APPENDIX C – RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	Bord Gáis Energy
Type of Stakeholder	Generator in the all-island single electricity market; supplier in the Irish retail market
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Context for response

Bord Gáis Energy (BGE) welcomes the opportunity to respond to this SEM-20-040 consultation on three modification proposals from Working Group 12 (CMC_09_19, CMC_07_20 and CMC_08_20). As the three modification proposals address three separate topics, we will address them in turn as:

- CMC_09_19 – Supplementary Interim Secondary Trading (Version 2),
- CMC_07_20 – Change in Technology Class for Awarded New Capacity, and
- CMC_08_20 – Change of Awarded Existing Capacity to Awarded New Capacity

CMC_09_19 – SUPPLEMENTARY INTERIM SECONDARY TRADING (VERSION 2):

1. BGE is supportive of secondary trading in the capacity market to meet Ireland's state aid obligations and facilitate greater security of supply in SEM through generator actions.
   1.1. Secondary trading will facilitate generators in managing their obligations under the Capacity Market Code (**CMC**) and equally their associated Reliability Option (**RO**) risk exposure.
   1.2. We recognise the part played by the current Interim Secondary Trading Arrangements and the context in which they were introduced. They provide the facility for generators to manage their capacity risks at times of scheduled outages, but their effectiveness for generators to optimise

their exposure is hampered by the process timelines associated with them (i.e. 10 Working Days' notice to the SO). We understand that the Alternative Secondary Trading Arrangements proposed in this modification will provide generators with a more precise and timely option to meet their capacity obligations alongside the current Interim Secondary Trading Arrangements.

2. There are a number of considerations with the implementation of the Alternative Secondary Trading Arrangements (**ASTA**) proposed under this Modification that BGE requests the Regulatory Authorities (**RAs**) to take into consideration before finalising the ASTA.

2.1. As a new mechanism for trading in the Capacity Market, trades under the ASTA should promote **an open, transparent and competitive market** that allows participants to manage RO risks for <u>evidenced legitimate reasons</u>. The mechanism should not encourage behaviours that may undermine competition in the Capacity Market and importantly the exit signal element of the RO mechanism. New mechanisms can be open to participant actions that can intentionally or unintentionally destabilise the Capacity Market, its objectives and / or capacity auction results. Strict monitoring controls need to be applied by the RAs and SOs to ensure that non-competitive actions can be identified. These actions may have negative consequences for the market in terms of access to capacity-risk-mitigation tools and for consumers in terms getting value for their money (i.e. a reliability product). These **ongoing market power and illiquidity mitigation controls** could include, and this list is not exclusive:

- Regular (at least twice monthly) reviews of the registered trades to ensure non-competitive behaviour is not present.
- Continuous monitoring for, and immediate querying of, trades at off-market prices.
- Publication of a sufficient degree of detail of the trades within 1 working day of the trade with the <u>details covering at a minimum</u>; price, volume, buyer/ seller units affected, counterparties, period of secondary trade covered, legitimate reason and any other trade related details as specified for the Capacity Market Platform or secondary trades in the Capacity Market Code Section H.
- Prohibition of trades on the ASTA beyond 12 months ahead of the trade in question to avoid locking out liquidity in this market.
- Monitoring should also establish if the use of the ASTA remains supportive of the capacity units that were successful in the primary auctions and **is not facilitating the inefficient continuation of less effective capacity units in a portfolio** whose continued operation does not support the national decarbonisation of energy agenda. <u>This risk is a key concern for BGE</u>.
- **Scope for regulatory intervention by the RAs** (on foot of discovery of a potential non-competitive issue or concern flagged by the SOs, market participant or RAs themselves). Such intervention could include pre-emptive mitigation measures until for example such time as the RAs and SOs are satisfied with the driver and rationale behind a secondary trade that may be intercompany or otherwise, and that the secondary trading behaviour of the participant is not undermining liquidity or competition or the value of

the reliability product. The basis for which the RAs/ SOs may remove such measures should be published, and any concerns that are raised which requires pre-emptive measures are notified to the market participants. Such **pre-emptive mitigation measures** could for example extend to:

- Prohibiting intercompany trades under the ASTA (i.e. prohibition of secondary capacity trades between units holding separate primary capacity awards that are part of the same parent group). This is on the understanding that units must hold primary contracts to qualify for secondary trading.
- Requiring the participant(s) under scrutiny to offer the trade to the open market at a price reflective of the market in the SOs' or RAs' opinion and with industry input as appropriate for a minimum duration (e.g. 24 hours) before executing the trade.

These measures may be required on a longer-term basis if investigation of the initial concerns around behaviour reveal negative market or consumer implications.

2.2. The prospective **implementation schedule for the ASTA** should be given the utmost importance such that the facility is available to participants as early as possible. The operational platform and processes need to be stable to ensure proper market operations. In parallel, there needs to be continuing focus on the timely delivery of the enduring Secondary Trading platform to allow participants to have full access to the suite of trading options available to them – there may be positive synergies from the ASTA to apply in the long-term solution. Post implementation of the ASTA system, participants would benefit from an open dialogue with the SOs on the status of the development of the enduring Secondary Trading platform, planned improvements to the ASTA system, and if planned ASTA system improvements will delay or perhaps contribute to the completion of the enduring Secondary Trading platform. The implementation date of the enduring Secondary Trading platform needs to be published as soon as possible. This date should also be the cessation date for the ASTA system.

2.3. **Market liquidity** is essential for this market to facilitate required trading capabilities. We understand the need to establish a deliverable scope that enables near term delivery which may de-scope some items (namely the ability to trade above de-rated capacity). However, we encourage the RAs and SOs to focus on supporting growth in liquidity and trade capabilities for participants as quickly as possible after the initial implementation of the ASTA by re-scoping the ability to trade above the de-rated capacity of the unit as soon as possible.

2.4. The **trade validation and execution** under the ASTA needs to be completed in a timely manner that is efficient and effective for participants. While a 1-Day window is desired in operation, we understand this may not be possible at the start of implementation. Nevertheless, we encourage the SOs to have a set range for this operation of 1-3 days at the start of implementation, and a plan to reduce it to 1-Day as quickly as possible. On this time range suggestion, we ask the RAs and SOs to provide clear timelines on trade validation and updates to the Capacity and Trade Register that gives participants swift trade validation and early sight of registered trades. The nature of the trades is a transfer within the market of existing RO risk between participants, and not the creation of new risk in the market. We note the advice of the RAs in the consultation paper of the sufficiency of the algebra around stop-loss limits set out in Chapter F of the TSC to cope with the implementation of the ASTA.

2.5. It is essential that the ASTA provide the **appropriate level of trade detail, in a timely manner**, to the market to maintain the level of transparency and information that is set out on the initial capacity awards from the auctions. The ASTA should not be seen as a way to undermine this transparency for participants. The timely publication of trade details (as set out in Section 2.1 above) will aid in identifying portfolio trading actions, minimise negative liquidity impacts, and ensure the required reliability procured for consumers is being achieved. A key principle of the ASTA is that trades are done for a legitimate reason, and this should be an explicit aspect to every trade under the ASTA.

2.6. The availability of the appropriate level of trade detail and its timely publication will enable the **suitable monitoring and oversight** of the activities in the ASTA to identify if the **arrangements are being distorted to de-risk generation assets without legitimate reason**. We would encourage that a separate "reason" code is adopted to represent each of the legitimate reasons allowed under the ASTA. Each unit in a trade should include this reason code in their trade report along with the specific unit ID, using standardised nomenclature. Without these data points being included by both units, a trade cannot be considered valid.

