



**Integrated Single Electricity Market
(I-SEM)**

Capacity Market Code Modifications Set 2

Decision Paper

SEM-18-164

19th November 2018

EXECUTIVE SUMMARY

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 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 (T&SC) (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.

The purpose of this decision paper is to set out the decisions relating to the Proposed Modifications discussed during Working Group 2 held on 31st July 2018.

The decisions within this paper follow on from the associated consultation (SEM-18-152) which closed on 15 October 2018.

Three responses were received to the Capacity Market Code Modifications, none of which were marked as confidential. All responses to the consultation (SEM-18-152) have been published on the SEM Committee website, with most respondents supporting the minded to position presented for each proposal by the SEM Committee.

Summary of Key Decisions

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

Adopt the minded to position to approve:

- CMC_11_18 – Long Stop Date
- CMC_12_18 – Tolerance Class
- CMC_13_18 – Letters of Credit

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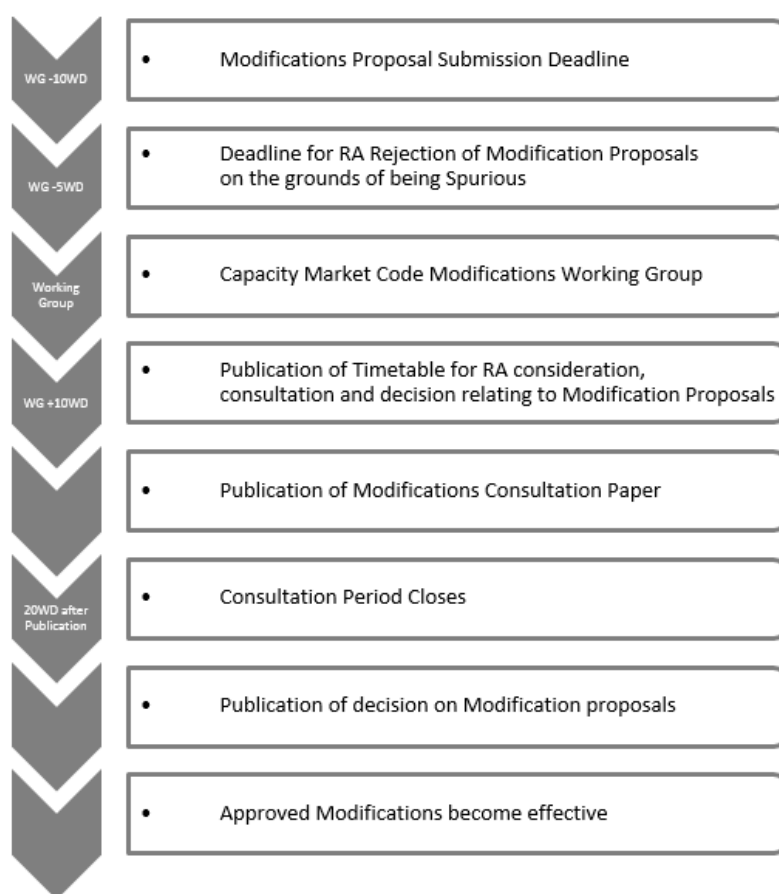
1. OVERVIEW

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 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 (T&SC) (SEM-17-024) published in April 2017.
- 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 System Operators (SOs) are required to facilitate the modification process via (but not limited to) the following:
- co-ordinating with the Parties to facilitate the development and processing of a Modification Proposal;
 - organising workshops for Parties to discuss Modification Proposals; and
 - compiling reports and making recommendations on Modification Proposals to the Regulatory Authorities.
- 1.1.4 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.
- 1.1.5 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.
- 1.1.6 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.
- 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 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.

- 1.1.9 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.
- 1.1.10 During each Working Group the SOs take minutes which will form the basis of a report of discussions that have taken place at the meeting.
- 1.1.11 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. Dependent on the level of complexity of proposed modifications, the RAs may choose to consult on some, or all modifications raised during a Working Group and subsequently form a decision based on this.
- 1.1.12 The Modifications Timetable, outlining the RAs plan for consideration, consultation and decision relating to the Modifications discussed at Working Group 2 on 31st July 2018, was published on 14th August 2018. A consultation paper was published on 17th September with responses invited up to 15th October 2018.

Figure 1: Capacity Market Code – Modifications Process Overview



- 1.1.13 The purpose of this decision paper is to set out decisions relating to the Proposed Modifications discussed during Working Group 2 on 31st July 2018 to either:
- Implement a modification;
 - Reject a modification; or
 - Undertake further consideration in regards to matters raised in the modification proposal.

1.1.14 Each chapter of 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-18-152) which was published on 17th September 2018.

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

- Bord Gáis Energy
- Energia
- ESB

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_11_18 – LONG STOP DATE

2.1 CONSULTATION SUMMARY

- 2.1.1 The Modification was proposed to reflect SEMC Decision SEM-18-030 in respect of Long Stop Date for single year capacity awards and the deadline for Substantial Financial Completion.
- 2.1.2 The Modification proposed changes to the CMC to D.2 / D.3.1.2 / J.5.2.1 / J.6.1.1 (b) and J.6.1.2 (a) along with the inclusion of the definition of Substantial Financial Close Period to the glossary section of the CMC.
- 2.1.3 The SEM Committee were of a minded position to approve this Modification proposal to ensure compliance with the SEM Committee’s decision in SEM-18-030.

