



**Single Electricity Market
(SEM)**

Capacity Market Code Urgent Modifications Set 2

Decision Paper

SEM-19-014

20 March 2019

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to the Proposed Modification to the Capacity Market Code (CMC) discussed during Working Group 4 on 30th January 2019.

The decisions within this paper follow on from the associated consultation (SEM-19-006) which closed on 22nd February 2019.

This paper considers the three proposed modifications presented at WG4 which were deemed urgent. These modifications related to the Interim Solution for Conducting Capacity Auctions, Negative Interests and the Treatment of Exempt Price-Quantity Pairs:

➤ CMC_01_19 – Interim Solution for Conducting Capacity Auctions

Proposes to reflect the State Aid decision to disallow the clearing of additional capacity to resolve local capacity constraints within an auction.

➤ CMC_02_19 – Negative Interest

Propose to permit the introduction of Negative Interest on credit balances held with the SEM Bank.

➤ CMC_03_19 – Treatment of Exempt Price-Quantity Pairs

Proposes to ensure that certification of the Capacity Market Platform is valid were the specific conditions to arise in the upcoming CY2022/23 T-4 auction.

Five responses were received to the Capacity Market Code Urgent Modifications - Set 2 Consultation Paper, none of which were marked as confidential. All responses to the consultation (SEM-19-006) will be published on the SEM Committee website and are summarized within this decision paper.

Summary of Key Decisions

Following consideration of the proposals and responses received to the consultation the SEM Committee have decided to:

Adopt the minded to position to approve:

- CMC_01_19 – Interim Solution for Conducting Capacity Auctions
- CMC_02_19 – Negative Interest
- CMC_03_19 – Treatment of Exempt Price-Quantity Pairs

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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 (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 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.
- 1.1.7 In the case of the proposed modifications CMC_01_19 and CMC_03_19 the RAs deemed these urgent as they fulfil the requirement set out in B.12.9.3 (a):
- B.12.9.3 - A Modification Proposal shall be determined to be Urgent by the Regulatory Authorities where, in their opinion:
- (a) the matter raised in the Modification Proposal is required before the next Capacity Auction or Secondary Trade Auction and could not otherwise be dealt with in time for the next such auction

1.1.8 In the case of the proposed modification CMC_02_19, the RAs determined this modification urgent as it fulfils the requirement set out in B.12.9.3 (b) (i) (C) as a result of the expiry of the current contract with the SEM Bank.

B.12.9.3 - A Modification Proposal shall be determined to be Urgent by the Regulatory Authorities where, in their opinion:

(b) (i) - the Modification Proposal has been proposed to deal with a matter that could reasonably be anticipated would imminently:

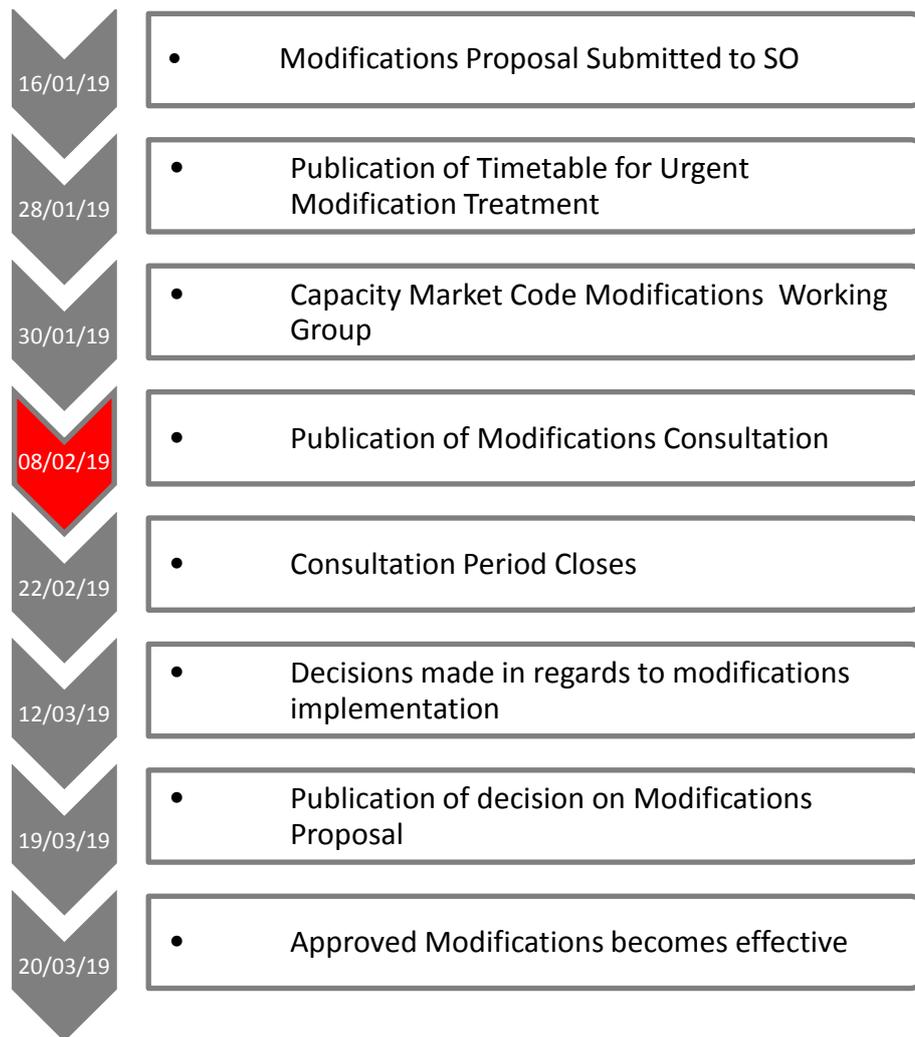
(C) unduly interfere with, disrupt, or threaten the proper operation of the Capacity Market

1.1.9 If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs will determine the procedure and timetable to be followed in the assessment of the Modification Proposal. The CMC states that the procedure and timetable may vary from the normal processes set out in the code, allowing for the modification to be fast-tracked.

1.1.10 The RAs, on 28th January 2019, published the timetable for the consideration, consultation and decision relating to the proposed Modifications and the Working Group to facilitate industry discussion of the modification (WG4) took place on 30th January 2019.

1.1.11 As stated within the CMC (sub-paragraph B.12.9.5 (a)) the normal processes involved in assessing a modification can vary, in this case to allow for the fast-tracking of the Modification, the RAs proceeded with a 10WD consultation period, as opposed to the 20WD period applied under the standard Modification process.

Figure 1: Capacity Market Code – Urgent Modification Process Overview



1.1.12 The purpose of this decision paper is to set out the decisions relating to the urgent Proposed Modifications discussed during Working Group 4 to either:

- a) Implement a modification;
- b) Reject a modification; or
- c) Undertake further consideration in regards to matters raised in the modification proposal.

1.1.13 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-19-006) which was published on 8th February 2019.

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

- Energia
- Bord Gáis Energy (BGE)
- ESB GT
- Bord na Móna
- SSE

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_01_19 – INTERIM SOLUTION FOR CONDUCTING CAPACITY AUCTIONS

2.1 CONSULTATION SUMMARY

- 2.1.1 The Modification was proposed to reflect the State Aid decision to disallow the clearing of additional capacity to resolve local capacity constraints within an auction. This is facilitated by the enduring auction solution set out in chapter F of the CMC but is prevented in the Interim Solution laid out in section M.4.
- 2.1.2 The need for this Modification was explicitly recognised in the T-4 Parameters Decision for CY2022/23 (SEM-18-155)¹ in paragraph 3.5.2.
- 2.1.3 The Modification proposed the removal of sub-paragraph M.4.1.2 (b), the removal of paragraph M.4.1.6 and the modification of sub-paragraph M.6.1.7 (a). 2.2.4. With M.4.1.6 in place, this over-writes sub-paragraph F.8.4.4(c) resulting in the Interim Solution for the auction being prevented from reducing the volume scheduled for both flexible and inflexible offers determined from the unconstrained schedule produced in sub-section F.8.3. This prevents compliance with the State aid decision.
- 2.1.4 The SEM Committee were of a minded position to approve this Modification proposal to ensure a consistent approach to capacity procurement is taken for LCCs and the all island system.
- 2.1.5 During WG4 and covered in the consultation paper, the RAs noted that an alternative approach to the proposed Modification would be for the RAs to use their powers under M.4.1.1 not notify the System Operators to stop applying the Interim Auction Solution set out in M.4. This would deal with the issue of M.4.1.6 but would also lose the sequence of tied offer clearing set out in M.4.1.2 to M.4.1.5. As part of this the SOs advised that that the continued use of the Alternative Auction Solution Methodology, established under M.6, would mean that there would be no impact on the auction results from the loss of M.4.1.2 to M.4.1.5.

