MODIFICATION PROPOSAL FORM			
Proposer *(Company)*	**Date of receipt** *(assigned by System Operator)*	**Type of Proposal** *(delete as appropriate)*	**Modification Proposal ID** *(assigned by System Operator)*
Tynagh Energy Limited	**13 March 2020**	**Provisional**	**CMC_09_19 v2**
Contact Details for Modification Proposal Originator			
Name	**Telephone number**		**Email address**
Cormac Daly			**c.daly@tynaghenergy.ie**
Modification Proposal Title			
Supplementary Interim Secondary Trading			
Documents affected *(delete as appropriate)*	**Section(s) Affected**		**Version number of CMC used in Drafting**
CMC	**M.10**		
Explanation of Proposed Change *(mandatory by originator)*			

Background

The Capacity Market Code (CMC) envisaged two ways to transfer RO Obligations:

- Secondary Auctions (section H)

- Assignment (B.21)

Prior to go-live it was clear that secondary auctions would not be available in time for the start of the market, at this stage the SEMO roadmap indicates that CRM secondary trading will be assessed in 2021. As the secondary market was not available at go-live the RA's introduced an opt out for units who were undergoing a planned outage (M.7). If a participant notified Eirgrid nine days prior to the month that they were going on scheduled outage, then they would be allowed opt out of their obligation and therefore would not carry the risk and get paid the RO payment.

According to Recital 51 of the State aid Decision, Reliability Options will be tradable on the Secondary Market by Q4 2018. This has passed. This modification will allow the Code to comply the Decision.

The Modification will also contribute to Security of Supply, as it will ensure that the effective obligation is the cleared capacity. The current interim solution does not provide the benefits of RO trading either bilaterally or through auctions, as there will be no additional revenue for participants when there is an outage.

It is not possible to have a secondary financial agreement outside of the market due to the way the capacity obligation is handled. Currently a participant's obligation is managed by the TSO being

able to ratchet the exposure depending on the point of power sales. I.e. if a participant sells Day Ahead to a value greater than their load following obligation then they will not be exposed if there is a pricing event in the Balancing Market. This is because the TSO have this obligation as a registered obligation and track the point of sales. But with a purely financial deal, the obligation is not registered and transferred from Participant A to Participant B.

If Participant A had an agreement with Participant B (who are on an outage) for instance, then this could be illustrated as follows:

RO Obligation Exposure

A bar chart titled "RO Obligation Exposure" with a horizontal line at approximately 245. Participant A DAM Sales = 400, Participant A Obligation = 250, Participant B obligation = 100.

