Single Electricity Market

(SEM)

Capacity Market Code Working Group 25

Decision Paper

SEM-22-066

30 September 2022

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to the Proposed Modifications to the Capacity Market Code (CMC) discussed at Working Group 25 held on 19 May 2022.

The decision within this paper follows on from the associated consultation (SEM-22-033) which closed on 2 August 2022.

This paper considers the proposed modifications presented at WG25. The proposed modifications relate to:

- **CMC_04_22: New Reference Rates for Default Interest**
  This modification has been proposed to replace the LIBOR overnight rates for euro and British pound sterling as these were discontinued from 31st December 2021.

- **CMC_06_22: New Interdependent Combined Units**
  This proposal represents an updated version of Proposal 1 from CMC_10_21 which was originally submitted by the DRAI and proposed to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised. This was submitted by the RAs as a route to progressing the proposed Modification following SEM-21-077.

- **CMC_07_22: Modification to provisions for Market Registration of Demand Side Units – Variation In Mix**
  This proposal represents an updated version of Proposal 2 from CMC_10_21 submitted by the DRAI.

- **CMC_08_22: Locational Capacity Constraints Maximum Quantities**
  This Modification Proposal seeks to introduce a maximum limit applicable to Locational Capacity Constraint Areas. This value would be specified by the System Operators and approved by the Regulatory Authorities and published as part of the Final Auction Information Packs in accordance with the same processes that apply to current determination of minimum Locational Capacity Constraint Required Quantities.

- **CMC_09_22: Secondary trade approval notification**
  This modification seeks to propose a step in the System Operators' processes in relation to secondary trades that they notify participants directly to confirm that their submitted ISTN or ASTN has been successfully validated.

Seven responses were received to the Capacity Market Code Working Group 25 Modification Consultation Paper, none of which were marked as confidential.

Summary of Key Decisions

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

Modification	Decision	Implementation Date
CMC_04_22 – New Reference Rates for Default Interest	Approved	30/09/2022
CMC_06_22 – New Interdependent Combined Units	Still under consideration	N/A
CMC_07_22 – Modification to provisions for Market Registration of Demand Side Units – Variation In Mix	Rejected	N/A
CMC_08_22 – Locational Capacity Constraints Maximum Quantities	Approved	30/09/2022
CMC_09_22 – Secondary trade approval notification	Approved	30/09/2022

Contents

Appendix A – Responses to SEM-22-033

Appendix B – Approved Modification Text Drafting – CMC_04_22

Appendix C – Approved Modification Text Drafting – CMC_08_22

Appendix D – Approved Modification Text Drafting – CMC_09_22

1. OVERVIEW

1.1. BACKGROUND

1.1.1. The SEM CRM detailed design and auction process has been developed through a series of consultation and decision papers, these are all available on the SEM Committee's (SEMC) website. These decisions were translated into legal drafting of the market rules via an extensive consultative process leading to the publication of the Trading and Settlement Code (TSC) and the Capacity Market Code (CMC). An updated version of the CMC (6.0)[1] was published on 18 February 2022 and the most recent version of the TSC[2] was published on 17 May 2022.

Process for modification of the CMC

1.1.2. Section B.12 of the CMC outlines the process used to modify the code. In particular, it sets out the processes for proposing, consideration, consultation and implementation or rejection of Modifications to the CMC.

1.1.3. 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 as set out in Section A.1.2 of the CMC. (B.12.1.2).

1.1.4. Modifications to the CMC can be proposed and submitted by any person, (B.12.4.1), at any time. Unless the modification is urgent modifications 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.

1.1.5. For discussion at a Working Group, Modification proposals must be submitted to the System Operators at least 10 working days before a Working Group meeting is due to take place. 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.

1.1.6. 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.

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. 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] https://www.sem-o.com/rules-and-modifications/capacity-market-modifications/market-rules/

[2] https://www.sem-o.com/rules-and-modifications/balancing-market-modifications/market-rules/

Process and Timeline for these Modifications

1.1.9. On 6 May 2022 the SOs notified the RAs of the six proposed modifications submitted for discussion at WG25 held on 19 May 2022.