2.2 SUMMARY OF RESPONSES

- 2.2.1 Of the five responses to the consultation, two advised that based on the content contained within the proposal template they agree with the need for this Modification given that it is required to ensure that the Capacity Market Code (CMC) is compliant with the state aid decision on this issue and that it is in line with the code objectives in implementing a decision of the SEM Committee (SEM-18-155).

¹ Parameters for T-4 2022/23 Capacity Auction: <https://www.semcommittee.com/sites/semc/files/media-files/SEM-18-155%20CRM%20T-4%20CY202223%20Parameters%20Decision%20Paper.pdf>

One respondent, SSE, advised that they had no further comments relating to this proposed change. Further stating their belief that these have been raised under CMC 03_19 and our previous response on T-4 parameters.

Of the remaining two respondents, ESB and Bord na Móna, both advised they were not in a position to provide comment as they have not been afforded the opportunity to comment as the legal drafting for the alternative proposed modification has not been provided.

Bord na Móna added that, whilst they support a modification which involves a change of methodology, they were unable to comment without worked examples.

- 2.2.2 This was raised by all respondents, as set out in the consultation paper, it was intended that the RAs would request from the System Operator, information that would cover both possible approaches in regards to the modification and would include a worked example. This was requested by the RAs, however, upon investigation by the SOs, was at a level of complexity that could not be produced within the timeframes available.

This was addressed specifically by BGE, who advised that whilst they would have liked to have had view of the two alternative approaches to implementation, believe that the current proposed change to the legal drafting in the Proposal should be preferable to the RAs' using their powers under M.4.1.1, as a method of implementing this modification.

They further elaborated that such an approach would be more transparent and make it clearer for potential new (and existing) participants as to what the relevant rules are.

- 2.2.3 Both Energia and BGE provided comment in regards to Modification CMC_01_09 as presented in the Modification Proposal template.

As outlined above, Energia stated that on the basis of the text in the proposal as presented, they are supportive. They further noted that they were not aware of any impacts in the Modification Proposal template that had not been identified and expressed their satisfaction that the amended drafting and removal of relevant paragraphs from the CMC to deliver the Modification is accurate and would implement the Modification as intended.

Similarly, BGE have advised they have taken a pragmatic approach and we believe that implementation of the modification through changes in provisions of the CMC may be preferable to the RAs using their powers under section M.4.1.1 to notify the SO to stop applying the M.4 Interim Auction Solution. BGE further stated their belief that in regards to consistency with the CMC Objectives, they do not believe the proposal is in conflict with any of the objectives.

