



**Single Electricity Market
(SEM)**

Capacity Market Code Modifications – Set 3

Decision Paper

SEM-19-015

10th April 2019

EXECUTIVE SUMMARY

At Working Group 4 held on 30th January 2019, a proposed modification was submitted by ESB GT requesting a modification to the Capacity Market Code. This modification, CMC_04_19 - Finalisation of Exchange Rate in Auction Information Pack, was submitted with the intention of addressing what the proposer stated was the “unfair mismatch” between the Sterling Auction Price Cap finalised in the IAIP 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).

The purpose of this decision paper is to set out the decisions relating to the Proposed Standard Modification discussed during Working Group 4 held on 30th January 2019.

The decisions within this paper follow on from the associated consultation (SEM-19-008) which closed on 22nd March 2019.

Three responses were received to the Capacity Market Code Modifications, none of which were marked as confidential. All responses to the consultation (SEM-19-008) have been published on the SEM Committee website.

Following an assessment of the submitted proposal, discussions at WG4 and the responses to the consultation, the SEM Committee have decided to reject the proposed modification – *CMC_04_19 – Finalisation of Exchange Rate in Auction Information Pack* – as set out in paragraph B.12.11.1(c) of the CMC.

Contents

EXECUTIVE SUMMARY 2

1. Overview..... 4

 1.1 Background..... 4

 1.2 Responses to Consultation 6

 1.3 Fulfillment of Code Objectives 6

2. CMC_04_19 – Finalisation of Exchange Rate in Auction Information Pack 7

 2.1 Consultation Summary 7

 2.2 Summary of Responses 7

 2.3 SEM Committee Decisions..... 9

3. Next Steps..... 10

Appendix A – Responses to SEM-19-008 – CMC Modifications Consultation Set 3

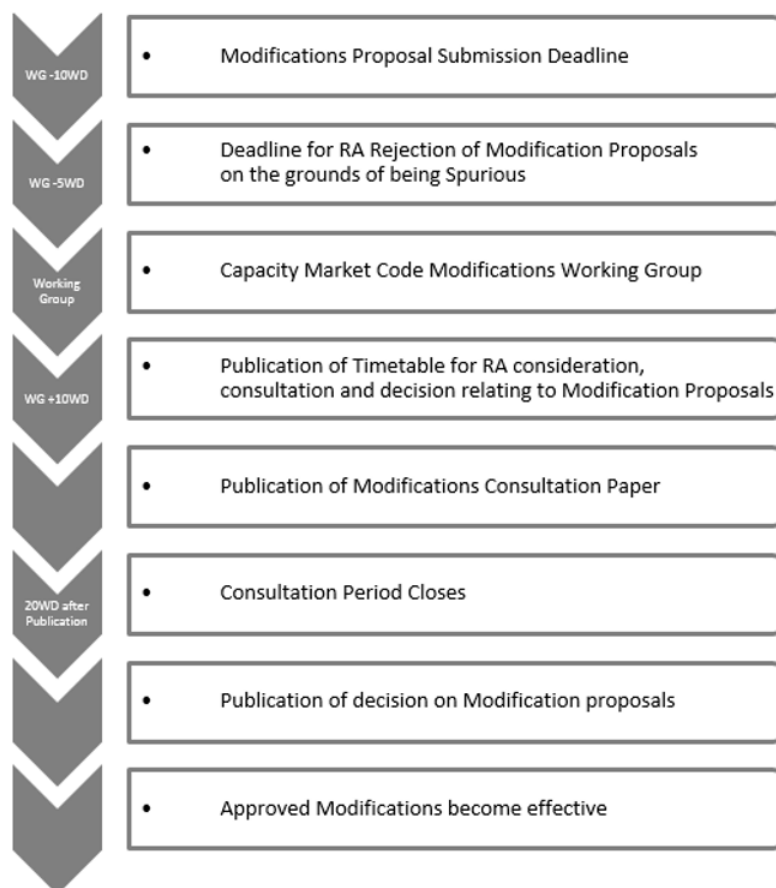
1. OVERVIEW

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 (T&SC) (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 Modifications Timetable, outlining the RAs plan for consideration, consultation and decision relating to the Modifications discussed at Working Group 4 on 30th January 2019, was published on 14th February 2019. A consultation paper was published on 22nd February with responses invited up to 22nd March 2019.