1.1.10. CMC_05_22 was submitted by the Regulatory Authorities and is intended to correct an error following the unintended overlap between the approved CMC text for modifications CMC_03_21 and CMC_04_21.

Given both CMC_03_21 and CMC_04_21 were both been fully consulted, agreed upon and approved, the RAs did not consult on this housekeeping proposal. Instead, this proposal was implemented with immediate effect.

1.1.11. Each of the other five modifications were marked as Standard and were therefore processed through the normal Modification process.

1.1.1 On the 1 June 2022 the RAs determined the procedure to apply to the Modification Proposals. An overview of the timetable is as follows:

i. The System Operators convened Working Group 25 where the Modification Proposals were considered on 19 May 2022.

ii. The System Operators, as set out in B.12.7.1 (j) of the CMC, are to prepare a report of the discussions which took place at the workshop, provide the report to the RAs and publish it on the Modifications website promptly after the workshop.

iii. The RAs will then consult on the Proposed Modification, with a response time of 20 Working Days (as defined in the CMC), from the date of publication of the Consultation.

iv. As contemplated by B.12.11 the RAs will make their decision as soon as reasonably practicable following conclusion of the consultation and will publish a report in respect of their decision.

1.1.12. The purpose of this decision paper is to set out the decision relating to Modification Proposals discussed during Working Group 25 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 proposals and sets out the SEM Committee’s decision.

1.2. RESPONSES TO CONSULTATION

1.1.14. This paper includes a summary of the responses made to the Capacity Market Code Modifications consultation paper (SEM-22-033) which was published on 1 July 2022.

1.1.15. A total of seven responses were received by close of the consultation period, none of which were marked confidential. The respondents are outlined below and copies of each response can be obtained from the SEM Committee website.

- SSE
- ESB Generation and Trading (ESB GT)
- Demand Response Association Ireland (DRAI)
- Bord Gáis Energy (BGE)
- Energia
- EirGrid and SONI
- Bord na Móna (BnM)

2. CMC_04_22 – NEW REFERENCE FOR DEFAULT INTEREST

2.1. CONSULTATION SUMMARY

2.1.1. This proposal was submitted by the System Operators (SOs) and aimed to replace the LIBOR overnight rates for euro and British pound sterling as these were discontinued from 31st December 2021.

2.1.2. Within their proposal, the SOs highlight that section B.7.3.1 of the CMC specifies, for any payment which is overdue, that 'Default Interest shall accrue from the relevant due date until the date of actual payment in full of the overdue amount by remittances for full value, such Default Interest to accrue daily and both before and after any judgement'.

2.1.3. The SOs state that Default Interest is currently defined with reference to LIBOR – the London Interbank Offered Rate and are benchmark interest rates used by a variety of financial markets and services. The relevant rates for the Code are the LIBOR overnight rates for euro and British pound sterling which were discontinued from 31st December 2021.

2.1.4. The SOs proposed the deletion of the definition for LIBOR from the CMC and add the following definitions:

For euro the suitable replacement is the euro short-term rate (€STR or ESTER for the purposes of the Capacity Market Code). ESTER is administered by the European Central Bank. ESTER replaced EONIA which was previously the euro equivalent to SONIA.

ESTER means the Euro Short-Term Rate (€STR) published by the European Central Bank on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.

SONIA means the Sterling Overnight Index Average published by the Bank of England on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.

2.1.5. As set out in the consultation paper, the SEM Committee recognised the need for the submission of CMC_04_22, given the LIBOR overnight rates for euro and British pound sterling were discontinued as of 31st December 2021.

2.1.6. Further to this, it was also noted that this change has already been applied to the TSC and the SEM Committee were cognisant that a failure to implement this proposal would lead to there being a disparity between the CMC and TSC.