- 2.2.4 ESB took this opportunity to highlight they do not agree with the current minded to position of the SEM Committee, stating that current minded to position on this modification appears to be the RAs progressing a modification in the absence of informed industry feedback. The SEM Committee note however that this issue was covered in T-4 2022/23 Parameters Paper decision (SEM-18-155), where upon the decision was made, as required by State aid approval, that a proposal to modify to M.4.1.6 was to be raised to allow for this.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee note that the alternative proposal set out in the consultation paper did not require any re-drafting of the CMC. However, they recognised the need to see a demonstration that it would deliver the same outcome as the proposed Modification. It would also have been helpful to be able to circulate an updated version of the Alternative Auction Solution Methodology (AASM).
- 2.3.2 Given that it did not prove possible for the SOs to provide a worked example to demonstrate the equivalence of the ending of the Interim Auction Solution and the proposed Modification, the SEM Committee does not feel it appropriate to pursue that option at this time. The RAs will not be using their powers under M.4.1.1 (b) to end use of the Interim Auction Solution for the T-4 CY2022/23 Capacity Auction.
- 2.3.3 Given the broad support from respondents, the process issues with ending the Interim Auction Solution and the need to comply with the decision set out in SEM-18-155, the SEM Committee maintain their minded-to position to approve this modification as per the drafting shown in Appendix A.
- 2.3.4 In addition to the changes set out in modification CMC_01_16 and explicitly identified in SEM-18-155, the SEM Committee have identified a further change to the CMC required to achieve compliance with the State aid decision and hence SEM Committee Decision SEM-18-155.
- 2.3.5 This change relates to the principles underpinning the Alternative Auction Solution Methodology (AASM) and sub-paragraph M.6.1.7(c) which sets out the principle to be applied when seeking to maximise net social welfare (i.e. resolve ‘lumpiness’). In the existing drafting, the search for alternative offers must start from the Price Setting Offer but this will not, in general, be appropriate for the new solution methodology given the potential for displacement of in-merit offers. This means that the meaning of the “marginal inflexible offer” as set out in SEM-18-055 is no longer cognate with the defined term “Price Setting Offer”. The text of M.6.1.7(c) has been modified to make remove the link to the Price Setting Offer and to make it more general, which also makes it consistent with the enduring auction solution, which will make the CMC definition of the principles to be embodied by the AASM compliant with SEM-18-155.
- 2.3.6 Under the terms of B.12.11.4 of the CMC, the SEM Committee have decided to revise the drafting of M.6.1.7(c) to make it compliant with SEM-18-155. This additional drafting has been incorporated into Modification CMC_01_19 and is shown in Appendix A.

3. CMC_02_19 – NEGATIVE INTEREST

3.1 CONSULTATION SUMMARY

- 3.1.1 This Modification was proposed to permit SEMO to introduce Negative Interest on credit balances held with the SEM Bank in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as

System Operators. SEMO highlighted that reference rates have been negative since June 2014 and at a value of -0.4% since March 2016. The further elaborated that the SEM Bank has not applied these negative rates to SEM deposits to date and have absorbed this cost.

- 3.1.2 The Modification proposed amendments to section J.3.3.2 of the CMC to include reference to Reserve Account being an interest-bearing account, with this interest being either a negative or positive amount.
- 3.1.3 The SEM Committee were of a minded position to approve to approve the Modification to enable successful conclusion of the tender for the SEM Bank, subject to the provision by SEMO of satisfactory drafting for the proposed modification to B.7.2.1 and under the condition that this Modification remains consistent with the Modification required to handle the same issue in the Trading and Settlement Code.

3.2 SUMMARY OF RESPONSES

- 3.2.1 Three respondents to the consultation provided comment in regards to this proposed modification with the general consensus being of an understanding as to why the proposal has been made. However, all respondents have provided their acceptance of the need for the modification with a number of caveats that they would like to have clarification around.
- 3.2.2 Energia noted the rationale behind the proposal in relation to the current negative interest rate features of the Irish Euro banking market. They further elaborated that as per comments from the Working Group, which were reflected in the consultation paper, they expect that that market participants will be advised of the negative interest rates of those applying to provide SEM Bank services through the tender process and of the interest rates that are to be applied following completion of a successful tender.

Energia highlighted that negative interest rates would most likely result in an additional burden being placed on Market Participants to replenish accounts. Given the impact of this they advise the ability to access account statements to help monitor this, along with frequent updates in regards interest payments on accounts, is an important issue that should be noted.

Energia also advised that whilst they wish this be noted, they are aware that any actions required by the Market to keep participants informed of interest payments is not required to be codified within the CMC.

- 3.2.3 BGE echoed the response provided by Energia, in that they accept the need for the proposal, however acknowledged that regular updates in regards to any negative impact on funds being held on behalf of market participants that may have an effect on participants should be published for cash flow planning and transparency reasons.

