



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

**Capacity Market Code Modifications**

**Consultation Paper**

**SEM-18-034**

**2 July 2018**

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Appendix A – Capacity Market Code Modifications Timetable

Appendix B – Proposed Modifications

Appendix C – System Operators Modifications Working Group 1 Report

Appendix D – Response Template

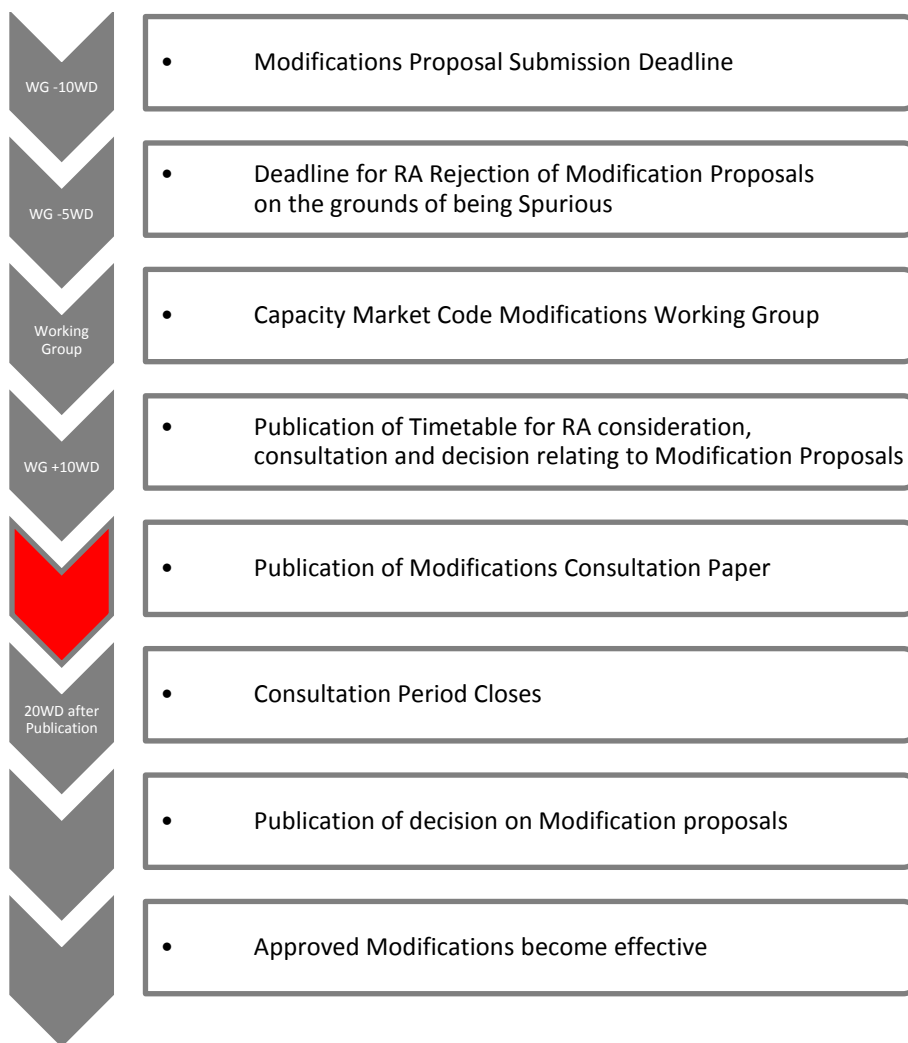
# 1. OVERVIEW

## 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 (TSC) (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 consultation period is 20 working days and following the closure of this period the RAs will form their decisions in relation to the modification(s) as soon as reasonably practical after the end of the consultation process.