Figure 1: Capacity Market Code – Modifications Process Overview



- 1.1.13 The purpose of this decision paper is to set out decisions relating to the Proposed Modifications discussed during Working Group 4 on 30th January 2019 to either:
- Implement a modification;
 - Reject a modification; or
 - Undertake further consideration in regards to matters raised in the modification proposal.

1.1.14 This decision paper sets out a summary of the consultation proposal, provides a summary of responses, and sets out the SEM Committee's decision.

1.2 RESPONSES TO CONSULTATION

1.2.1 This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-19-008) which was published on 22nd February 2019.

1.2.2 A total of three responses to the consultation were received. Of the three responses, none were marked confidential. The respondents are listed below and copies can be obtained from the SEM Committee website.

- PPB
- ESB GT
- Bord Gáis Energy (BGE)

1.3 FULFILLMENT OF CODE OBJECTIVES

1.3.1 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.

1.3.2 The Code Objectives contained with the CMC are set out below:

- To facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licences in relation to the Capacity Market;
- 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;
- To facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;
- To promote competition in the provision of electricity capacity to the SEM;
- To provide transparency in the operation of the SEM;
- To ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and
- 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.

2. CMC_04_19 – FINALISATION OF EXCHANGE RATE IN AUCTION INFORMATION PACK

2.1 CONSULTATION SUMMARY

- 2.1.1 The Modification was submitted by ESB and proposed 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).
- 2.1.2 The modification proposed changes to paragraph D.3.1.2 (f) and (g) and an amendment to E.5.1.4 (b).
- 2.1.3 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.
- 2.1.4 The proposal was submitted as urgent with ESB stating that implementation is required in advance of the publication of the upcoming T-4 CY2022/23 Capacity Auction, which took place on 28th March 2019. Upon review the RAs deemed the proposal should not be marked as urgent and instead should follow the standard modifications process. This decision was taken 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.
- 2.1.5 The SEM Committee were of a minded position to reject this modification proposal as it did 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.

2.2 SUMMARY OF RESPONSES

- 2.2.1 Of the three responses to the consultation, one respondent stated they did not support the proposal, one respondent advised of their support for the proposal and the final respondent believed that whilst they can see merit in the proposal, they stated that instead of supporting implementation in its current form the modification should be taken on board for further consideration.
- 2.2.2 PPB highlighted that Ideally they would like the exchange rate used in the calculation of the Auction Price Cap and Existing Capacity Price Cap to be set as close to the auction as possible and published in the Final Auction Information Pack (FAIP). In this they agreed with the ethos of the modification in that it would technically provide a level playing field for all participants in the Capacity Auctions.

- 2.2.3 However, PPB further stated that with the publication of the FAIP occurring after the deadline to apply for a Unit Specific Price Cap (USPC) they would not be in a position to support the modification. PPB have stated their justification for this stance stems from the fact that a participant could find they have missed the opportunity to receive a USPC if there is a significant shift in exchange rates.
- 2.2.4 They referred to the updated drafting provided by the Proposer of the modification, in that the updated text attempts to address the above issue by changing paragraph E.5.1.4 (b). PPB advise they believe that this change is only relevant if a USPC has been awarded and does not address the risk for those participants who did not apply for a USPC based on the exchange rate in the Initial Auction Information Pack but would need to apply for a USPC given the movement of the exchange rate as published in the FAIP.
- 2.2.5 PPB wished to highlight that they believe there should be consistency across all aspects of the process that are affected by movements in exchange rates. They have stated that any change to the Exchange Rate methodology should also consider exchange rate movements between that used to establish the value of CONE and the values used when setting price caps.
- 2.2.6 ESB GT highlighted their support for the proposed modification, stating that they believe the proposal is consistent with the Capacity Market Code objective (f) in its attempt to create a level playing field for all participants (Northern Ireland and Republic of Ireland) in the Capacity Auctions.
- A.1.2.1 This Code is designed to facilitate achievement of the following objectives (the “Capacity Market Code Objectives”):*
- (f) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code;*
- 2.2.7 ESB GT advised they disagree with the SEM Committee’s minded to position to reject the proposed modification.
- 2.2.8 They have requested that the SEM Committee undertake further consideration of the modification if it were amended to set the final exchange rate in the initial auction information pack. They have advised that this revision would intend to set the final annual capacity payment exchange rate, set out in sub-paragraph D.3.1.2 (k) of the CMC, in the Initial Auction Information Pack. They further stated that if this revision was applied it should address the SEM Committee’s issue and also provide participants with a level playing field.
- 2.2.9 In their response to the proposal, BGE advised that, in general, they agree with the RAs decision to change the proposed modification from urgent to standard, given that the USPC application decisions have already been made for T-4 for CY2022/23. BGE further stated that undesirable retrospective impacts on commercial decisions already made should be avoided.
- 2.2.10 Notwithstanding the above, BGE did however wish to take this opportunity to state their belief that the RAs should consider undertaking further consideration in regard to matters raised in the modification proposal in the context of a number of comments they have provided.

