

MODIFICATION PROPOSAL FORM			
Proposer <i>(Company)</i>	Date of receipt <i>(assigned by System Operator)</i>	Type of Proposal <i>(delete as appropriate)</i>	Modification Proposal ID <i>(assigned by System Operator)</i>
DRAI	7 th March 2024	Standard	CMC_02_24
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Eoin Sweeney		Eoin.sweeney@votas.com	
Modification Proposal Title			
Modification to the Performance Security Requirement			
Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of CMC used in Drafting	
Capacity Market Code	J.3, J.7	Version 10 (8 November 2024)	
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>Under CMC J.3, a Participant that secures Awarded New Capacity in each Capacity Auction is required to post a Performance Security by the date outlined in the relevant Initial Auction Information Pack (IAIP) and ensure that the aggregate amount of Performance Security is equal to or exceeds the Required Level calculated in accordance with J.3.2.4.</p> <p>Currently, all Awarded New Capacity is subject to the same Performance Security Rates, regardless of the duration of that capacity. However, the proportion of Performance Security to total Capacity Payment is significantly different for participants who secure greater than one year Awarded New Capacity than those who secure one year Awarded New Capacity.</p> <p>The DRAI proposes to modify the CMC to allow the RA's to differentiate the Performance Security required for one year Awarded New Capacity and greater than one year Awarded New Capacity when specifying the Performance Security Rate in the IAIP. As the purpose of the Performance Security is to provide credit support for any Termination Charges which may become payable by the Participant in respect of Awarded New Capacity, J.7.1.3 will also be modified to allow the RA's differentiate between one year Awarded New Capacity and greater than one year Awarded New Capacity when setting the Termination Charge Rates.</p>			
Legal Drafting Change <i>(Clearly show proposed code change using tracked changes, if proposer fails to identify changes, please indicate best estimate of potential changes)</i>			
<p><u>Amend J.3.2.3:</u></p> <p>J.3.2.3 The Regulatory Authorities shall determine and publish the following information in sufficient time for the System Operators to include it in the Initial Auction Information Pack:</p> <ul style="list-style-type: none"> (a) the Performance Security Posting Dates/ Events; and (b) for each Performance Security Posting Date/ Event, the €/MW rate to be applied to Awarded Capacity in setting Performance Securities for Capacity Award with a capacity duration greater than one year, and for Capacity Award with a capacity duration of one year or less. <p><u>Amend J.7.1.3:</u></p> <p>J.7.1.3 The amount of the Termination Charge payable under this section Error! Reference source not found. in respect of each Capacity Market Unit shall be determined in accordance with the formula:</p> $TC = TFR \times ACO$			

where:

- (a) TC is the Termination Charge payable;
- (b) TFR is the termination fee rate for calculating Termination Charges per MW applicable at the time the Awarded New Capacity is terminated or adjusted or the Defaulting Participant is Terminated, as determined by the Regulatory Authorities and specified in the Initial Auction Information Pack **for Capacity Award with a capacity duration greater than one year, and for Capacity Award with a capacity duration of one year or less**, for the relevant Capacity Auction in which the relevant Awarded New Capacity was allocated (and, for this purpose, where the Defaulting Participant's designated currency is Sterling, that termination fee rate shall be converted to Sterling based on the Annual Capacity Payment Exchange Rate specified in the applicable Final Auction Information Pack), with, (but only in respect of Awarded New Capacity in the T-3 2024/2025 and T-4 2025/2026 auctions) the relevant Dates / Events used to calculate the applicable termination fee rate each being extended by a period equal to any relevant Third Party Extension Period, so that any increase in the termination fee rate applicable to such Awarded New Capacity shall be postponed by a period equal to the Third Party Extension Period; and
- (c) ACO (expressed in MW) is the amount of the relevant Awarded New Capacity, or, if the relevant Awarded New Capacity has been reduced, the amount by which it has reduced.