Figure 1: Capacity Market Code – Modifications Process Overview



## 1.2 PURPOSE OF THIS CONSULTATION PAPER

- 1.2.1 The first Capacity Market Code Working Group (Working Group 1) took place on 10<sup>th</sup> May 2018, during which ten proposed modifications were presented and discussed.
- 1.2.2 The RAs subsequently published the required timetable for moving forward with the proposed Modifications on 25<sup>th</sup> May 2018. As part of this timetable, the RAs stated the aim to progress the proposed modifications to the consultation phase, with a paper being published on 29<sup>th</sup> June 2018. The modifications timetable is shown in Appendix A.
- 1.2.3 The purpose of this paper is to:
- Consult on the proposed Modifications presented at Working Group 1;
  - Assess responses and based on these, along with the submitted templates by the modification proposers and the report compiled by the SOs, the RAs form a decision to either:
    - a. Implement a modification;
    - b. Reject a modification; or
    - c. Undertake further consideration in regards to matters raised in the modification proposal.
- 1.2.4 The RAs invite Market Participants and the System Operator to make written submissions providing feedback in regards to the proposed Modifications.
- 1.2.5 Upon closure of the consultation process the RAs intend to assess all valid submissions received and form a decision to either implement or reject a modification or undertake further consideration in regards to matters raised through the consultation process in regards to the proposed modification.

## 2. MODIFICATION PROPOSALS

### 2.1 INTRODUCTION

- 2.1.1 Ten proposed Modifications to the CMC were presented at Working Group 1. Proposals were submitted by:
- The Regulatory Authorities;
  - The System Operator;
  - ESB GWM; and
  - EnerNOC.
- 2.1.2 Each proposed modification was presented by the proposer and feedback from attendees subsequently provided.

2.1.3 In a number of cases, feedback provided during the Working Group suggested a clear need to modify the detailed drafting of the CMC drafting included as part of the proposed Modification. This updated drafting is given in the proposed Modification templates appended to this paper.

2.1.4 An overview of the proposed modifications, along with the justification and workshop feedback are set out below. For full details of the proposed Modifications, the templates (including those updated to reflect feedback) discussed at Working Group 1 are listed in Appendix B.

Please note that Modification CMC\_03\_18 has been withdrawn upon request and so the SEM Committee do not require commentary in relation to this Modification.

2.1.5 The SO report, including minutes taken at the Working Group can be found in Appendix C.

## 2.2 CMC\_01\_18 – NIROCS IN THE CRM

### Proposer: RAs

### Proposal Overview

2.2.1 The Modification proposes to reflect the State Aid decision<sup>1</sup> to disallow all units in receipt of NIROCs from participation in the CRM due to the possible cumulation of aid.

2.2.2 The Modification proposed changes to the CMC to E.2.1.1, E.7.2.1, and E.7.4.3.

2.2.3 It is also proposed to include the definition of NIROCS to the glossary section of the CMC.

2.2.4 Modification is a requirement of State Aid approval and non-implementation would leave the CMC conflicting with this approval.

### Working Group Feedback

2.2.5 Concerns were raised with the drafting of E.2.1.1, the proposed drafting did not properly remove the need to Qualify for units with NIROCs. It was suggested that this would sit better in E.2.1.4.

2.2.6 It was noted that E.7.2.1 was a “shall” clause, whereas the State aid approval directly prevents Qualification of units with NIROCs. It was suggested the re-draft should form part of a “must” obligation on the SOs.

2.2.7 The RAs recognised the issues raised at the workshop and the Modification Proposal Form appended incorporates amended drafting to resolve these issues.

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<sup>1</sup> State Aid Decision: [http://europa.eu/rapid/press-release\\_IP-17-4944\\_en.htm](http://europa.eu/rapid/press-release_IP-17-4944_en.htm)

### **Minded To Position**

- 2.2.8 The SEM Committee are minded to approve this Modification proposal to ensure compliance with EC State Aid approval.

## **2.3 CMC\_02\_18 – PERMITTED DISCLOSURES – CREDIT AGENCIES**

### **Proposer: ESB GWM**

#### **Proposal Overview**

- 2.3.1 The Modification proposes a change to sub-paragraph B.23.2.1 (a) of the CMC to extend rules around the disclosure of confidential information to a lending or other financial institution to include Credit Agencies.
- 2.3.2 The Modification was raised as proposer engages credit rating agencies to review and assess credit worthiness. The Modification highlights the proposer’s duty to disclose information about its business to the rating agencies in order to ensure that their review is effective and accurate.
- 2.3.3 The proposer believes disclosure of information to a rating agency should not give rise to any concern as such agencies are used to receiving and protecting information which is highly sensitive and are bound by strict contractual confidentiality obligations. They suggest that failure to implement modification could have a negative impact on a Market Participant’s credit rating.