RO Obligation Exposure

A bar chart titled "RO Obligation Exposure". Participant A DAM Sales = 400, Participant A Obligation = 250, Participant B obligation = 100.
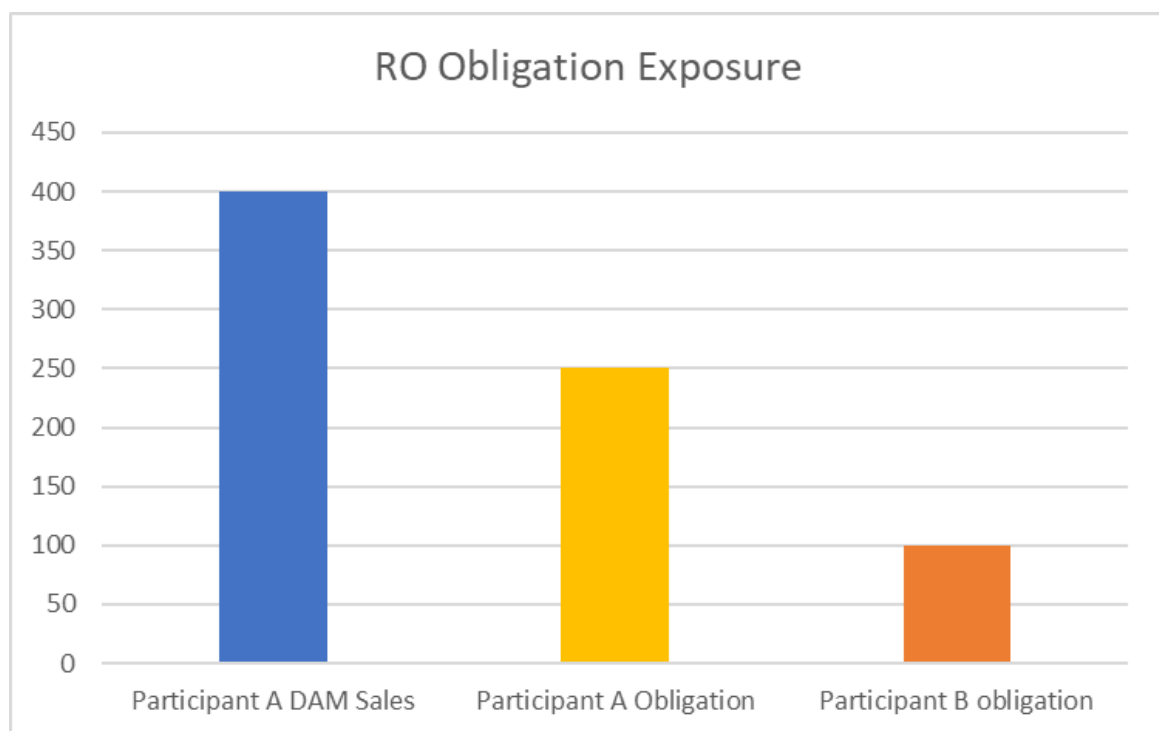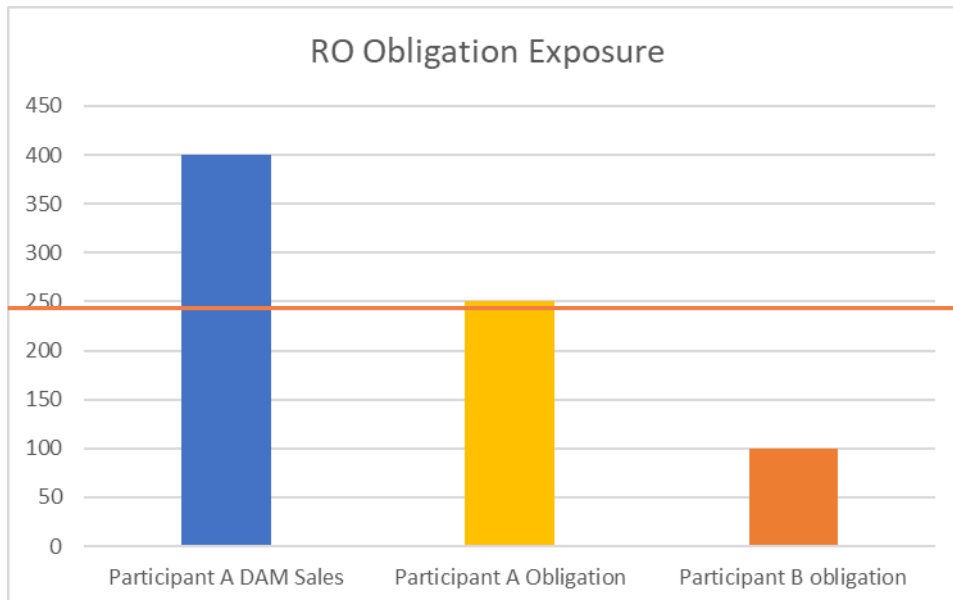
The Participant A registered obligation is less than its DAM sales and Participant A will not be exposed to any BM movement, but Participant B will be exposed to difference charges due to BM prices, Participant A would not be able to gain from the high price in the BM to compensate

Participant B loss of revenue. Effectively, this creates a very large hole in the participant's financial hedge.