2.1.7. Therefore, the SEM Committee were minded to approve this proposal for implementation.

2.2. SUMMARY OF RESPONSES

2.2.1. All but one of the respondents to the consultation paper provided commentary on this proposal, with the decision to approve being unanimous.

2.2.2. The majority of respondents commented that the modification supports the code objectives and BGE stated that the modification is a necessary change that will remove the current disparity between the TSC and CMC.

2.3. SEM COMMITTEE DECISIONS

2.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process.

2.3.2. Given the comments provided by the respondents and that failure to implement this proposal would lead to there being a disparity between the CMC and TSC, the SEM Committee approves the Modification with the legal drafting set out in Appendix B.

3. CMC_06_22 – NEW INTERDEPENDENT COMBINED UNITS

3.1. CONSULTATION SUMMARY

3.1.1. This proposal was submitted by the RAs and represented an updated version of CMC_10_21 which was originally submitted by the DRAI and proposed to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised.

3.1.2. As part of the original proposal, two 'sub-proposals' were put forward –

Proposal 1: sought to move the Reliability Obligation to the portfolio level by allowing DSU Aggregators to create combined candidate units of their portfolio of DSUs at time of Qualification; and

Proposal 2: sought to move the physical backing of the Reliability Obligation to the portfolio level by allowing all IDSs within a DSU aggregator's qualified portfolio to assist in the delivery of the Reliability Obligation regardless of the DSU they are assigned to through the Operational Certificate process.

3.1.3. Taking account of all the comments and responses received to the original consultation, the SEM Committee decided that there was value in the Modification undergoing further Working Group discussion with the intention of identifying a clear way forward which can deliver against the Code Objectives for DSUs while avoiding undue discrimination.

3.1.4. Proposal 1 was favoured by the RAs as being more straightforward to implement and therefore CMC_06_22 builds upon the discussions and out workings of the decision taken in SEM-21-077[3].

3.1.5. Within the consultation paper, the RAs noted the feedback from the SOs and Market Participants and, in particular, that the Modification will require system changes, as anticipated.

3.1.6. Further to this, the RAs highlighted that the proposal aims to encourage entry by DSUs and other aggregated capacity without any clear negative impact on consumers.

3.1.7. CMC_06_22 remains under consideration by the RAs and therefore a final decision by the SEM Committee is pending.

4. CMC_07_22 – MODIFICATION TO PROVISIONS FOR MARKET REGISTRATION OF DEMAND SIDE UNITS – VARIATION IN MIX

4.1. CONSULTATION SUMMARY

4.1.1. This proposal was submitted by the DRAI and also represents an updated version of Proposal 2 from CMC_10_21.

4.1.2. The intention of the DRAI was raise a new proposal reflecting the intent of Proposal 2, as discussed above, so that it can be given due consideration via the Capacity Market Modifications process.

4.1.3. The modification proposes that DSU aggregators be allowed to vary the Mix of IDSs within their portfolio providing the physical backing that is delivering on their Reliability Obligation.

4.1.4. Within their proposal, the DRAI stated that their updated proposal sought to modify section I.1.3.2 Variation in Mix and elaborate that all market providers have a physical backing to deliver on their Reliability Obligation including DSU aggregators.

4.1.5. Further to this they advised that provision I.1.3.2 in the code allows for DSU aggregators to vary the Mix of IDSs within their DSU providing the physical backing that is delivering on their Reliability Obligation.

4.1.6. Within the consultation paper, the RAs noted that successful implementation of the modification would require extensive changes throughout the CMC to ensure that the proposed Variation in Mix across units within a portfolio can be properly commissioned under the CMC and settled appropriately under the T&SC.

[3] https://www.semcommittee.com/sites/semc/files/media-files/SEM-021-077%20CMC%20Mods%20WG19%20Decision%20Paper.pdf

4.1.7. The RAs highlighted a number of extensive changes that would need to be made to the existing functioning of the CMC and were of the view that such changes will clearly require significant changes to the SOs CRM systems.

4.1.8. Taking account of the scope of the changes required, the SEM Committee were minded to reject the modification in its current form.