2.2 SUMMARY OF RESPONSES

- 2.2.1 All three respondents to the modification advised of their support for implementation.
- 2.2.2 BGE stated their support for the proposal as it is in line with the SEM Committee T-1 CY2019/20 Parameters decision paper (SEM-18-030). They further advise that there see no additional impacts that have not already been identified within the modification and advise the proposed drafting of the modification is appropriate.
- 2.2.3 Energia noted that the term “Substantial Financial Close Period” has been used and reiterated, as discussed during Working Group 2 that this is to be renamed “Substantial Financial Completion Period” to ensure consistency with the rest of the CMC. They highlighted that whilst paragraph 2.2.5 of the Consultation paper stated the intention was to update paragraph J.5.2.1 of the CMC, they are of the understanding that the correct term would be applicable to each paragraph within the CMC and failure to do so would result in the desired RA intent to improve consistency would not be achieved.
- 2.2.4 Energia further advise that whilst the SEM Committees intention was to implement the amendment to the CMC to allow for the inclusion within the Initial Auction Information Pack (IAIP), they note that the IAIP has already been published in regards to the upcoming T-1 CY2019/20 Capacity Auction. With this being the case they suggest that the Substantial Financial Completion Period be included within the Final Auction Information Pack (FAIP). They advise this could be reflected in the CMC by replacing the intended sub-para D.3.1.2 (r) with sub-para F.5.1.3 (q) instead.
- 2.2.5 ESB stated their support for the proposal, however detailed that there needs to be clarity in regards to the full impact on the governance of modifications and the processes that are already complete.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee recognise the value of the comments with respect to the drafting of the proposed modification around the term “Substantial Financial Close Period”. The SEM Committee agree with the feedback provided in regards to the replacement of the above term with “Substantial Financial Completion Period”.
- 2.3.2 Given this updated drafting and the general consensus of support provided by respondents, the SEM Committee approve this Modification as per the drafting shown in Appendix A.
- 2.3.3 Further to the feedback provided in regards to the inclusion of the Substantial Financial Completion Period within the Final Auction Information Pack (FAIP), the SEM Committee agree with this statement. To ensure this is applicable for the next T-1 Capacity Auction (CY2019/20), the SEM Committee intend for this to be included in the FAIP due for publication at the End of November 2018. For subsequent Capacity Auctions, the Substantial Financial Close Period will be included in the publication of the IAIP for each Capacity Auction as per the additional drafted text to be added as sub-paragraph D.3.1.2 (r).
- 2.3.4 The SEM Committee do not consider that the drafting of this Modification is the correct place to consider the Governance of changes to the CMC and ensuring these do not affect processes which have already completed. This decision is clear that the change applies to Capacity Auctions from CY2019/20 and its application is made clear through the inclusion of the Substantial Financial Completion Period in the Initial Auction Information Pack.

3. CMC_12_18 – TOLERANCE CLASS

3.1 CONSULTATION SUMMARY

- 3.1.1 This Modification was proposed to reflect SEMC Decision SEM-18-030 in respect of allowing separate negative tolerance values to be applied to units with emission or run-hour limits.
- 3.1.2 The Modification proposed changes to the CMC to D.3.1.2 /D.3.1.3 / E.8.2.3 / E.8.2.6 and E.8.2.8 along with the inclusion of the definition of Tolerance Class in the glossary section of the CMC.
- 3.1.3 The SEM Committee were of a minded position to approve this Modification proposal to ensure compliance with the SEM Committee’s decision in SEM-18-030. Additional details in regards to this proposal can be found within Annex A.

3.2 SUMMARY OF RESPONSES

- 3.2.1 Of the three responses received to this proposal, all stated their understanding of the justification of the need for the proposal, in that it is as a result of the decisions made in the T-1 CY2019/20 Auction Parameters paper (SEM-18-030).

3.2.2 One respondent, Energia, advised of their support for the modification, however raised a clarification point stating their belief that the Modification will not be applicable to the T-1 2019/20 Capacity Auction, instead would be effective for auctions that take place after the upcoming T-1 CY2019/20 Capacity Auction, with the next auction being the T-4 CY2022/23 auction as per 3.5.1 of SEM-18-30. The RAs can confirm this statement is correct and the modification would not be effective for the T-1 CY2019/20 auction.

3.2.3 BGE advised that, whilst they understand the justification behind the proposal, they believe the original design for de-rating factors does not require changing. They requested that the drafting of the proposal be amended to make it clear that the DECTOL applied by the units, to whom it is applicable, cannot be influenced by commercial decisions. They proposed the following text could be included before the last sentence of the glossary definition for "Tolerance Class".

"Decisions on the level of DECTOL to be applied cannot be influenced by the capacity bidders commercial interest outside of the legal emissions limits of technical run-hour limitations."