Modification Proposal Justification
(Clearly state the reason for the Modification)

Currently there is no differentiation between the Performance Security Rates for one year Awarded New Capacity and greater than one year Awarded New Capacity, despite the Code already recognising the different attributes of both types of Awarded New Capacity (e.g. J.6.1.1 acknowledges the differences between one year Awarded New Capacity and greater than one year Awarded New Capacity when determining the Long Stop Date). Applying the same Performance Security Rates to one year Awarded New Capacity and greater than one year Awarded New Capacity results in a disproportionately high Performance Security Requirement as a percentage of total Capacity Payment earned over the duration of a contract for one year Awarded New Capacity when compared to greater than one year Awarded New Capacity.

In recent years, changes to the Performance Security Rates have sharpened the market signal to deter any speculative bids offering in capacity in Capacity Auctions (in the 2025/26 T-4 Capacity Auction, a fourth Performance Security Rate was introduced), while corresponding increases in Termination Charges have also disincentivised the termination of Awarded New Capacity (in the 2027/28 T-4 Capacity Auction the four Performance Security Rates were each increased by €10,000). However, these changes also unintentionally created a barrier to delivering one year Awarded New Capacity as they disproportionately increased the Performance Security and Termination Charge as a percentage of total Capacity Payment earned over the duration of a contract for one year Awarded New Capacity when compared to greater than one year Awarded New Capacity.

The below example illustrates the Performance Security as a percentage of total Capacity Payments for two 10 MW units that participated in the recent 2027/28 T-4 Capacity Auction if one unit secured Awarded New Capacity for 1 year at the Auction Clearing Price and the other unit secured Awarded New Capacity for 10 years at the Auction Clearing Price.

	Unit A (1 year)	Unit B (10 year)
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From Capacity Auction completion to 27 months prior to the beginning of the Capacity Year	19%	2%
27 - 13 months prior to the beginning of the Capacity Year	28%	3%
From 13 months prior to the beginning of the Capacity Year	37%	4%
From beginning of the Capacity Year	47%	5%

Table 1 - Performance Security as a percentage of total Capacity Payments with current rates.

This proposed Modification enables the RA's to differentiate between the Performance Security Rates applicable to one year Awarded New Capacity & greater than one year Awarded New Capacity. For example, if the Performance Security Rates for one year Awarded New Capacity were half that of greater than one year Awarded New Capacity, the Performance Security as a percentage of total Capacity Payments for the same two 10 MW units in the 2027/28 T-4 Capacity Auction would be as outlined in Table 2.

	Unit A (1 year)	Unit B (10 year)
From Capacity Auction completion to 27 months prior to the beginning of the Capacity Year	9%	2%
27 - 13 months prior to the beginning of the Capacity Year	14%	3%
From 13 months prior to the beginning of the Capacity Year	19%	4%
From beginning of the Capacity Year	23%	5%

Table 2 - Performance Security as a percentage of total Capacity Payments with proposed rates.

The proposed changes would achieve a better balance of trying to deter any speculative offers / disincentives the termination of Awarded New Capacity, while also not posing too much of a barrier to one year Awarded New Capacity, which will ultimately promote competition and is in the best interest of the end consumer.

Code Objectives Furthered

(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)

This Modification contributes to the following CMC Objectives (as set out in A.1.2.2):

- B)** *“to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner.”* The Modification will reduce the barrier for one year Awarded New Capacity in the Capacity Market.
- D)** *“to promote competition in the provision of electricity capacity to the SEM.”* By reduce the barrier for one year Awarded New Capacity in the Capacity Market, the proposed Modification will increase competition.
- F)** *“to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code.”* The proposed modification removes a key barrier which effectively discriminates against one year Awarded New Capacity by requiring them to maintain the same Performance Security requirement as is required for greater than one year Awarded New Capacity (which will receive significantly larger total Capacity Payment over the duration of the contract).

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)

The lack of differentiation of the Performance Security between one year Awarded New Capacity versus greater than one year Awarded New Capacity means recent changes to the Performance Security Rates have a more of an impact on one year Awarded New Capacity than greater than one year Awarded New Capacity. This reduces the likelihood of one year Awarded New Capacity offering into Capacity Auctions, which ultimately may contribute to capacity shortfalls, which impact the end consumer.

Impacts

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

No material impact to systems, resources and processes/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.