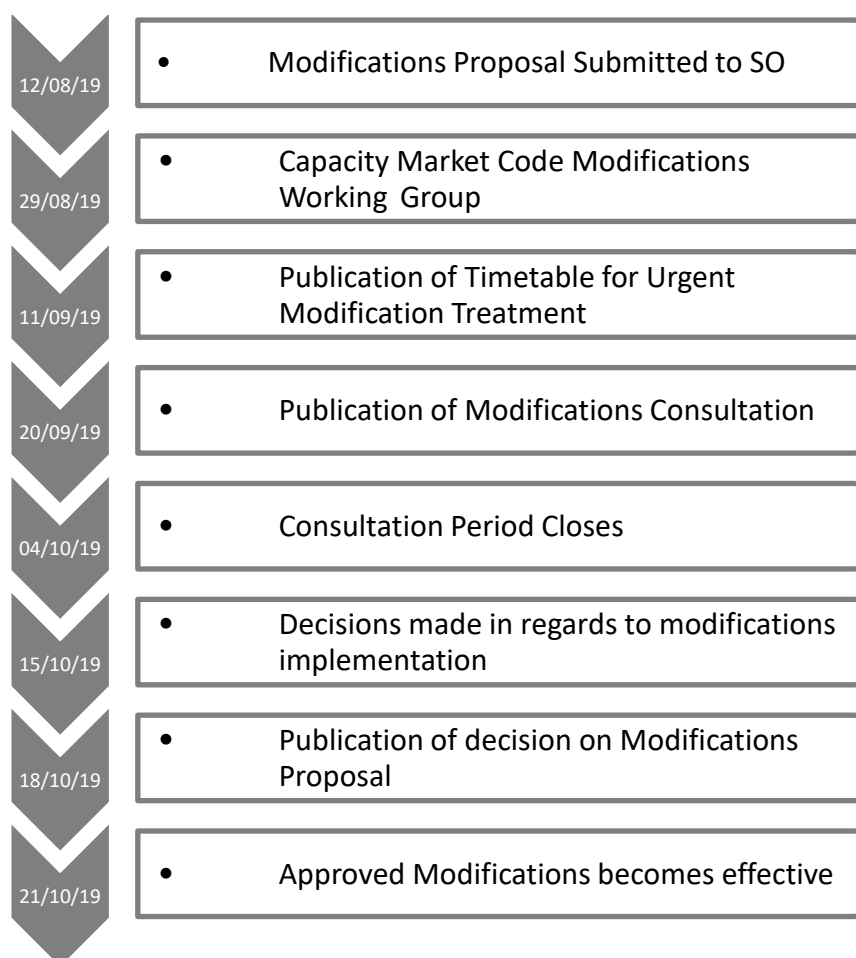
- 1.1.1 Decisions made during the development of the I-SEM CRM Detailed Design were translated into auction market rules to form the Capacity Market Code (CMC) (SEM-17-033) which was published in June 2017, with an updated version being published in June 2019. The CMC sets out the arrangements whereby 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. 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.
- 1.1.2 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.
- 1.1.3 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.
- 1.1.4 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.
- 1.1.5 A proposer may choose to mark a Modification proposal as “Urgent”. 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 and request the SOs to convene a Working Group to discuss the proposed Modification.
- 1.1.6 Proposed modification CMC_07_19 has been deemed urgent by the RAs as it fulfils 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*
- 1.1.7 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.

1.1.8 The RAs, on 11th 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 29th August 2019.

1.1.9 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 proceeded with a 10WD consultation period, as opposed to the 20WD period applied under the standard Modification process.

1.1.10 As set out in the Modifications Timetable the RAs published a consultation paper on 20th September with responses invited up to 4th October 2019.

Figure 1: Capacity Market Code – Urgent Modification Process Overview



1.1.11 The purpose of this decision paper is to set out the decision relating to the urgent Proposed Modification discussed during Working Group 7 to either:

- a) Implement a modification;
- b) Reject a modification; or
- c) Undertake further consideration in regards to matters raised in the modification proposal.

1.1.12 This decision paper sets out a summary of the consultation proposal, provides a summary of responses, and sets out the SEM Committee's decision.

1.2 RESPONSES TO CONSULTATION

1.2.1 This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-19-052) which was published on 20th September 2019.

1.2.2 A total of five responses to the consultation were received. Of the five responses, none were marked confidential. The respondents are listed below and copies can be obtained from the SEM Committee website.