3.2.4 They stated that without an amendment being made to the proposal drafting there is a risk of undermining efficient exit signals expected within the market and that strict monitoring of the chosen DECTOLs for run-limited units should occur to ensure that their commercial interests are not being taken into account and would welcome confirmation that such monitoring will occur.

3.2.5 BGE further state that in the interests of transparency, a full list of the units who have running limitations and who subsequently have the option to apply DECTOLs to their de-rating factor, should be published within the Initial and Final Auction Information Packs.

3.2.6 ESB also highlighted their belief that the drafting of the proposal should be amended. They stated a revision should be made to ensure future proofing against any further SEM Committee decisions which could therefore avoiding further modifications to this proposal being required.

3.2.7 They further elaborated that if the SEM Committee were to, in the future, decide to allow other Technologies to DECTOL, the inclusion within the Glossary definition of the following text will result in a modification to the CMC_02_18 modification.

"means a class, based on technology and either emission limits or limits on running hours, used for determining the Increase Tolerance and Decrease Tolerance applicable to a Generator, Generator Unit or Interconnectors"

3.2.8 ESB advised of concerns around the process of modifying already accepted modifications based on their experiences involving the T&SC Modifications Committee. To alleviate these concerns they proposed the Glossary definition for "Tolerance Class" should be redrafted to:

"Tolerance Class: Tolerance Classes will be determined by the Regulatory Authorities under paragraph D.3.1.3."

3.3 SEM COMMITTEE DECISIONS

- 3.3.1 In response to the clarification point raised in regards to timing of the proposals implementation, the SEM Committee confirm that this modification would be applicable for the upcoming T-4 CY2022/23 Capacity Auction, not the T-1 CY2019/20 Capacity Auction due to take place in December 2018.
- 3.3.2 In regards to the request to publish a list of units in a Tolerance class the SEM Committee are of the view this goes beyond the current principles for the publishing of application data within the CMC. With this being the case, the RAs/SEM Committee propose a modification to section E.9.5.1 of the CMC to publish summary information by Tolerance Class, in line with the existing principles applied to Technology Class.
- 3.3.3 To satisfy the above, each sub-section within E.9.5.1 of the CMC will be amended to:
- "...for the Capacity Year for each Technology Class, for each Tolerance Class and for each Unit Type;"*
- 3.3.4 The full drafting of the amendment to E.9.5.1 is contained within Appendix A.
- 3.3.5 The RAs/SEM Committee recognise the concerns raised about potential unintended interpretation of the application of "limits on running hours". The drafting has been adjusted to make clear that such limits should be "technical" in nature. The RAs, in conjunction with the SOs, will monitor Applications which seek to qualify using a Tolerance Class based on limits to run hours.
- 3.3.6 The RAs/SEMC recognise there is some merit in a broader Glossary definition of Tolerance Class but believe that the current drafting reflects both the ethos of the existing definition of Technology Class and very clearly adheres to the SEM Committee Decision set out in SEM-18-030.
- 3.3.7 Upon a review of the responses to the proposal and to comply with the previous decision set out in SEM-18-030, the SEM Committee maintain their minded to position to approve this modification, with minor changes to drafting as shown in Appendix A.

4. CMC_13_18 – LETTER OF CREDIT

4.1 CONSULTATION SUMMARY

- 4.1.1 The Modification proposed making changes to Appendix H of the CMC to include amendments to the template for Letters of Credit
- 4.1.2 The modification proposed amending two references to the "SOs Bank" within the Letter of Credit template to show as "SEM Bank". Following amendments the template should read as "SEM Bank acting on behalf of the System Operators".

- 4.1.3 The proposer stated the modification is merely a correction and would not represent a material change to the CMC. With this being the case, the SEM Committee were of a minded position to approve this Modification proposal.

4.2 SUMMARY OF RESPONSES

- 4.2.1 Of the three responses to the consultation, two provided feedback in regards to the proposal relating to Letters of Credit.
- 4.2.2 Both responses stated they had no objections to the proposal. Both respondents were satisfied that the proposal supports the code objectives in that it removes an incorrect reference.
- 4.2.3 In their response, Energia highlighted their belief that the proposal will require participants to submit amended Letters of Credit. On this assumption they advise a reasonable amount of time should be provided to participants in order for them to submit this. They stated their support of the Modification Proposal is dependent on this being provided.

4.3 SEM COMMITTEE DECISIONS

- 4.3.1 Upon review of the responses to the Proposal, and given the support shown in relation to the proposal, the SEM Committee approve this Modification for implementation as per the drafting shown in Appendix A.
- 4.3.2 In regards to the feedback provided by Energia surrounding dependency of support being based on the assumption that additional time be provided to facilitate the submission of amended Letters of Credit for the current Capacity Year 2018/19, the SEM Committee do not deem resubmission of amended Letters of credit as being required for the current Capacity Year.

5. NEXT STEPS

- 5.1.1 The approved Modifications should be incorporated into the CMC via an appropriate version control process and each Modification is to become effective by no later than 30th November 2018.
- 5.1.2 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com