4.1.9. The SEM Committee highlighted that significant effort would be needed to work up the legal drafting to create the basis for a viable modification to accomplish the objectives of CMC_07_22. The SEM Committee stated that such a worked-up proposal could be brought to a future Working Group for discussion and subsequent consultation.

4.2. SUMMARY OF RESPONSES

4.2.1. All but one respondent to the consultation paper provided commentary on this proposal, with the majority of responses supporting the rejection of the proposal.

4.2.2. The DRAI welcomed comments from the SOs provided at WG25 and highlighted that this was the first time SO feedback was provided following the SEM-21-077 decision. However, the DRAI have advised that it is disappointing that the process has been so slow and that lack of engagement on CMC_10_21 led to the need to resubmit the same modification in order to prompt engagement recommended in the SEM-21-077 decision.

4.2.3. The DRAI request that further consideration is given to the aims of this modification proposal (to remove administrative limitations which impact DSU market participation) and that further engagement is undertaken between RAs, SOs and market participants to propose a way forward to achieve these aims.

4.2.4. With the intense focus on security of supply and capacity adequacy, the DRAI state it is important that measures such as this are progressed as a matter of urgency so that the full capability of DSUs can be exploited to provide services to the power system, and administrative limitations minimised.

4.2.5. BGE stated that they are supportive of this proposal in principal, and recognise the importance of DSUs particularly in terms of energy balancing. They advise that the proposal is an optimal solution from a DSU perspective as it will provide a high level of flexibility required to optimise portfolios, and ultimately contribute to energy balancing.

However, BGE do have concerns about the complexity of this settlement of this proposal in practice.

4.2.6. In BGEs view, there needs to be significant development of the SEM settlement systems before the required level of complexity management is reached to support the implementation of this mod. BGE highlight that this all-encompassing solution should be the end goal, but more consultation will be needed before this in a position to be progressed further. BGE requested that the SOs engage with industry to develop a workaround settlement solution in the short to medium term, while this longer-term enduring solution is being developed.

4.2.7. SSE noted that this modification is a revised version of Proposal 2 from the previous CMC_10_21. They also noted that this modification proposes to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised. As per the decision paper from Working Group 19 and the responses from the consultation, they are not supportive of this modification, for the following primary reasons:

- They consider that this modification creates an unfair approach between other candidate units and those that are DSUs;
- It is their view that the Capacity Market should be technology agnostic and with as few carve outs for specific generation as possible; and
- How DSUs are incentivised in the SEM should be reflected on before additional flexibility only for their benefit, should be provided.

4.2.8. SSE stated that, whilst they appreciate that there are some practical process differences that are needed for DSUs to better participate in the CRM, their concerns remain relevant for this revised proposal.

4.2.9. Added to these concerns, SSE highlight that they are unclear how this modification will manage the fact that there is currently an insufficient regulatory framework for aggregators in the SEM.

4.2.10. SSE also have issues about the impact to the settlements process from this modification and agreed with comments raised on this topic at the working group, as well as concerns about the locational aspect, where DSUs may seek to aggregate DSU sites that are not locationally proximate.

4.2.11. SSE referred to the SEM Committee minded-to position to reject this modification and stated that they would strongly agree with this minded-to position.

4.2.12. ESB GT stated that they are not in a position to determine if the proposed modification is consistent with the code as the modification is not in a position to be consulted upon due to the lack of detail around settlement changes required. As a result of this, ESB GT agreed with the RA's minded to position that the modification should be rejected.

4.2.13. ESB GT were of the view that greater discussion is needed around the application of portfolio trading for a single technology class. Further, they advise that an evidence based justification has not been provided to allow for discrimination between technologies and would appear to be in violation of the CMC objective (f).

4.2.14. Energia agreed with the SEM Committee minded to decision to reject the modification proposal.

4.2.15. Energia also took the opportunity to highlight that at a principle level, they believe this proposal would provide advantages to DSU aggregators that are not available to other market participants. Further, they stated that it is incumbent on the SEM Committee to ensure that any changes they make to the CMC are not discriminatory or exclude other technologies / market participants.