However, if the trade was registered with the System Operator then Participant A could add the Participant B obligation to A's as part of A's registered obligation, then both parties would be covered. As displayed below:

Overview
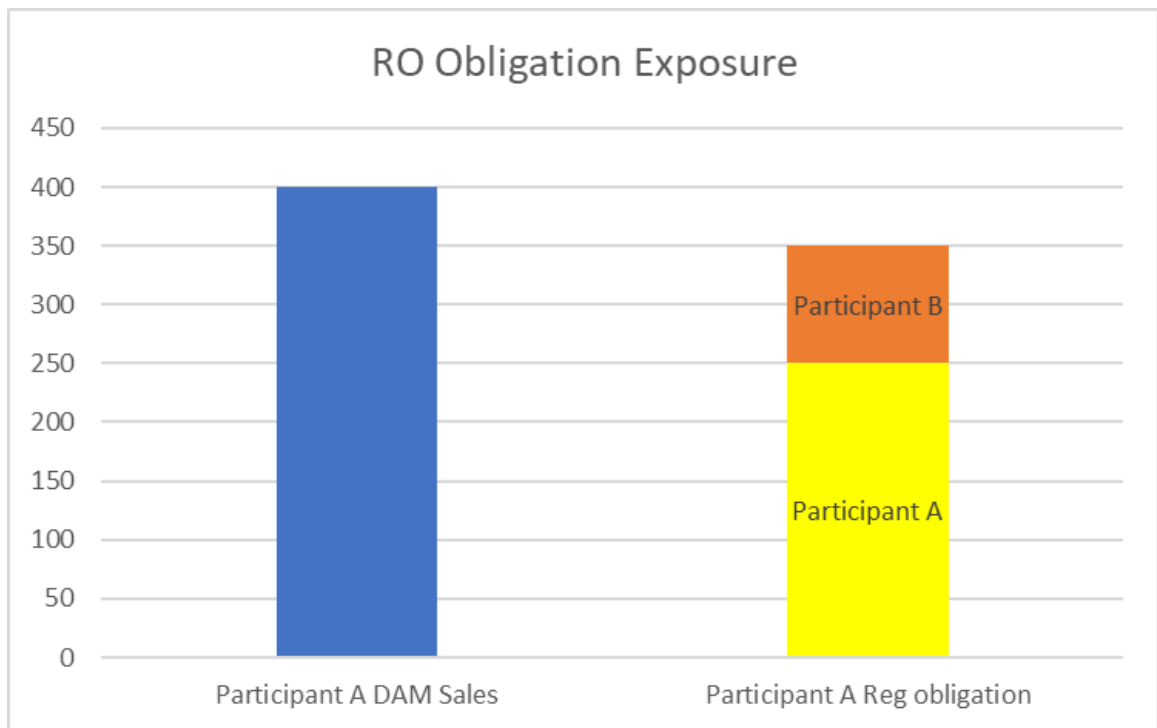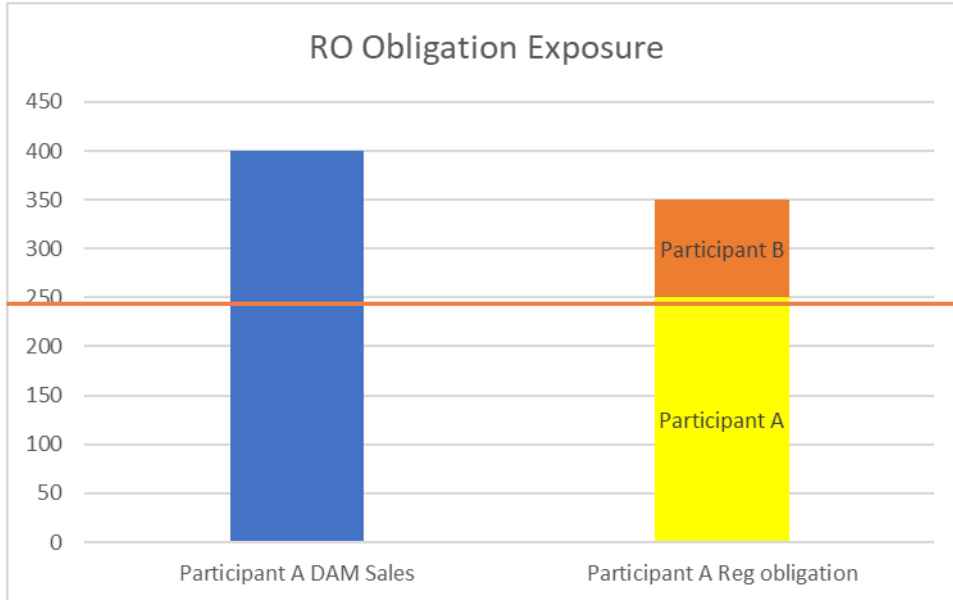
This Modification is an attempt to meet the requirements of the State aid Decision. It will also improve the security of the system compared to the existing interim solution as the total obligation may not be reduced when there is a scheduled outage. It is an attempt to manage the risk of RO trading by allowing the counterparty obligation to be registered with another qualified market party. This would allow participants to trade out their RO obligations during all outages (planned/forced). Secondary RO trading will incentivise present participants to optimise their commercial position by: (1) Receive RO payments via other participants' capacity contracts when other participants are on an outage, (2) Receive a portion of RO payments even when they are on outage.