- ESB GT
- SSE
- EirGrid/SONI
- Energia
- Bord na Móna

1.3 FULFILLMENT OF CODE OBJECTIVES

1.3.1 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.

1.3.2 The Code Objectives contained with the CMC are set out below:

- To facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licences in relation to the Capacity Market;
- 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;
- To facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;
- To promote competition in the provision of electricity capacity to the SEM;
- To provide transparency in the operation of the SEM;
- To ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and
- 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.

2. CMC_07_19 – TREATMENT OF MULTIYEAR CONTRACTS IN THE EVENT OF SIMULTANEOUS CAPACITY AUCTIONS

2.1 CONSULTATION SUMMARY

- 2.1.1 The Modification was proposed 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.
- 2.1.2 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.
- 2.1.3 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. 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 SUMMARY OF RESPONSES

- 2.2.1 Of the five responses to the consultation, the majority were of the same position and proposed similar recommendations.
- 2.2.2 ESB GT advised of their understanding of the necessity to address the issue that is currently presented in the upcoming T-1 and T-2 auctions. However, additionally state their belief that this modification is addressing the symptom rather than the root cause. They have elaborated stating that it appears the root cause of the issue this modification is seeking to address is the close timing of the two auctions as the final results of the first auction will not be determined until after the second auction is held.
- 2.2.3 They were of the opinion that the most appropriate method to mitigating this exposure for the upcoming auctions and future auctions is to ensure there is sufficient time between the two auctions. ESB GT requested the RAs review the current timetables for the upcoming auctions and change the T-2 auction date. They believe that a delay to the T-2 auction would remove the need for the RAs to either Manipulate the auction results or Annul the auction and re-run the auction.
- 2.2.4 ESB GT suggested that this would mean delaying the T-2 auction timetable back to late January, as allowed by the D.2.1.10, following the publication of the final auction results thus removing any potential for distortionary interference by outside of the market forces.

- 2.2.5 They have also raised a concern in regard to the Code Objectives, advising that the application of the proposed modification will adversely affect the achievement of the CMC objectives (d) and (f) as the process for applying F.9.3.3A(a) is not transparent and could distort competition through unintended manipulated exit/entry signals.
- 2.2.6 ESB GT offered their view that the proposed modification hasn't provided guidance as to the methodology that the RAs will use when implementing F.9.3.3A(a). Further highlighting that this needs to be transparent and precise.
- 2.2.7 SSE echoed the response provided by ESB stating that they agreed with the sentiment of this modification, in what it is seeking to try to avoid. However, they consider that this potential issue should have been realised when the dates for these two auctions were set, rather than now, where we are only a few months away from the auction timelines in question and believe if these auctions were separated by a decent margin, there would not be the process-related issues that are being addressed.
- 2.2.8 SSE wished to take the opportunity to address some of the issues discussed during the working group. They have advised of their concerns around the tight timelines between the two interim auctions stating their belief that sufficient time wouldn't be available for the planned process to operate. Whilst the RAs have considered this in paragraph 2.2.25 of the consultation, SSE are concerned that there may not be sufficient time.

They have referred to the last T-1 and T-4 Capacity Auctions advising that they had experienced delays in publication of key documentation. They believe a week between 28th November and 5th December may not be enough for notification and to provide a buffer period in the case of delays to publications critical to either auction process.

SSE have requested tighter wording or requirements regarding timely publication to ensure that this modification does not interfere with the currently tight timescales. SSE are of the mind that the timelines T-1 and T-2 could potentially need to be adjusted.

- 2.2.9 SSE have wished to highlight a concern in regards to Section F.3.1.10 of the CMC whereby a definite timeframe is included where the code states that a Final Demand Curve will be provided "as soon as reasonably practical". They have stated that in addition to their comments in regards to timescales and delivery of key publications, that there should be a guarantee provided that the Demand Curve would be made visible a certain number of days before the Capacity Auction, though they have acknowledged this would be challenging.

They elaborated that the case may be that the Demand Curve for T-2 would include any multiyear contracts awarded for T-1, which therefore may mean this is difficult to publish ahead of T-2. In this case, SSE state they would advocate for consideration of changing the timelines to allow for more time between the two auctions.

- 2.2.10 SSE advise they understand the rationale of this change, however are concerned that the primary focus is on an individual unit given that a Capacity auction is a process of multiple market participants. They add their concerns that there is a potential impact to the bidding strategy of other units depending on the outturn of each of the auctions.

