

Date: 31<sup>st</sup> of July 2020

Re: EAI Response to Capacity Market Code Working Group 12 - CMC\_09\_19, CMC\_07\_20 and CMC\_08\_20 Consultation Paper (SEM-20-040)

By email to [Kevin.Lenaghan@uregni.gov.uk](mailto:Kevin.Lenaghan@uregni.gov.uk) & [Kevin.Baron@uregni.gov.uk](mailto:Kevin.Baron@uregni.gov.uk)

EAI welcomes the opportunity to respond to this consultation on CMC working group 12.

## CMC\_09\_19 – Supplementary Interim Secondary Trading (Version 2)

### Overview

In the absence of a well-functioning secondary trading market, which the European Commission (in its State aid decision) understood would be in place by Q4 2018, it is vital that market participants are afforded the opportunity to manage their Reliability Option (RO) risk through other means.

The current Interim Secondary Trading Arrangements under section M.7 of the CMC is overly restrictive in many ways, including (1) being limited to Planned Outages, which itself is subject to TSO designation; and (2) requiring 10 Working Days' notice prior to the month in which the outage is scheduled to occur.

For these reasons, EAI is supportive of the proposed modification to introduce a Supplementary Secondary Trading mechanism as a necessary supplement to the existing interim solution. It is important to emphasise that it should not replace the current Interim Secondary Trading Arrangements. The two Trading mechanisms should operate closely together, working in a complementary manner.

The effectiveness of the Supplementary Secondary Trading arrangements as proposed will depend, among other things, on the flexibility it gives market participants to use it at short notice and in conjunction with the existing Interim Secondary Trading Arrangements. EAI favours the notice period being as short as possible (i.e. 1 Working Day) and alignment of both mechanisms (in terms of notice periods and flexibility) such that they can supplement one another as intended while not undermining transparency and simplicity of use of the mechanism for the TSOs and market participants.

It is also imperative that the revised Secondary Trading Arrangements are implemented in a timely manner – i.e. by 1 October 2020, coinciding with the start of the next Capacity Year, particularly given the impact of COVID-19 on outage schedules which has required outage dates to be amended creating additional uncertainties and risks for participants. We would emphasise that any of the comments proposed below should not be at the expense of delaying the implementation of the Supplementary Secondary Trading arrangements by 1 October 2020.

EAI also supports the RAs' intention to monitor the two interim secondary trading options to ensure the liquidity and accessibility of the overall secondary trading capacity market. We envisage such monitoring measures should safeguard a transparent and competitive market and that regulatory intervention will be taken, if necessary, for such safeguarding. Trades as proposed

should occur for legitimate reasons and should not undermine the value or reliability of the product that the consumer is paying for.

### Timeline for completing a Supplementary Secondary Trade

The legal drafting proposed in M11 does not provide a clear timeline for completing a Supplementary Secondary Trade. Market participants require clear and definitive timelines to be set out for completion of this process from end-to-end, including the publication of all details relating to the trade e.g. price, volume, seller unit, buying unit, start trading period, end trading period, period of secondary trade covered.

M.11.3 sets out the role of the System Operators in processing Supplementary Secondary Trades however no specific timelines are provided. The only reference to a timeline is in M.11.3.1 (d) which states that the Capacity and Trade Register will be updated as “soon as reasonably practicable”.

EAI recommends that more definitive timelines for end to end completion of the process are included within M.11.3, as suggested below:

*“The System Operators must do all things necessary to operate and administer the Supplementary Secondary Trading Arrangements **such that Trade Requests are validated, and the Capacity and Trade Register is updated within [1 Working Day]** in accordance with this section M.11 including:”*

EAI is of the view that the above timeframe of 1 Working Day is practically achievable and provides the necessary flexibility required for Supplementary Secondary Trading. However, EAI understands that it may take some time to bed in system changes and processes to achieve this and as such would be willing to consider a gradual transition to this 1 Working Day timeline over perhaps a 6-12 month period, where such initial timeline does not exceed [3] Working Days.