#### **Working Group Feedback**

- 2.3.4 It was questioned whether reference to credit rating agencies should form its own separate sub-paragraph rather than be included in B.23.2.1 (a). It was also questioned whether “credit ratings agency” needed to be defined within the CMC.
- 2.3.5 The Proposed Modification template presented for consultation in Appendix B has not been edited from the version presented at Working Group 1.

### **Minded To Position**

- 2.3.6 Following the presentation of the proposed Modification and attendee feedback given at Working Group 1, the SEM Committee are minded to approve this Modification for implementation.

## 2.4 CMC\_03\_18 – QUALIFICATION REQUIREMENTS IN RESPECT OF NEW CAPACITY

### Proposer: TSOs

#### Proposal Overview

- 2.4.1 The Modification proposes changes to Sections E, J and Appendix D of the CMC to allow for a participant to apply to the RAs for proposed New Capacity to be exempt from the requirement to possess or provide a Connection Offer or Connection Agreement for the purposes of Qualification under the CMC.
- 2.4.2 The Modification is to allow for “unique circumstances” which may arise whereby the Transmission System Operator or Distribution System Operator requires additional time to formulate a Connection Agreement(s) or a Connection Offer(s) for a complex connection. The proposer highlights that while this is not expected to be a regular occurrence, a method is needed whereby extenuating circumstances can be recognised and the Candidate Unit may be allowed to participate in the Capacity Auction with agreement from the Regulatory Authorities and which can be done in a non-discriminatory manner.
- 2.4.3 They suggest that non-implementation of the modification could have an adverse effect on projects (capable of implementing capacity by the beginning of the Capacity Year and where the participant has demonstrated commitment to the process through investment in the planning and connection process) and may result in exclusion from a Capacity Auction therefore reducing competition and impacting on the short and long term interests of consumers.

#### Working Group Feedback

- 2.4.4 Major concerns were raised about the loss of the link to planning consent, with the view expressed that such consent was of little value until it was unappealable. The concern was also expressed that this change would create an advantage for conventional generation relative to renewables, as non-CMC processes preventing renewables from Qualifying until they had planning consent.
- 2.4.5 It was noted that the planning process is long (of the order of 5 years) and it was questioned whether the proposal was seeking to fix an issue which does not practically exist.

#### Withdrawal Request

- 2.4.6 Please note that this Modification was withdrawn by the proposer and as such, feedback is not required in regards to this proposed Modification.



## 2.5 CMC\_04\_18 – CAPACITY AUCTION PARTICIPATION

### Proposer: RAs

#### Proposal Overview

- 2.5.1 The Modification proposes to correct an inconsistency with Section F.7.1.1 (h) of the CMC.
- 2.5.2 The CMC, as a general principle does not require Qualified New Capacity to participate in a Capacity Auction. This is correctly reflected in section F.7.1.1, however in section F.2 Capacity Auction participation can require a Capacity Market Unit to offer some, or all New Capacity as its firm offer requirement is not capped by Existing Capacity.
- 2.5.3 It is proposed that failure to implement modification will leave the CMC internally inconsistent on the treatment of New Capacity.

#### Working Group Feedback

- 2.5.4 There were no issues raised with the Proposed Modification.
- 2.5.5 Feedback provided by attendees indicated that the use of *Net De-Rated Capacity (Existing Capacity)* in F.7.1.1 (h) is an unusual coinage and that it would be more consistent to refer to this as *Net De-Rated Capacity (Existing)*. This has been reflected in the wording contained in the Modification template appended.
- 2.5.6 The RAs recognise the inconsistency noted in F.7.1.1(h) and the Modification Proposal Form appended contains amended drafting to resolve this issue.

#### Minded to Position

- 2.5.7 Taking into account the updates to the Proposed Modification arising from Working Group 1 and to ensure consistency within the CMC in regards to the treatment of New Capacity, the SEM Committee are minded to approve this amended Modification for implementation.