Elaborating they advise that since T-1 would be published first and on the same day that T-2 Capacity auction is due to run, there is little opportunity for pricing strategies to be altered. Therefore, they have requested that clarity is provided in regards to any potential double payment of capacity payments and that notification of any units not successful at T-1 Capacity auction is provided as soon as possible. They believe this will allow for additional bids to be prepared in time for the T-2 Capacity auction for those units that have been unsuccessful and for bids to be altered in the case that multiyear contracts may otherwise be double-paid.

2.2.11 EirGrid/SONI advised they agree with the intention of proposed modification CMC_07_19 to provide for the potential issues which may arise in the treatment of multi-year offers in simultaneous Capacity Auctions. They have however advised that they have concerns that a number of issues have the potential to arise with implications for either or both the T-1 2020/21 & T-2 2021/22 Capacity Auctions.

2.2.12 They have provided the opinion that it is difficult to address these issues in respect of the upcoming T-1 and T-2 Capacity Auctions solely by means of modifications to the CMC. In this regard, they believe an amendment to the T-2 Capacity Auction Timetable would eliminate the risk of these issues arising more effectively. However, suggest that the timelines associated with the T-1 Capacity Auction proceed as per the current Capacity Auction Timetable.

2.2.13 EirGrid/SONI refer to the current Capacity Auction Timetables highlighting that the T-1 Provisional Auction results are scheduled to become available, on a member private basis, on 28/11/2019 and will be made publically available on 05/12/2019. In regards to the T-2 Capacity auction they have stated that window for submission of Capacity Market Offers opens on 28/11/2019 and closes on 05/12/2019. The T-1 Provisional Auction results will therefore not be available in entirety to Participants during the submission window for the T-2 2021/22 Capacity Auction. EirGrid/SONI further advise that whilst this may or may not present a significant issue for each individual Participant, this is a departure from all previous Capacity Auctions where the Final Auction Results from all previous Capacity Auctions were available to Participants at the time of offer submission.

2.2.14 EirGrid/SONI have also advised they have concerns in relation to the approval of changes to the T-2 qualification decisions. They state that SEM Committee approval is required to confirm both the T-1 and T-2 Final Qualification Results. They believe that, should the T-1 Provisional Auction results drive changes to the T-2 2021/22 Final Qualification Results, they will be required to act immediately on 28/11/2019 to amend the T-2 2021/22 Final Qualification Results such that such that these changes take effect for the T-2 2021/22 Capacity Auction.

They further elaborate that their understanding is that the SO is not authorised to take this action and that any such changes would require SEM Committee approval before taking effect.

2.2.15 EirGrid/SONI added that as per the current Capacity Auction Timetable, the T-2 Capacity Auction is due to proceed on 05/12/2019. Any changes to the T-2 Qualification Data that arise due to the T-1 2020/21 Provisional Capacity Auction Results would need to be incorporated into the T-2 2021/22 Capacity Auction.

If the SEM Committee do not approve the T-1 Provisional Auction results in January 2020, they believe this would undermine the validity of the T-2 2021/22 Capacity Auction Results further adding that it is possible that the SEM Committee may direct that the T-2 2021/22 Capacity Auction must be re-run in this scenario.

- 2.2.16 EirGrid/SONI have provided recommendations whereby Possible amendments to the T-2 2021/22 Capacity Auction Timetable. They suggest that the T-1 proceed as per the current Capacity Auction Timetable, whilst the T-2 Capacity auction, and its associated processes, is delayed to 12th February 2020. EirGrid/SONI have provided detail in regards to this within their response to the consultation (Appendix A).
- 2.2.17 Energinet, as with the other respondents, noted they understand the basis of the proposed modification. They have stated however that they believe there are a number of problems with the modification proposed to deal with this. They have stated one concern is that any amendments to the Demand Curve (and FAIP) for the T-2 auction would be based on Provisional results from the T-1 auction that remain subject to change.
- 2.2.18 They stated their opinion that the proposed deadlines in relation to this process appear to be very tight, providing the example that on the 28th November the T-1 Provisional Auction results will be provided to participants with the RAs also being required to notify SO of any change to the Demand Curve and a revised FAIP will have to be published. Based on the proposed timelines, if the FAIP for the T-2 auction is revised participants will only become aware of this on the same date submissions for the T-2 auction opens.
- 2.2.19 Their recommendation is to reschedule the start of the T-2 auction until after the Final auction results from the T-1 auction have been approved on 30th January 2020.
- 2.2.20 In their response, Bord na Mona made two proposals. The first proposal related to the 'Capacity Auction Provisional Results Date: the date by which the System Operators are expected to publish provisional Capacity Auction Results. They have stated that this needs to be set such that participants have at least 7 working days prior to the close of the subsequent auction to facilitate their informed offers, which are more likely to reach desired and more efficient market outcomes, thereby reducing social welfare costs.
- 2.2.21 The second proposal states that it would make sense to align the number of days within their first proposal, with F.3.1.10, which relates to notice time for potential alterations to the Demand Curve and any changes to the list of Qualified Capacity Market Units that can contribute to satisfying a constraint.
- 2.2.22 A number of responses were provided relating to impacts which may not have been identified within the proposal.
- 2.2.23 ESB state their belief that a major impact not assessed in the modification proposal is the undue exposure on market participants from inaccurate exit signals due to the possibility of applying F.9.3.3A(a) rather than rerunning the auction.