BGE also advised that as per the proposal template submitted by SEMO, there was a referral to the drafting around section B.7.2.1 of the CMC, however this has yet to be published. Following

correspondence from SEMO, the SEM Committee can confirm that this reference has been removed from the proposal as SEMO believe the current drafting refers to interest bearing which can be either negative or positive and therefore an amendment to this paragraph is no longer required.

- 3.2.4 SSE queried if there was not an earlier opportunity for this proposal to be raised, perhaps ahead of go-live, given that the proposal is as a result of an update in process in line with an ECB change, enacted in 2014. SSE believe that this being the case, the proposal shouldn't have been left to this stage and deemed urgent as this has taken up resources that may be to the detriment of other more critical modifications.

3.1 SEM COMMITTEE DECISIONS

- 3.1.1 In response to the point raised in regards to timing of the proposals submission for discussion, the SEM Committee recognise the concern and will look to ensure Modification are raised earlier in the future where possible. However, they confirm that this modification would be required now to ensure that the requirement set out in B.12.9.3 (b) (i) (C) is fulfilled as a result of the expiry of the current contract with the SEM Bank.
- 3.1.2 The SEM Committee recognise the value of the comments with respect to the expectation that that market participants will be informed as to any interest rates, be it positive or negative, that would be applied following the completion of the tender process.
- 3.1.3 It is also noted that respondents requests to avail of timely access to account statements and the provision frequent updates in regards interest payments on accounts, is not unreasonable.
- 3.1.4 The SEM Committee note the inclusion of a similar modification proposed to the Trading and Settlement Code (T&SC) - *MOD_01_19 - Introduction of Negative Interest on credit balances held with the SEM Bank in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators*. This proposal to modify the T&SC was submitted on 6th February 2019 by SEMO and was also marked as urgent. The process relating to decision and, if approved, implementation is expected to conclude imminently and as set out on the SEMO website the modification status is "recommended for approval".
- 3.1.5 Upon a review of the responses to the proposal and taking into account the ongoing proposed Modification to the T&SC, the SEM Committee maintain their minded to position to approve this modification, upon the condition of approval to implement T&SC proposal MOD_01_19, and as per the drafting shown in Appendix A.

4. CMC_03_19 – TREATMENT OF EXEMPT PRICE-QUANTITY PAIRS

4.1 CONSULTATION SUMMARY

4.1.1 This Modification was proposed to ensure that certification of the Capacity Market Platform is valid were the following conditions to arise in the upcoming CY2022/23 T-4 auction:

- New Capacity has qualified with a Maximum Capacity Duration exceeding a single Capacity Year; and
- The Regulatory Authorities have exempted New Capacity under paragraph F.4.1.9 of the Capacity Market Code.

This situation requires that capacity is qualified as having a Maximum Capacity Duration exceeding a single Capacity Year and there is exempted New Capacity.

The SOs highlighted that in the previous round of certification the Capacity Market Auction was not certified to cover a situation where the above conditions occur.

4.1.2 The Modification proposed the introduction of into sub-paragraph F.8.4.4 (f) of the CMC that would require the System Operators to not clear any price quantity pairs with a price greater than the Auction Clearing Price and an offer capacity duration of greater than one year to satisfy a Locational Capacity Constraint or to maximise Net Social Welfare until all applicable price-quantity pairs with an offered capacity duration of one year have been cleared.

4.1.3 The SEM Committee were of a minded position to approve the Modification, subject to a review of the detailed drafting, to ensure that the auction systems are fully compliant with the CMC.

4.2 SUMMARY OF RESPONSES

4.2.1 Several respondents to the consultation noted the need for the proposed modification, however, each respondent did have varying issues related to the proposal.

4.2.2 Energia highlighted that as per discussions at the Working Group this modification proposes a complex change to the CMC. They reiterated suggestions made at the Working Group around legal drafting changes to the CMC requiring external legal review to ensure they achieve the desired outcome and there are no unintended consequences of these changes. Energia wished to further highlight that this was noted with particular reference to the proposed changes to paragraph F.8.4.4 (f) and the use of the word “applicable” within this paragraph which was argued could be ambiguous from a legal perspective.