A key aspect of this is the load following nature of the obligation. While 100% of a participant's obligation is the value that it has sold in the auction, for most trading periods it is considerably less. The obligation is scaled back based on the ratio of system demand (plus the allocated auction reserve) to the volume cleared in the auction (minus any cleared but not yet 90% commissioned capacity). This ratio is called Capacity Quantity Scaling Factor with the algebraic shorthand of FSQC. At times of lower demand, the load following may be significantly reduced. This means that at a time of 50% load following, a participant's own holding would be far lower than its trading period obligation, allowing the participant to take on all or part of another participant's obligation.

At a high level the process would see both parties submitting a ~~Master trade request to the RA's for approval. Once this request is approved, this submission will be sent to the System Operators. At this stage the parties can submit a~~ trade request to the System Operators stating the buyer, the seller, the quantity, the exact period covered, and the ~~Maximum Forecasted FSQC for the period in question.~~ method of calculation. These documents should be identical. The method of calculation can either be i) below the de-rated capacity or ii) above the de-rated capacity. Below the de-rated capacity will be based on the difference between the unit's Maximum Forecasted FSQC for the period in question and its de-rating level. Above the de-rated capacity will be limited to 70 days a year.

The Forecasted FSQC for any trading period will be equal to (Forecasted System Demand + Reserve Adjustment Capacity Quantity)/ Total awarded capacity.

Once the System Operator is satisfied that the party relationship has been approved by the RA's, that the details are correct and that the forecasted Obligated Capacity Quantity of the seller does not exceed the Seller's Limit then the trade will be registered by the System Operator in the Capacity and Trade Register.

Legal Drafting Change
*(Clearly show proposed code change using **tracked** changes, if proposer fails to identify changes, please indicate best estimate of potential changes)*
M.10   **Supplementary Interim Secondary Trading**

M.10.1.1   Secondary trading allows a Party to offset Awarded Capacity in respect of a Capacity Market Unit with another Capacity Market Unit providing replacement capacity in its place. The buyer of a Secondary Trade is effectively offsetting the capacity it has "sold" previously, and the seller of a Secondary Trade takes on the obligation to provide the capacity traded.

M.10.2   ~~Master~~Secondary Trade Request

~~M.10.2.1   A Party shall not sell or buy secondary traded capacity without first submitting a Master Trade Request to the Regulatory Authorities:~~

~~a) The Master Trade Request must be signed by directors of both parties.~~

~~b) In giving consent under this paragraph, the Regulatory Authorities may impose such conditions as they determine are necessary for the purposes of the proper functioning of the SEM.~~

~~c) The Regulatory Authorities must inform the System Operator that they are satisfied for the parties to enter into a Trade Relationship for the purposes of Secondary Trading.~~

~~M.10.3   Secondary Trade Request~~

~~M.10.3~~M.10.2.1   Any request to buy or sell all or part of a unit's obligation must be notified to the System Operators.