## 2.6 CMC\_05\_18 – COMBINING CANDIDATE UNITS INTO A CAPACITY MARKET UNIT

### Proposer: ESB GWM

#### Proposal Overview

- 2.6.1 The Modification proposes to amend Section E.7.6 of the CMC to allow participants to register multiple generating units, on the same site and above the de-minimis threshold, as a single capacity market unit subject to RA approval.
- 2.6.2 The proposer states that implementation of this modification will result in the proportionate treatment of all participants when determining a plant's Net Going Forward Costs and that the

current methodology prevents participants (with plant structures that provide the System Operator with necessary flexibility) from ensuring the full cost recovery available to all other participants.

- 2.6.3 This proposer also states they believe that implementation of the modification would lead to improved exit signals and the possible removal of regulatory intervention following the auction results.
- 2.6.4 They suggest that failure to implement the modification would result in discrimination against market participants that can offer flexibility (linked to Minimum Generation) to the System Operator and raises the possibility of inefficient auction results.

### **Working Group Feedback**

- 2.6.5 Concerns were raised about the definition of “site” and also the definition of significant shared generating assets. There was concern as to the basis on which the RAs would approve or reject an application.
- 2.6.6 Concerns were also raised as the proposed implementation would only cover 2+1 CCGT units, despite a much broader range of stations having costs that were shared across multiple units.
- 2.6.7 It was recognised that broader application of the basic principle could create issues for the lumpiness solution element of the auction – especially in constrained zones – with the potential for the SEM to be dominated by a small number of large combined “units”.
- 2.6.8 The Proposed Modification template presented for consultation in Appendix B has not been edited from the version presented at Working Group 1.

### **Minded to Position**

- 2.6.9 Following assessment of the Modification Proposal and feedback provided at Working Group 1, the SEM Committee are minded to undertake further consideration in regards to the matters raised in the Proposal following the consultation.

<h2>2.7 CMC_06_18 – DISAGGREGATION OF PERFORMANCE SECURITIES TO CAPACITY MARKET UNIT</h2>
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### **Proposer: EnerNOC**

### **Proposal Overview**

- 2.7.1 The Modification proposes to amend Section J.3.2 of the CMC in order to disaggregate the provision of performance security requirements from the Participant level down to the individual CMU level.

### Working Group Feedback

- 2.7.2 The proposer clarified that the proposal was to deal with the situation where a Participant transfers a CMU (specifically a DSU) given concerns that the CMC did not release the requirement to post the Performance Security from the transferor.
- 2.7.3 The proposer recognised that the proposed approach may be rather a blunt tool and could create an unnecessary administrative burden.
- 2.7.4 It was suggested at the Working Group that the CMC may already cover this situation. The SOs and RAs agreed to check the robustness of the existing CMC drafting in relation to this.
- 2.7.5 Following a review, the RAs believe the existing CMC drafting is robust. Transfer of a Generator Unit or CMU under B.21.1.3 requires the Transferee to “undertake the Transferor’s obligations under this Code”. These obligations would include the need to maintain the Performance Security in respect of the transferred unit. J.3.2.4 is very clear that the level of the Performance Security is based on the Awarded Capacity held by a Participant, and after a transfer the Transferor will have a reduced volume of Awarded Capacity and its obligation to hold Performance Security will reduce commensurately. This is being consulted on nonetheless in full to seek feedback in regards to the proposed modification template submitted.
- 2.7.6 The Proposed Modification template presented for consultation in Appendix B has not been edited from the version presented at Working Group 1.

### Minded to Position

- 2.7.7 As stated above the RAs agreed to check the robustness of the exiting CMC drafting. Following this check and based upon the details outlined above, the SEM Committee are minded to reject this Modification.

## 2.8 CMC\_07\_18 – INFORMATION PUBLISHED FOLLOWING A CAPACITY AUCTION

### Proposer: RAs

### Proposal Overview

- 2.8.1 The Modification proposes changes to section F.9.5 of the CMC to allow for the publication of Provisional Auction Results following the completion of a Capacity Market Auction.
- 2.8.2 It proposes publication of provisional results in the same form as are published for the Final Auction Results.
- 2.8.3 Currently there is a substantial amount of time (~4 weeks) between Participant notification of Capacity Auction results and the publication of the Final Capacity Auction Results. It is proposed that this modification would result in the avoidance of issues that may arise due to the

availability of commercially sensitive information known to participants that is not available to the wider market.