4.2.3 Energia raised a concern, noting that, there have been no changes made to the Modification Proposal from what was presented at the Working Group and that no external legal review appears to have been carried out on the proposed legal drafting changes to the CMC. They have stated that this effectively asks participants to provide their views in response to an urgent

Modification Proposal which may be subject to further changes either during or after the consultation period.

However, Energia have advised they so support the implementation of the proposed modifications, upon the condition that Energia's views are taken into account and that the proposal correctly implements SEM Committee Decision SEM-18-155. Energia have also suggested a legal review of the drafting, as well as re-certification of the algorithm, should be carried out.

4.2.4 A number of respondents raised concerns around the inclusion of the word "applicable" within the proposed modification text.

4.2.5 ESB stated their belief that the text would require redrafting as it is currently ambiguous. They further noted that a redraft would be required before any decision can be made on the modification.

ESB highlighted that participants raised concerns with the wording "applicable" in the working group and were informed that a review would be performed for the consultation. They have raised concern that no such wording was provided and participants are now being ask to take comfort in the SEM Committee reviewing the wording.

The SEM Committee would take this opportunity to note that no update has been received from the modification proposer, however, as stated in section B.12.11.4 of the CMC:

"The Regulatory Authorities may make a Modification that is different (including one that is materially different) from that proposed in a Modification Proposal, Workshop or consultation notice if the Regulatory Authorities are satisfied that, having regard to the issue or issues that were raised by the Modification Proposal, that the different Modification will or is likely to better contribute to the achievement of the Capacity Market Code Objectives."

ESB also requested the SEM Committee perform a review of the modifications process as when compared to the significant input market participants can provide through the T&SC and SEMOpx modification committees, the CMC modification process as currently implemented, risks alienating the views of market participants.

4.2.6 Bord na Móna echoed the comments made by ESB in that they have a substantive issue centring around the legal definition of the word 'applicable'.

They advised their understanding was that the proposer of the modification would look at the drafting of the original modification to provide more clarity ahead of this consultation. They have advised that the impact of the definition of 'applicable' cannot be assessed in absence of its clear definition and are therefore not in a position to provide suggestions.

4.2.7 BGE advised that they accept that a change to the CMC is required to ensure the algorithm can obtain certification once the changes to reflect the policy decisions in the T-4 CMC parameters decision, are made. In their view, they advise the changes are important for entry signal, security

of supply and consumer cost reasons, that provision is made to allow new units seeking contract durations of >1 year to enter the market on a competitive basis as against existing units.

However they have noted the use of the word “applicable” in the legal drafting and that the intention for using the word here was to allow exempt offers to be cleared to satisfy a Locational Capacity Constraint if none of the remaining one-year duration offers can contribute to the Locational Capacity Constraint. They highlighted they would have welcomed sight of the updated legal drafting reflecting this alongside the consultation but accepted the aim in the context of the immediate Mod (CMC_03) and the TSOs’ intention to clarify this aim in the final drafting.

4.2.8 BGE have taken this opportunity to seek clarity as to the steps being taken by the SOs and RAs to ensure that further reliance on LRSAs to secure electricity supplies, will not be required. They have referred to discussions at the Working Group relating to the Consultation concerning whether or not a trade-off as between procuring short-term contracts (taking into account LRSA costs) versus procuring longer-term lower priced contracts in LCC areas, has been considered.

4.2.9 SSE highlighted that Under the T-4 parameters consultation the underlying approach could be ascertained from the proposals on auction design however they believe the actual effect in the CMC and working of the market, was unclear and noted that the proposed modification provides this detail on actual effect. They have elaborated that, as drafted, the changes to the auction suggest those with a 1-year Reliability Option (RO) will be prioritised over a cheaper option unless the MWs offered, is affected by Net Social Welfare parameters.

