



**Single Electricity Market  
(SEM)**

**Capacity Market Code Modifications - Set 3**

**Consultation Paper**

**SEM-19-008**

**22 February 2019**

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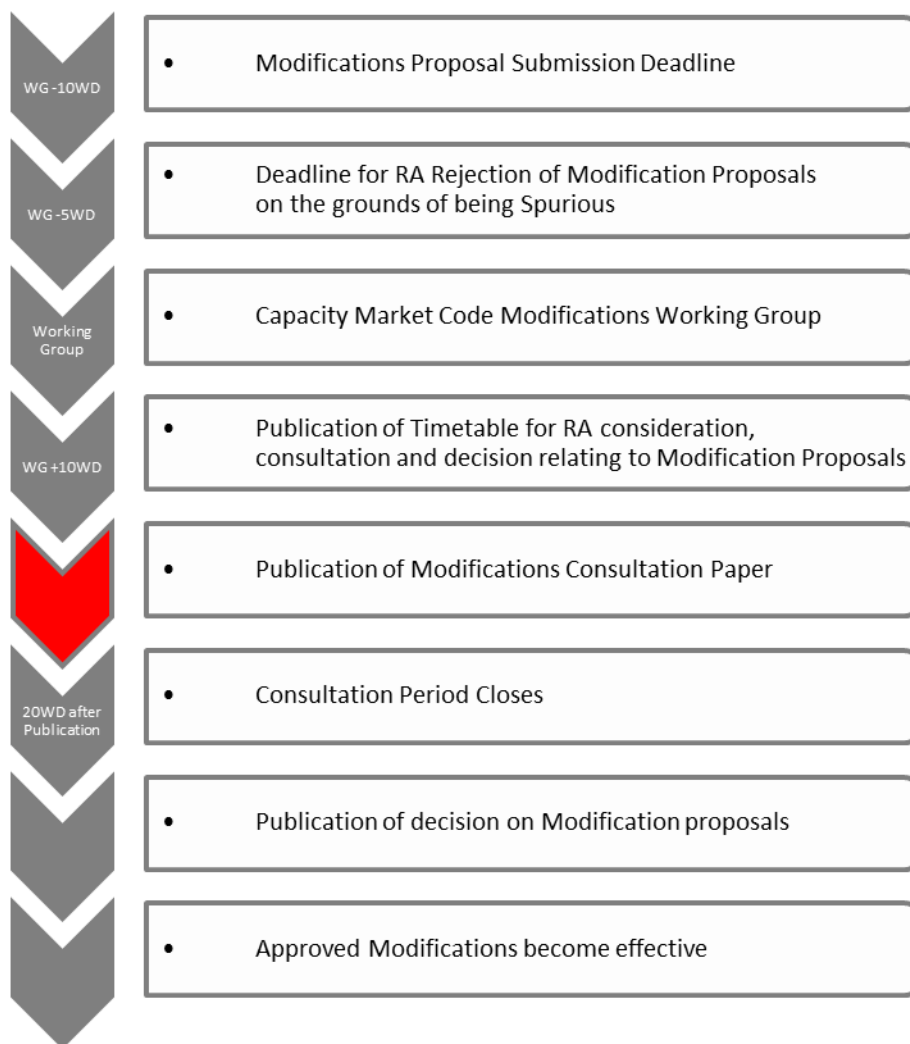
# 1. OVERVIEW

## 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 (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 discussed 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 Capacity Market Code Working Group 4 took place on 30<sup>th</sup> January 2019, during which four proposed modifications were presented and discussed. Of the four proposed modifications three were deemed urgent and do not form part of this consultation paper.
- 1.2.2 The RAs subsequently published the required timetable for moving forward with the proposed Modification on 14<sup>th</sup> February 2019. As part of this timetable, the RAs stated the aim to progress the proposed standard modification to the consultation phase, with a paper being published on 22<sup>nd</sup> February 2019. The modifications timetable is shown in Appendix A.
- 1.2.3 The purpose of this paper is to:
- Consult on the proposed standard proposed modification presented at Working Group 4;
  - Assess responses and based on these, along with the submitted revised template by the modification proposer and the report compiled by the SOs, the RAs form a decision to either:
    - a. Implement the modification;
    - b. Reject the 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 modification.
- 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 PROPOSAL

### 2.1 INTRODUCTION

- 2.1.1 One standard proposed modification to the CMC was presented at WG4 held on 30<sup>th</sup> January 2019. The Proposal was submitted by ESB.
- 2.1.2 The proposed modification was presented and feedback from attendees subsequently provided
- 2.1.3 An overview of the proposed modification, along with the justification and workshop feedback is set out below. For full details of the proposed modification, a revised version of the template for the proposal discussed at the Working Group is listed in Appendix B.