M.10.~~3~~2.2   The Secondary Trade Request must detail the following:

(a)   ~~a)~~ Buyer

(b)   ~~b)~~ Seller

(c)   ~~c)~~ Quantity

(d)   ~~d) Forward Period~~Start period

(e)   End period

(f)   The method of calculation to be used

(g)   Price

if the ~~Trade~~

~~(e)~~(h)   ~~e) The ~~method of calculation is below the de-rated capacity then the request must include the Maximum Forecasted FSQC ~~of the forward period~~

~~(f)~~(a)   ~~f) Price~~

~~M.10.3.3   The System Operators shall only reject a Secondary Trade Request if:~~

~~(h)(a)   The Maximum Forecasted FSQC provided is incorrect~~

~~(i)(a)   If the Seller Limit is exceeded.~~

(i)   The Trade ID

M.10.~~4~~3 *Role of System Operators*

M.10.~~4~~3.1 The System Operators must do all things necessary to operate and administer Secondary Trades in accordance with this Chapter including:

(a) ~~Registering trading relationships~~

(b) ~~Validating trading requests~~

(a) ~~Ensuring~~Confirm that the ~~forecasted obligated~~Trade Requests are trade pairs

(b) Confirm that unit decreasing Awarded Capacity has sufficient Awarded Capacity to trade

(c) Confirm that unit increasing Awarded Capacity has sufficient Initial Capacity to take on additional capacity ~~quantity does not exceed the seller limit;~~

(d) ~~Ensuring that the buyer cannot buy below a 0MW obligation.~~

(e) ~~providing facilities for the receipt and processing of Secondary Trade Requests;~~

~~(f)~~(d) ~~providing and managing~~Update the Capacity and Trade Register ~~for the purpose of conducting Secondary Trades~~with trade within 1 Working Day of submission.

M.10.3.2 The System Operators shall reject a Secondary Trade Request if:

(a) The Trade ID's do not match

(b) The Maximum Forecasted FSQC provided is incorrect

(c) If the Seller Limit is exceeded.

~~5~~M.10.4 *Applicable Exchange Rate*

M.10.~~4~~.1 The exchange rate applicable to a trade is:

(a) if the forward period over which the Trade applies will commence more than a year after the date of the Secondary Trade Request, the Annual Capacity Payment Exchange Rate for the relevant Capacity Year (as last calculated under section K.2); and

(b) otherwise, the Monthly Capacity Payment Exchange Rate for the Month in which the forward period over which the Trade applies commences (as last calculated under section K.2).

M.10.~~6~~5 *Buyer Limits and Seller Limits*

M.10.~~6~~5.1 The "**Initial Position**" of a Capacity Market Unit in respect of the period of time to which a Trade relates is the Net Capacity Quantity of that Capacity Market Unit in respect of that period of time immediately prior to the Secondary Trade

M.10.~~6~~5.2 The Buyer Limit for a Capacity Market Unit is the lesser of:

(a) ~~Initial Position of the Capacity Market Unit; or

(b) 0.

M.10.~~6~~5.3 The Seller Limit for a Capacity Market Unit is:

(a) the value calculated as follows:

(b) if the Capacity Market Unit is seeking to trade above its Gross De-Rated Capacity:

(c) the lesser of:

- the Gross De-Rated Capacity (Total) of the Capacity Market Unit (when the Capacity Market Unit was last Qualified in respect of the Capacity Year) multiplied by one plus the Secondary Trade De-Rated Capacity Tolerance applicable to that unit;

- the Commissioned Capacity of the Capacity Market Unit; and

- the Initial Capacity (Total) of the Capacity Market Unit (as determined when the Capacity Market Unit was last Qualified in respect of the Capacity Year); less

- the Initial Position of the Capacity Market Unit.