SSE stated that prioritising locational constraints for a limited period, for example, 1 year, is sensible, in the even that it is resolved in the near term and it also indicates that a locational constraint should not be a permanent feature. However, as drafted, if a 1-year RO is indeed prioritised over cheaper options able to meet the specific demand or load, it provides a strong implicit incentive for 1-year RO units, to set prices high. Furthermore, SSE believe it is unclear still how the 1-year locational constraint RO under T-4, coordinates with the T-1, 1-year auction period.

SSE have advised that there have been experiences in the market so far where locational constraints have given rise to the opportunity for higher prices by units in those areas. They advise that whilst it is the intent to move Auction Format closer to that intended under State Aid they do not feel that distortion of signals in favour of units in location constrained areas, at a higher cost to customer was the ultimate intent.

4.3 SEM COMMITTEE DECISIONS

4.3.1 The SEM Committee note that the proposed modification does not seek to change any earlier policy decisions, it is only intended to ensure that the CMC and auction software consistently implement the existing policy.

- 4.3.2 The SEM Committee shares respondents' concerns about the use of the word "applicable" in the proposed legal text for the Modification in F.8.4.6 and that it may be open to more than a single interpretation. It is worth noting that the text of the Modification Template does add clarity to how the word "applicable" is to be interpreted and is appended to this decision (Appendix C).
- 4.3.3 The SEM Committee note that the text of sub-section F.8.4 only applies to the resolution of Locational Capacity Constraints (LCC) and 'lumpiness', and units seeking multi-year ROs that clear under sub-section F.8.3 in the "unconstrained auction" do not require an exemption under F.4.1.9. The change to the CMC text is only designed to cover those units seeking multi-year contracts which are only being considered in the auction solution as a result of their exemption under F.4.1.9, i.e. they were not cleared under F.8.3. Whether such units are being considered directly to resolve an LCC or to resolve lumpiness, they will only be considered after all units, that could contribute to the resolution, requesting only a single-year RO have cleared.
- 4.3.4 The SEM Committee recognise the complexity and subtlety of the change being made to the CMC, and the fact that the timing of the change does not allow for further consultation on revised CMC text.
- 4.3.5 The SEM Committee is of the view that the proposed text of F.8.4.4 (f) is compliant with the relevant SEM Committee decisions and in particular, SEM-18-155. The SEM Committee further recognise that this text will ensure that the auction software and CMC are broadly aligned, enabling the T-4 CY2022/23 auction to proceed on a sound footing.
- 4.3.6 The SEM Committee are cognisant that nothing in their decision related to this Modification will have any impact on the auction software or its operation at this stage. The operation of this software as described in the Modification Template and the AASM is understood to be compliant with all SEM Committee Decisions and, with a suitable choice of the very large fixed adder, will produce the desired outcome for units exempted under F.4.1.9 in resolving both LCCs and lumpiness.
- 4.3.7 In reviewing the Modification the SEM Committee observe that the drafting of the new paragraph F.8.4.6A could be interpreted to prevent two PQ pairs, both with a Maximum Capacity Duration of one year, from being identified as tied under F.8.4.6. This was not the intent and the drafting has been revised to prevent this interpretation.
- 4.3.8 The SEM Committee also identified that the addition of F.8.4.6A also requires a change to change M.4.1.7 to reference the new paragraph along with the existing paragraphs F.8.4.6 and F.8.4.7. Additional drafting has been included in the Modification to cover this requirement. Please note that the re-drafting shown includes the change to M.4.1.7 approved for Modification CMC_01_19 (see above).
- 4.3.9 Given the above, the SEM Committee has decided to implement the Modification including the amendments described above, which is shown in Appendix A. However, given the concerns about the drafting of F.8.4.4 (f) and the use of the word "applicable" they will consider reviewing it following completion of the current auction and in plenty of time to allow full consultation before the next auction.

5. NEXT STEPS

- 5.1.1 Given that the Proposed Modification approved within this decision paper does not have any systems implications, the SEM Committee require that the TSOs incorporate the approved Modification contained within this paper into the CMC via an appropriate version control process and the Modification is to become effective by no later than 22nd March 2019.
- 5.1.2 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com