## 2.2 CMC\_04\_19 – FINALISATION OF EXCHANGE RATE IN AUCTION INFORMATION PACK

### Proposer: ESB

### Proposal Overview

- 2.2.1 The Modification proposes to address the “unfair mismatch” between the Sterling Auction Price Cap finalised in the Initial Auction Information Pack and the Sterling Auction Price Cap that should be available to Northern Ireland CMUs by:
- having indicative values in the Initial Auction Information Pack (IAIP) for parameters that are in Euro and Sterling; and
  - finalising the values in the Final Auction Information Pack (FAIP).
- 2.2.2 The modification proposes amendments to paragraph D.3.1.2 (f) and (g) and an amendment to E.5.1.4 (b).
- 2.2.3 ESB stated that the modification is required due to their belief that current rules are allowing for circumstances to arise that make for an uneven playing field for participants in both Northern Ireland and Ireland.
- 2.2.4 As part of the proposal ESB cited the following example:
- “In the T-1 2019/20 Capacity Auction, the finalisation of the Auction Price Cap and Existing Capacity Price Cap, but not the exchange rate, in the Initial Auction Information Pack resulted in a different price caps for Capacity Market Units (CMUs) in Northern Ireland compared to Ireland.”*
- 2.2.5 ESB highlight this modification furthers the following code objective A.1.2.1 (f) in that it is aimed at addressing the potential “discriminatory treatment” of Capacity Market participants.
- 2.2.6 This modification was submitted as urgent ESB stated that implementation is required in advance of the publication of the upcoming T-4 CY2022/23 Capacity Auction, due to take place on 28<sup>th</sup> March 2019. However, upon review the Regulatory Authorities (RAs) deemed the proposal should not be marked as urgent, instead should follow the standard modifications process.
- 2.2.7 The RAs deemed the proposal to be standard as a result of Participants having already made exception applications in regards to Unit Specific Price Caps (USPCs) and the decision to make such applications would be affected by this Modification.
- 2.2.8 As set out within section B.12.9.3 of the CMC the RAs shall determine a proposal to be deemed urgent, if the modification fulfils a number of requirements. Upon review the RAs concluded that the proposed modification does not fulfil the required criteria listed within this section. With this being the case, the proposed modification was set to standard and therefore bound by the standard modifications process.

## Working Group Feedback

- 2.2.9 The RAs took the opportunity to provide clarity around the original decision which established the current process as part of the CMC Decision Paper (SEM-17-033). The approach proposed by ESB had been considered at that time, but it created a major issue for participants making an Exception Application under E.5.1.1 (b) in respect of a Unit Specific Price Cap. If the exchange rate to be applied to the ECPC was not fixed, an applicant in Northern Ireland would not know whether it was necessary to make an Exception Application. If no Exception Application was made and exchange rate movements left a unit's Net Going Forward Costs above ECPC, there was no possible way to "turn back the clock" and make an Exception Application. The RAs considered this to be an unacceptable risk to place on Participants in NI and made the decision to fix the exchange rate for ECPC in the Initial Auction Information Pack.
- 2.2.10 One attendee highlighted the need for flexibility in regards to the Exception Applications process in respect of Unit Specific Price Caps (USPC) as a result of risk and uncertainty. However, the RAs noted that this was not the same form of uncertainty considered in the USPC process but was rather uncertainty as to whether to participate in that process at all.
- 2.2.11 In regards to setting the value of the Existing Capacity Price Cap (ECPC), one participant requested clarification as to how this is determined as a Euro (€) value. It was confirmed the ECPC value is calculated as being half NET Cone. As per the Parameters for T-4 2022/23 Capacity Auction Decision Paper (SEM-18-155) this is confirmed as:
- "...set [the] ECPC at 0.5 x Net CONE for CY2022/23. Given the revised estimates of the BNE Net CONE, APC for the CY2022/23 T-4 auction will be set at €46.15/kW/year."*
- 2.2.12 It was suggested by one participant that details relating to the exchange rate should be codified within the CMC, however the RAs advised that this wouldn't be necessarily required as the exchange rate is set through the parameters decisions made prior to each auction process.
- 2.2.13 ESB queried if there was to be enough support from participants within the Working Group for the proposal, would the RAs reconsider the decision to deem the proposal being set to standard. The RAs re-iterated the justification for the proposal not being deemed as Urgent as making such a change before the T-4 CY2022/23 Auction would set an undesirable precedent by changing the basis on which participants had already made decisions as to whether or not to raise an Exception Application under E.5.1.1(b).
- 2.2.14 ESB highlighted the need for an amendment to be made to the submitted proposed modification template in regards to E.5.1.4 (b) and that a revised proposal template would be provided following the Working Group. The revised template for the proposed modification is given in Appendix B.
- 2.2.15 The SOs also requested additional details would be required in the "Impacts" section of the template as they advised implementation of this proposed modification would require a system change.

## Minded To Position

- 2.2.16 The SEM Committee are minded to reject this Modification proposal as it does not address the issue of Exception Applications being made by units in Northern Ireland without knowledge of the value of ECPC that will be applied in the auction.

## 3. CONSULTATION QUESTION

- 3.1.1 The SEM Committee welcomes views and responses on the proposed modification raised within this consultation paper.
- 3.1.2 Respondents are invited to provide comments and feedback for each of the proposed Modification 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 A template has been provided in Appendix C for the provision of responses.

## 4. NEXT STEPS

- 4.1.1 The SEM Committee intends to make a decision by early April 2019 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 Billy Walker ([Billy.Walker@uregni.gov.uk](mailto:Billy.Walker@uregni.gov.uk)) by 17.00 on Friday, 22<sup>nd</sup> March 2019.
- 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.