2.7. The ASTA are proposed as a method to support the delivery of sufficient capacity to the market. Trades that are not **supported by an approved asset as published in the trade notification (i.e. speculative in nature) or increase the delivery risk** in the market by **over-committing plant or use of unreliable plant**, can destabilise the reliability of the capacity contracts, and should be prohibited. The recent Capacity Market Code Modification (CMC-08-20) proposal by the SOs is to address the aspects of availability levels with some existing smaller capacity units. The issue behind this modification proposal identifies the importance of unit reliability and availability. We expect that any attempt to use the ASTA to minimise the reliability provision of plants on a portfolio basis will be addressed (and prevented) by the RAs and SOs.

2.8. We request the RAs views in the decision paper as to the applicability of ASTA to units in **Locational Capacity Constraint Areas (LCCAs).** There is a risk that executed secondary trades could turn out to be impractical if for example the counterparty to the trade is outside the LCCA. Any associated LCCA delivery may not be possible or the minimum MW required for the LCCA as determined in the Final Auction Information Pack for the relevant capacity year could be undermined.

2.9. We propose that the stability and success of the market are fostered by maintaining **a trading horizon of up to 12 months** from the date of trade. This might then reduce depending on when the enduring solution is expected to be operating.

2.10. The supplementary nature of these proposed arrangements should not supplant the current Interim arrangements which remain a valid and functioning option in the CMC. The **complimentary operation of both the ASTA and the current Interim Arrangement** offer participants the best opportunity to manage their RO risk for outages. Participants will need to understand as close to real-time as possible the position with any plant under these arrangements, and the coverage being provided by other plants to that plant. The key to this monitoring is that market transparency is maintained with the timely and full publication of the trading information for all participants to review.

2.11. Finally, the **cost to the consumer** of the implementation and operation of the ASTA must be kept to a minimum given that the ASTA are expected to reduce risk in the capacity market operations, and not increase overall revenues and unnecessary costs so increasing charges to the consumer. The consumer is paying for the delivery of reliable capacity to the market to meet expected demand when required, and this is the principle underlying the capacity auction process. This principle is undermined if secondary trades under the ASTA are not backed by a capacity unit that can affect delivery of the capacity obligation , or the unit has not completed all of their financial milestones in commissioning.

CMC_07_20 – CHANGE IN TECHNOLOGY CLASS FOR AWARDED NEW CAPACITY

3. BGE does not support this proposed modification.

3.1. Modification proposals to the Capacity Market Code should reflect potential improvements to the delivery of the Code Objectives, identified short comings with the Code that are impacting participants, or changes in legislative requirements that require Code updates. It was unclear in the Working Group Meeting #12 that any of these drivers have been identified which is also reflected in the Consultation paper. The **justification for the modification proposal** is to offer flexibility to participants where a change in technology is requested against an awarded capacity contract, but there have not been any instances of this scenario under the CMC to date. The key driver is thus uncertain.

3.2. The qualification of participants for any capacity auction includes clarity by the participant on the project and technology parameters to be used to deliver the capacity seeking a contract in the auction. Indeed, the expectation is that participants have a fully built-up investment model as part of the bid analysis, and this **investment model relies on a clear decision on the technology to be used**. Any change of technology class after the award of a new capacity contract renders this investment model and analysis for bidding invalid. This raises concerns around not only the viability of the project and it meeting its financial milestones and operational deadlines to deliver the awarded capacity but also around the impact on auction outcomes given that different technologies have different de-rating factors and costs so the volumes delivered and the clearing price determined in the auction may not in fact be accurate.

3.3. While it was advised by the RAs in the Working Group that Section J.2.1.6 of the CMC was an avenue to address the amendment of major contracts, they acknowledged that **a review of this section may be needed**. The output of that review should provide a reasoned basis for any identified changes needed to the CMC at that time, as well as an impact assessment of potential implications particularly on volumes and prices in auctions and delivery of projects against milestones. It is on that basis that any modification to make the necessary changes should be raised.