4.2.16. The SOs supported the SEM Committee minded to decision to reject this proposal.

4.2.17. The SOs acknowledged the DRAI's intention in submitting the proposal was in part to ensure the proposal remains under consideration, however highlighted that it requires significant further development before the impact across the CMC could be understood and considered in detail.

4.2.18. The SOs stated that a change in markets policy would be required to facilitate the proposal due to the introduction of a portfolio approach to the provision of Capacity whereas the current approach is Unit based.

4.2.19. Further to this, the SOs believe a significant structural change should be driven by the Proposer with continued engagement with stakeholders, primarily the Regulatory Authorities, culminating in a comprehensive proposal for consideration. The SOs advised that they are not able to develop in detail what is at this point conceptual.

4.3. SEM COMMITTEE DECISIONS

4.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process and notes that most responses were in favour of rejecting this proposal.

4.3.2. While the SEM Committee recognise potential benefits to a Modification is this area, this proposal requires too much additional work to more closely approach a form that could be implemented.

4.3.3. Given the above, the SEM Committee has decided to reject the proposed Modification but would welcome future submission of a more complete Modification which addresses the issues identified in the consultation.

5. CMC_08_22 – LOCATIONAL CAPACITY CONSTRAINTS MAXIMUM QUANTITIES

5.1. CONSULTATION SUMMARY

5.1.1. This proposal was submitted by the SOs and sought to introduce a maximum limit applicable to Locational Capacity Constraint Areas.

5.1.2. Within their submission, the SOs stated that this value would be specified by the SOs and approved by the RAs and published as part of the Final Auction Information Pack (FAIP) in accordance with the same processes that apply to current determination of minimum Locational Capacity Constraint Required Quantities.

5.1.3. They highlighted that this proposal is being introduced to address scenarios where more capacity could be cleared in a part of the power system than can be feasibly be accommodated in the timeframes involved in the delivery of capacity.

5.1.4. The SOs highlighted that where some capacity can be accommodated but not all, this Proposal would allow the SOs and the RAs to qualify more capacity than can be accommodated in a particular locational capacity constraint area and allow this capacity to compete for the amount of capacity that can be accommodated.

5.1.5. The SOs were of the view that this strikes a balance and does so in a manner that promotes competition, does not unduly discriminate between capacity market participants and ultimately promotes the short and long-term interests of consumers of electricity in Ireland and Northern Ireland.

5.1.6. The proposed modification drafting introduces:

- The concept in Chapter C alongside the existing minimum quantities and that they are determined by the System Operators in accordance with the approved Locational Capacity Constraints methodology;
- The new maximum requirements into the auction process in Chapter F;
- Net Required Quantity definition; and
- Net Maximum Quantity definition.

5.1.7. During the Working Group, a number of attendees expressed concerns whereby it would be a concern if implementation were to act to dissuade new capacity from being brought forward to auction.

5.1.8. This was noted by the RAs, however, the RAs also noted that the proposal was seeking to address a real issue that exists currently and without some changes to the existing process the CMC is likely to fail to achieve its key objective “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” (A.1.2.1(b)).

5.1.9. Taking account of the proposal, the feedback received and given the current capacity issues in the SEM and the approaches being pursued by governments and the RAs, the SEM Committee were minded to approve a version of this modification.

5.2. SUMMARY OF RESPONSES

5.2.1. All respondents to the consultation paper provided commentary on this proposal, with all but one respondent being in favour of rejecting the proposal.

5.2.2. SSE referenced the minded-to position set out in the consultation paper, whereby the SEM Committee were minded-to approve a version of this proposal. SEE stated that they would not support the principle of this proposal as it appears to be solving an issue that should be addressed elsewhere.

5.2.3. They were of the view that this proposal appears to be seeking to address an issue where more capacity applies to qualify in a specific constraint area, and elaborate that, for the most recent capacity auction, the constraints in place are Dublin, Rest of Ireland and Northern Ireland.