EAI would also welcome clarity on the verification process for buyers and sellers of secondary capacity from and to units within an LCCA. There are potential impacts of constraints on delivery across these areas during a RO event and who the RO risk lies with will be important to understand.

### Interaction between M11 (Supplementary Secondary Trade) and M7 (Interim Secondary Trade)

EAI assumes that participants will be able to stack their trades. So that if a large unit was on an outage that they may be able to make three smaller trades to meet their exposure. But it should also be possible for participants to use both the supplementary and interim measures for the same period. EAI also assumes that all trades will be physically backed.

This is necessary because it may not be possible to fully trade out a Planned Outage using the Supplementary Trading Arrangements alone, particularly given the cap proposed for it. In this case, an Interim Secondary Trade would be required to top up a Supplementary Secondary Trade to fully trade out the RO exposure.

It is indicated in the Consultation Paper (in paragraphs 2.1.41 to 2.1.43) that further amendments may be needed to facilitate interaction between the two Secondary Trading mechanisms in the same period, potentially requiring:

- Minor modification to M7 and M11;
- Engagement with System Operators to see if systems can be updated to allow trades under both mechanisms, when they overlap.

For reasons explained above, EAI would encourage the RAs and TSOs to implement and expedite any changes required to support the interoperability of both mechanisms by 1 October 2020 while ensuring that the publication of trade details facilitates monitoring and transparency of trades.

### Product Load Following Factor

The legal drafting in M.11.4.2 outlines that the Product Load Following Factor for periods covered by Supplementary Secondary Trades will be determined by a methodology determined by the RAs.

EAI is of the view that this methodology and all relevant variables required in the calculation of the load following obligation should be published in advance for market participants to understand and use so that they have certainty over the eligible volumes that can be submitted in an Supplementary Secondary Trade.

EAI asks that this methodology and associated relevant variables be published by no later than 1<sup>st</sup> September 2020 thereby allowing 30 days for participants to understand same before 1<sup>st</sup> October.

### Scope and Timing of Implementation

EAI notes that the proposed modification has been reduced in scope by removing the ability to trade above de-rated capacity, so that it can be implemented as soon as possible.

Whilst this is far from ideal, EAI acknowledges the timing imperative and the value of having Supplementary Secondary Trading Arrangements in place (that can be used in conjunction with the Interim Secondary Trading Arrangements) by 1 October 2020. However, EAI asks that a commitment be given to when the ability to trade above the de-rated capacity will be possible, and that such date should not be after 1<sup>st</sup> October 2021.

### Phase 2 Improvement – Effective Date

EAI believes that while this proposed modification can introduce needed functionality into the market that there are improvements that could be made post implementation that would increase the flexibility of the mechanism.

The TSO could introduce the concept of an **effective date and time** for the trade – i.e. the date being the day when both party to the trade submit identical ‘trade details’, which are later validated (in as short a period as possible) and included in the Trade Register.

This would allow the validation of a short notice outage to occur after the outage had started, but that the RO would be transferred in the system at the effective date.

### Concluding Comments

EAI supports this proposed modification subject to the above comments. Its effectiveness will depend on the flexibility it gives market participants to use it at short notice (suggesting 1 Working Day) and



in conjunction with the existing Interim Secondary Trading Arrangements, and it should be implemented in a timely manner – i.e. by 1 October 2020.

EAI also proposes that the enduring central platform solution should be developed in parallel such that any positive synergies from the interim and supplemental arrangements can be applied in a longer-term solution.

#### **CMC\_07\_20 – Change in Technology Class for Awarded New Capacity**

EAI is opposed to this proposed modification and supports the minded to position of the RAs' to reject it.

#### **CMC\_08\_20 – Change of Awarded Existing Capacity to Awarded New Capacity**

EAI is opposed to this proposed modification and supports the minded to position of the RA's to reject it.

Should you have any questions in relation to this response, please do not hesitate to contact us.

Yours sincerely,

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