### **Working Group Feedback**

- 2.8.4 Attendees referred to the publication of Capacity Auction Results in the GB market and requested that a 3 working day period between notification of results to participants and to the wider market be provided to allow for stakeholder and staff notification.
- 2.8.5 The RAs note that the position in the GB market is rather different, with no direct analogue of Provisional Auction Results.
- 2.8.6 Nevertheless, an additional event has been added to the indicative calendar in Appendix C which enables Provisional Auction Results to allow a short period between results being sent to the affected Participants and being published. This change is reflected in amended drafting in the Modification Proposal Form appended.

### **Minded to Position**

- 2.8.7 Taking into account feedback on the Proposed Modification provided at Working Group 1 and to ensure the avoidance of potential issues arising due to the availability of the commercially sensitive information, the SEM Committee are minded to approve the amended Modification for implementation.

## **2.9 CMC\_08\_18 – TYPOGRAPHICAL CORRECTION – E.8.2.4**

### **Proposer: TSOs**

### **Proposal Overview**

- 2.9.1 The Modification proposes to correct a missing multiplication sign from the calculation contained within section E.8.2.4.
- 2.9.2 In the absence of this symbol the calculation is ambiguous.

### **Working Group Feedback**

- 2.9.3 Those in attendance agreed that this correction should be applied.

### **Minded to Position**

- 2.9.4 To ensure this calculation cannot be interpreted in another way, the SEM Committee are minded to approve the Modification for implementation.

## 2.10 CMC\_09\_18 – PUBLICATION OF QUALIFICATION RESULTS

### Proposer: RAs

#### Proposal Overview

- 2.10.1 The Modification proposes to correct typographical errors relating to the data to be published in relation to Qualification results under Section E.9.5.1.
- 2.10.2 There is a clear need to publish information relating to Existing Capacity under paragraph (a) and to New Capacity under paragraph (b) to provide complete information to the market on the volumes of Qualified Capacity.
- 2.10.3 The Modification makes clear the information to be published.

#### Working Group Feedback

- 2.10.4 Those in attendance agreed that this correction should be applied.

#### Minded to Position

- 2.10.5 To ensure the requirements for publication in relation to section E.9.5.1 of the CMC are clear, the SEM Committee are minded to approve this Modification for implementation.

## 2.11 CMC\_10\_18 – REPORT ON CAPACITY AUCTION

### Proposer: RAs

#### Proposal Overview

- 2.11.1 The Modification proposes to correct reference contained within Section B.10.4.1.
- 2.11.2 This section of the CMC states that the SOs must submit Capacity Auction Results under F.9.2.1. The reference is incorrect and should be referencing section F.9.3.1.

#### Working Group Feedback

- 2.11.3 Those in attendance agreed that this correction should be applied.

#### Minded to Position

- 2.11.4 In order to correct the reference within this section of the CMC, the SEM Committee are minded to approve this Modification for implementation.

### 3. CONSULTATION QUESTION

- 3.1.1 The SEM Committee welcomes views and responses on the proposed modifications raised within this consultation paper.
- 3.1.2 Respondents are invited to provide comments and feedback for each of the proposed Modifications in respect of:
- the proposed modification and its consistency with the Code Objectives;
  - any impacts not identified in the Modification Proposal Form, e.g. to the Agreed Procedures, the Trading and Settlement Code, IT systems etc; and
  - the detailed CMC drafting proposed to deliver the Modification.
- 3.1.3 Respondents are also invited to provide comments in relation to the CMC Modifications process, within the policy scope set out in CRM Decision 3 (CRM-16-039). The SEM Committee welcome suggestions that respondents believe will lead to greater efficiency in the proposal, consideration, consultation and decisions made relating to proposed Modifications.

A template has been provided in Appendix D for the provision of responses.

### 4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision by the end of August 2018 on the implementation of the Modifications outlined within this consultation paper.
- 4.1.2 Responses to the consultation paper should be sent to Kevin Lenaghan ([Kevin.Lenaghan@uregni.gov.uk](mailto:Kevin.Lenaghan@uregni.gov.uk)) and Karen Shiels ([Karen.Shiels@uregni.gov.uk](mailto:Karen.Shiels@uregni.gov.uk)) by 17.00 on Thursday, 2<sup>nd</sup> August 2018.
- 4.1.3 Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.