5.2.4. SSE state that as the time this proposal is being tabled there are a number of signals that have been sent that, when they overlay the apparent urgent need for capacity, with these signals, leads to significant mixed messages and conflicts.

5.2.5. With regards to these conflicts, SSE have concluded that the SOs are proposing this change to the code in order to use the market to solve what is a transmission issue.

5.2.6. They elaborate that the issue is that networks are unable to handle the additional capacity offered to address a constraint, specifically because the constraint exists and is not being mitigated, reduced or addressed. Further, SSE are of the view that it is not a generator's commercial or operational risk whether capacity arrives in sufficient or surplus volumes in a specific capacity constraint area - this is a risk for the TSO and should not therefore be addressed in an auction for new and existing generation capacity.

5.2.7. SSE state that their understanding is that the intention for inclusion of constraints was to ensure that key regions never suffered from too little capacity procurement in capacity auctions. They highlight that a minimum volume in an LCCA is therefore, an important signal to ensure that minimum "must run" capacity is always encouraged to participate.

5.2.8. However, SSE advise that to date they have not seen a significant delivery of new capacity through capacity auctions in any of the constraint region and it would be reasonable to assume that the modification is not seeking to modify the code to address a live and active concern of having to deal with over procurement in an LCCA, but rather a probability.

5.2.9. They encouraged the SOs to demonstrate the need and impact of not introducing this modification, at a future modifications workshop.

5.2.10. SSE referred to the SOs stating in SOEF, that they cannot be sure of capacity arriving and there is uncertainty around delivery. SSE therefore query how is it possible to be sure enough of the oversupply of capacity in specific constraint regions that is tied to qualification, when delivery is so uncertain. They are therefore not clear how the SO can be sure enough to feel the need to propose this modification.

5.2.11. SSE advised that without an additional round of consultation, they cannot support an intended position to approve an alternative version of this modification.

5.2.12. In their response, ESB GT stated their belief that this modification should not be implemented. As part of this they highlighted that the proposed modification goes against the CMC objectives (c), (d), (e), and (g) and have concerns that the proposal could conflict with the EU State aid CRM approval, an impact they state had not been identified in the proposal.

5.2.13. ESB GT have referred to the State aid decision, paragraph 157, which identifies '*The authorities confirmed that the locational value of capacity should in principle be reflected in the market prices, sending the right locational signals to incentivise investments in generation or transmission capacity in shortage areas*'.

Elaborating on this point, they advise that this modification is about the prevention of a location signal in areas of shortage and it is not clear if this modification is in line with the state aid decision or in the spirit of the application. ESB GT cautioned any SEMC decision that could result in a JR on the EU state aid decision.

5.2.14. ESB GT referred to the proposal whereby it states the modification '*allows more capacity to be qualified in areas where there are locational capacity constraints that cannot accommodate this capacity in the timeframes*'.

With regards to this, they are of the view that the reason for this is the assumption that if the modification isn't in place that the SOs will have to qualify none of the capacity in the zones.

ESB GT believe this option to be extreme and stated their surprise that it is the only option available to the SOs and RAs, although they have pointed out that this is technically possible under the CMC.

5.2.15. ESB GT stated that there is very little rationale behind the need for the proposal and the proposal appears to address the issues of delivering connections as opposed to the actual cause. Further, they advise that this issue appears to be a direct result of the CRU's direction to remove the need for a grid connection to qualify for the capacity auction.

5.2.16. ESB GT refer to the consultation paper that states '*the RAs noted that the modification is seeking to address a real issue that exists currently*'.

Elaborating, they state the consultation paper doesn't lay out the real issue and therefore assume that if the CRU direction wasn't applied, then this requirement isn't needed.

ESB GT advise that if this modification is applied to auctions where there is no CRU direction, than this is a purely a regulatory intervention to restrict competition in an auction and force development of assets in locations of the SO and RAs choice.