- 2.2.11 BGE highlighted that they can see the merit in the Proposer's concern, however they wished it be noted that exchange rates could fluctuate in either direction such that Northern Ireland participants could, in some instances, find themselves in a position where they are paid more than ROI participants that are being paid in Euros. They further noted that, dependent on the direction of travel in regards to exchange rate fluctuations, plants in Northern Ireland could face the possibility of being capped at offering lower bids than ROI plants which could potentially be anti-competitive and therefore create an "uneven playing field".
- 2.2.12 BGE noted that RAs' original rationale for adopting the decision to finalise the Existing Capacity Price Cap (ECPC) and Auction Price Cap (APC) in the Initial Auction Information Pack (IAIP) still stands given that the deadline for making USPC applications is 20 weeks before the auction but the final auction information pack isn't issued until 2 weeks before the auction. However, they further stated their belief that market participants would benefit from further insight into the level of fluctuation in exchange rates and the related impacts on the ECPC and APC between the publication of the IAIP and the Final Auction Information Pack (FAIP), in order to better understand the extent or range of the potential impacts.
- 2.2.13 They elaborated further that, with the benefit of the further insight requested above and depending on the insight that provides, it could be worth considering whether for example some adjustment should be made to the timeline for (a) submitting USPC applications or, (b) publication of the FAIP or perhaps consider whether there is merit in permitting market participants to decide the extent of exchange rate risk they should take on themselves by enabling them to decide whether to bid in either Euro or Sterling.
- 2.2.14 Finally, within their response, BGE highlighted that as part of the modification proposal submitted, the system impacts as a result of the proposal have not been fully fleshed out. They highlighted that this was flagged by the System Operator at Working Group 4 in that this proposed modification would result in the requirements for a system change. BGE believe that a system impact review would be necessary before a fully informed decision can be made.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee recognise the issue that the proposed modification is seeking to address and note that the current situation was considered the best available option at the time the CMC was drafted. However, the SEM Committee agree with the respondents who, while sympathetic to the aims of the Modification, could not support it given its interaction with the Northern Ireland USPC Exception Application process.
- 2.3.2 The SEM Committee agree with PPB on the principle that the exchange rate for the auction should be set as late as possible.
- 2.3.3 The SEM Committee recognise the updated proposal from ESB to fix the auction exchange rate when the IAIP is published. However, whilst this resolves the issue of participants in different jurisdictions entering the auction with different values of ECPC, it moves the setting of the exchange rate much further from the auction and this is counter to the current principle of setting

it late. The SEM Committee also note BGE's point that there has been no analysis performed on the potential impact of alternative approaches to the timing of the setting of the EPC/APC and auction exchange rates.

- 2.3.4 The Committee also recognises BGE's concern that the proposed changes will have impact on the SOs systems and that these would need to be properly evaluated.
- 2.3.5 Finally, the SEM Committee note PPB's point that there is a further £/€ exchange rate used to set the value of NetCONE, which is then used in the setting of ECPC and APC.
- 2.3.6 On the basis of the above, the SEM Committee have rejected this proposed modification.

3. NEXT STEPS

- 3.1.1 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com