They referred to paragraph 2.2.22 of the Consultation Paper which highlights the concerns raised in relation to the increased complexity of the Code due to this modification.

They advise they have assumed that due to there being no comments on this in the Consultation Paper, that this is not a concern for this modification. ESB GT recognises that a modification is viewed in its own light, however, the CMC should not become so difficult that it becomes a barrier for new entrants due to its increased complexity, especially in light of small new entrants that are being attracted to the market. Especially as this undue exposure on market participants could be easily mitigated by delaying the T-2 auction.

- 2.2.24 SSE stated they would consider that there is an impact on locational constraints capacity and locational constraint nodes published for each of the two auctions. They have advised that changes to Net De-Rated Capacity may impact nodes in the definition of a Locational Constraint as well as the Demand Curve (paragraph 2.2.21). They note that no further detail has been provided by the RAs as to whether they have considered this.
- 2.2.25 EirGrid/SONI wished to highlight that the Capacity Market Platform (CMP) is built around a controlled step by step workflow process which requires approvals to advance through each stage of the Qualification and Capacity Auction processes. They have advised that due to the concerns put forward in their response there would be the requirement to reverse previously approved steps and amend participant data. They stated that the CMP system has not been designed for use in this way and they would have concerns that this could introduce risks to quality assurance of the qualification data in CMP. While it is possible to modify CMP to provide for this functionality, this would be not be possible to achieve in the timescales.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee recognise the feedback received from all respondents and the general concerns with the proposal put forward relating to the tight timeframes involved and the implications this may have on both the T-1 CY2020/21 & T-2 CY2021/22 Capacity Auctions.
- 2.3.2 Considering that the T-1 Provisional results are due to be made publicly available on 5th December 2019, the same date the T-2 Capacity auction is scheduled to run, the SEM Committee understand the validity of the concerns raised.
- 2.3.3 In their response, EirGrid/SONI advised that it would be difficult to address the issues in respect of the upcoming T-1 and T-2 Capacity Auctions solely by means of modifications to the CMC. Following a review of the responses the SEM Committee would be inclined to agree.
- 2.3.4 Several responses to the consultation proposed moving the T-2 CY2021/22 Capacity Auction to a date following the final approval of the T-1 CY2020/21 Auction results. Whilst the SEM Committee can see the merit in this suggestion, this would however also present number of issues.

The SEM Committee addressed the justification in regards to the timings of the transitional Capacity auctions, including the T-1 CY2020/21 and T-2 CY2021/22 auctions previously in the *CRM State Aid Update, 2019/20 T-1 Capacity Auction Parameters and Enduring Storage De-rating Methodology* (SEM-18-009¹). The SEM Committee maintain this position has not changed and are therefore reluctant to delay the running of the T-2 Capacity Auction.

Postponing the T-2 Capacity auction to January/February 2020 would also result in the provisions set out in the Clean Energy Package requiring action which could have further implications and thus delay the auction to an even greater extent.

2.3.5 The SEM Committee are of the position that proceeding with implementation of modification as set out in the modification template appended to the consultation paper would not take into account valid points raised in the responses to the consultation.

2.3.6 Based on the responses to the consultation and concerns raised, the SEM Committee have changed their minded to position and therefore reject the modification.

3. NEXT STEPS

3.1.1 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com

¹ https://www.semcommittee.com/sites/semc/files/media-files/CRM%20T-1%20CY201920%20Consultation%20Paper%20v2_0.pdf