5.2.17. The DRAI stated that they do not support the proposed modification, highlighting that they have a number of concerns, similar to those raised by other participants at WG25.

5.2.18. They advised that setting a maximum limit to LCCAs seeks to add constraints to the Capacity Market Auction process to reflect scenarios where grid connection offers have been issued, but the physical delivery of the required infrastructure has been delayed, or there are some other limitations on the SOs' ability to use the procured capacity.

5.2.19. They highlighted that the issue is linked to grid connections and pace of infrastructure delivery and that placing additional constraints in the capacity market auction processes does not address this core issue.

5.2.20. BGE stated that they are not supportive of this modification and highlighted that the capacity auction price should be cleared in an unconstrained market.

5.2.21. In their response, BGE advised that there are concerns that allowing a highly constrained grid to feed into the clearing of the auction will have a material impact on the clearing price and move away from the principle of supply/demand-based auction clearing price.

5.2.22. It is the opinion of BGE that the SOs must accommodate the outcome of the most cost- efficient plants clearing, rather than basing solutions on geographical location that could exclude candidate units that are in merit by price. Further to this they stated that the possible unintended consequence here is the modification drives a higher auction price and associated cost to the consumer.

5.2.23. BGE were also of the view that this proposal will dilute the signal to the SO that the grid needs to be improved/congestion removed. BGE advise that in this scenario the constraints on the gird will simply become further entrenched in the system, and the Capacity market will in effect become a nodal system. They elaborated that this goes against the objectives of the capacity market, in particular Section A 1.2.1 (f) which seeks to ensure no discrimination between parties to the capacity market code.

5.2.24. BGE have also advised that by imposing LCC Max Quantities there is a risk that some efficient conventional generation which is crucial for security of supply could miss out on capacity, resulting in this modification adversely affecting security of supply which is contrary to the objective of the capacity market code.

5.2.25. In their response, Energia state they are strongly opposed to the proposed modification citing that it would constitute a fundamental change of CRM design which has not been adequately explained or justified and there is no clarity as to how a maximum LCC would be determined and consistently applied across all areas of the network.

5.2.26. Energia stated that the Capacity Market was designed to provide for minimum levels of capacity in constrained areas to ensure local security of supply. Further to this they advised that adding a maximum LCC is a movement in the opposite direction and believe this can only reduce the incentive to resolve system or grid constraints, preventing the connection of more generation where it is needed to meet demand growth.

5.2.27. Energia highlighted that it is their understanding that Dublin is an area where a maximum LCC may be targeted. Further to this, they advise that this is difficult to rationalise in the context of numerous documents and publications by EirGrid showing that additional generation capacity is critically needed in Dublin and the network in the Dublin area has the capacity to accommodate additional generation.

5.2.28. Energia were also of the view that there is a lack of transparency and understanding of the problem that a maximum LCC is endeavouring to address, whether this is the optimal solution, how such a limit is to be determined (including the methodology and input assumptions), and whether it will be applied consistently across all LCCAs.

Elaborating, they have stated that this creates significant uncertainty for investors and serves to undermine good governance and oversight with potentially negative consequences for security of supply and competition as it could deter new capacity from qualifying and committing to bid into auction given the time, investment and resourcing (including engagement with OEMs) required to bring serious projects forward and could needlessly prevent (existing or new) capacity contracts from being awarded in a LCCA.

5.2.29. Energia highlighted a number of areas / questions, which they believe should be addressed before approval can be given. These included:

- What is the problem?
- How has it been assessed, is it consistent with approved standards and methodologies, what are the underlying assumptions and scenarios and are they credible?
- Are there any alternative solutions?
- Is the proposed solution necessary, proportionate and reasonable?
- Is the same approach to be applied equally to all areas of the network?

5.2.30. BnM stated that, whilst they understand and empathise with the issue facing the SO and RA, they do not believe that the Proposed Modification is consistent with the Capacity Code Objectives, specifically with regards to providing transparency.