CMC_08_20 – CHANGE OF AWARDED EXISTING CAPACITY TO AWARDED NEW CAPACITY

4. BGE does not support this proposed modification in its current draft format. BGE agrees with the intent of this modification to ensure that contracted units remain reliable in delivering their commitments and obligations under the Capacity Market Code and their capacity awards. The process proposed in this modification may not be appropriate, but we support the need to ensure the Capacity Market Code has the correct incentives and penalties to ensure that availability of contracted capacity is maximised for the SEM within unit and system operational constraints. We believe that further engagement with the RAs, SOs and participants is needed to explore the issue and possible processes to address it.

CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

APPENDIX C – RESPONSE TEMPLATE

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_09_19 - Supplementary Interim Secondary Trading (Version 2)	BGE supports this proposed modification subject to our suggestions in section 2.1 at a minimum being applied (see Section 1 and 2 above). If these are applied, we believe the Mod will be consistent with the Code Objectives to: • "promote competition in the provision of electricity capacity to the SEM" *(CMC A.1.2.1.d)* in that it offers a fair and open market mechanism to participants to manage their risk and options to meet their capacity obligations as awarded and provide sufficient capacity to the market as set out in 1.1 above. • "provide transparency in the operation of the SEM" *(CMC A.1.2.1.e)* in the timely publication of trade data to the Capacity and Trade Register • "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." *(CMC A.1.2.1.g)* by encouraging the provision of capacity to the market by participants in a mechanism that allows for risk management by participants.	BGE has outlined a number of issues in the context section above that should be addressed in the implementation and operation of these ASTA. ➢ Avoiding Market power, competition and illiquidity concerns **(2.1)** ➢ Trading transparency and publication **(2.5)** ➢ Monitoring and oversight **(2.1, 2.5)** ➢ Market liquidity **(2.3)** ➢ Asset reliability and Delivery risk **(2,7, 2.8)** ➢ Interim arrangements v Enduring Solution **(2.2)** ➢ System and Trading limitations **(2.8, 2.9)** ➢ Minimisation of cost impact to the consumer **(2.11)**	BGE is largely supportive of the proposed modification as it supports the obligations under the EU State Aid decision, and facilitates a more precise mechanism for participants to manage their RO risk exposure in SEM. The proposed modification also encourages generators to deliver sufficient capacity to SEM under the awarded contracts. It should be noted that a number of issues are identified that should be addressed to mitigate the risk of market dominance, increased delivery risk to the capacity market, and use of the arrangements to support less effective capacity units that cannot meet the decarbonisation agenda. We see the need for appropriate monitoring and oversight of the process and trades on implementation (from go-live Day 1) and we would suggest that a specific section on "Monitoring and Oversight" is added to the legal drafting to clarify who is responsible for monitoring and what reporting to participants will be done. Please see section 2.1 above in particular for our views on this.

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CMC_07_20 - **Change in Technology Class for Awarded New Capacity**	It is unclear from the modification proposal how this change to the CMC is needed at present and so if it would be consistent with progressing the Code Objectives	A number of issues were identified, which we have expanded on above: Justification for proposal (3.1) Validity of qualifying investment modelling (3.2) Lack of clarity on the particular sections to amend (3.3)	Given the lack of consistency with the Code Objectives, and the number of issues identified at the Working Group, BGE is not supportive of this modification proposal.
CMC_08_20 - **Change of Awarded Existing Capacity to Awarded New Capacity**	BGE does not support this proposed modification in its current draft format. We do agree with the intent of this modification, but the process proposed in this modification is not appropriate. We support the need to ensure the Capacity Market Code has the correct incentives and penalties to ensure that availability of contracted capacity is maximised for the SEM within unit and system operational constraints.		BGE is not supportive of this modification in its current form. We are supportive of encouraging participants to meet their obligations under the Code (I.1.2.1.b). Further discussion with industry on the issue we believe is required.

NB please add extra rows as needed.