- otherwise:

    o the Available De-Rated Capacity; less

    o the Initial Position of the Capacity Market Unit,

(d) multiplied by the maximum forecasted Capacity Quantity Scaling Factor for the traded period.

M.10.6.4   The Regulatory Authorities may, from time to time, determine the value of the Secondary Trade De-Rated Capacity Tolerance.

M.10.6.5   If, at any time, the Regulatory Authorities have not determined a specific value for the Secondary Trade De-Rated Capacity Tolerance, then its value shall be zero.

M.10.7   Capacity and Trade Register

M.10.7.1   The System Operators shall record details of all Secondary Trades in the Capacity and Trade Register, where:

(a) Awarded Capacity arising from a Secondary Trade sale shall be entered as negative value;

(b) Awarded Capacity arising from a Secondary Trade purchase shall be entered as a positive value; and

(c) all Contract Register Entries in the Capacity and Trade Register in respect of a Secondary Trades shall be identified by a Secondary Trade Flag.

M.10.8   Restrictions on secondary trade

M.10.8.1   A Participant may only enter into a Secondary Trade that results in the Net Capacity Quantity of the relevant Capacity Market Unit exceeding its Available De-Rated Capacity, up to a maximum of the Initial Capacity (Total) of the Capacity Market Unit, for no more than 70 days each Capacity Year.

M.10.8.2   The System Operators shall keep a record for each Capacity Market Unit of the total number of days within a Capacity Year for which the relevant Participant has entered into Secondary Trades in respect of its Capacity Market Unit that result in the Net Capacity Quantity of the Capacity Market Unit exceeding its

Available De-Rated Capacity. The System Operators shall deduct from that total any such days during the remainder of the Capacity Year when the Participant subsequently trades out of such positions in respect of the Capacity Market Unit.

M.10.8.3   Where the number of days recorded under paragraph 0 in respect of a Capacity Market Unit exceeds 70 days, the System Operators shall set the Seller Limit of the Capacity Market Unit to zero for the remainder of the Capacity Year for the above the de-rated capacity method

Glossary

Maximum Forecasted FSQC

Means the maximum level that the FSQC is forecasted to reach for the forward period Forecasted FSQC of a secondary trade. It is calculated as (Forecasted System Demand + Reserve Adjustment Capacity Quantity)/ Total awarded capacity. It utilises the SEMO Annual Forecasted Demand.

H2 will also need to be removed.

Modification Proposal Justification *(Clearly state the reason for the Modification)*
The State aid Decision stated that Secondary Trading would be available by Q4 2018, this modification is required to be in compliance with the Decision. To provide greater security of supply by ensuring that sufficient capacity is available in the Market. This modification will allow parties to trade obligations and reduce their exposure and is considered a necessary supplement to the existing interim solution. It is not intended to replace the current Interim Secondary Trading Arrangements.

Code Objectives Furthered *(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)*
A, D and G

Implication of not implementing the Modification Proposal *(State the possible outcomes should the Modification Proposal not be implemented)*
Non-compliance with State Aid Decision. Security of Supply risks.

Impacts *(Indicate the impacts on systems, resources, processes and/or procedures)*

Please return this form to the System Operators by email to
CapacityModifications@sem-o.com

Notes on completing Modification Proposal Form:

1. If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.

2. Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Regulatory Authorities.

3. Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.

4. For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:

    CMC / Code: means the Capacity Market Code for the Single Electricity Market
    Modification Proposal: means the proposal to modify the Code as set out in the attached form
    Derivative Work: means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal

The terms "System Operators" and "Regulatory Authorities" shall have the meanings assigned to those terms in the Code.

In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section B.12 of the Code, which I have read and understand, I agree as follows:

1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:

    1.1 to the System Operators and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;

    1.2 to the Regulatory Authorities to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;

    1.3 to the System Operators and the Regulatory Authorities to incorporate the Modification Proposal into the Code;

    1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.

2. The licences set out in clause 1 shall equally apply to any Derivative Works.

3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.

4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.

5. I hereby acknowledge that the Modification Proposal may be rejected by the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.