They justified their stance being a result of an absence of any presented methodology on which to base maxima values, principally the Locational Capacity Constraint Maximum Quantities.

5.2.31. BnM advised that whilst the proposal refers to the approved Locational Capacity Constraints methodology (SEM-17-040), it acknowledges that 'changes may be required to this methodology to provide for this change and these would need to follow the appropriate process as this methodology does not form part of the Capacity Market Code.' BnM believe that a detailed methodology needs to be proposed, understood and agreed, with an appropriate level of impact assessment.

5.2.32. The SOs welcomed the SEM Committee's minded to approve position on proposed modification CMC_08_22.

5.2.33. The SOs highlighted that Locational Capacity Constraints ensure that Capacity Market outcomes follow the Transmission System Security and Planning Standards (TSSPS) in Ireland and Northern Ireland. Further to the approach that has been taken to date, the SOs believe that there is merit applying the Locational Capacity Constraint framework to apply a Maximum Quantity in order to comply with the TSSPS.

5.2.34. The SOs referred to the discussions during WG25, where some Participants queried the rationale for introducing a Maximum Quantity constraint. To summarise the issue, the SOs stated:

- It is possible following an Auction that a volume of Awarded Capacity could be cleared in a part of the power system than cannot feasibly accommodate it operationally e.g. where the simultaneous operation of the units would exceed the short circuit limits.

- Capacity located in an area of the transmission system that may not be accessible when it is needed may also displace capacity in an area that can be accessed.
- This issue is more acute where capacity seeking to qualify may not have a connection offer at the time of qualification and therefore limited, if any, network and operational analysis has been undertaken in respect of the capacity. Where there are several units seeking to qualify through a regulatory direction whereby evidence of a connection offer at the qualification stage is not required, cumulative impacts can arise that were previously not considered.
- Given the above, it may be necessary to make amendments to the Locational Constraints Area post publication of the Initial Auction Information Pack in order to consider the need for additional constraint areas based on the volume of projects that have submitted Application for Qualifications for auctions whereby a connection offer is not needed at the qualification stage. It is very difficult for the TSOs to assess what Locational Constraint Areas are needed without a level of foresight on the type and volume of projects seeking to qualify for an auction.

5.2.35. The SOs have advised that, where only a portion of the capacity that has applied to qualify can be accommodated within the limits specified in the TSSPS, the application of a Locational Capacity Constraint Maximum Quantity would enable the SOs and ultimately the RAs to qualify more capacity than can be accommodated in particular Locational Capacity Constraint Area.

5.2.36. Further, the SOs stated that this qualified capacity could then go on to compete in a Capacity Auction for the amount of capacity that can be accommodated. The SOs are of the view that this strikes a balance between the two extremes: all – some of which will be inaccessible - or nothing.

5.2.37. The SOs are of the view that the proposed approach promotes competition by allowing for the increased participation in the auction for units that may not have been qualified in the absence of this maximum limit; does not unduly discriminate between capacity market participants and ultimately promotes the short- and long-term interests of consumers of electricity in Ireland and Northern Ireland.

5.3. SEM COMMITTEE DECISIONS

5.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process and notes that all but one of the responses were in favour of rejecting this proposal.

5.3.2. While the SEM Committee recognises the strength of the response to this proposal, however, are of the view that the consequences of not implementing such a change are worse for both potential capacity providers and for consumers.

5.3.3. If this change is not implemented, it will have no impact on the presence of real world limitations on the ability to connect new capacity to either the electricity or gas networks in time for delivery at the start of the relevant Capacity Year.

5.3.4. If these real world constraints bite, as was expected at the time of the auction, then there is the potential that capacity above the maximum achievable in a zone will have been awarded in the auction.

5.3.5. This awarded capacity will be unable to deliver and will incur termination fees as a result. This will impose unnecessary costs on capacity providers when the limitation had been foreseen prior to the auction.

5.3.6. Equally, awarding capacity that it is known cannot be delivered at the time of the auction weakens the security of supply standard for consumers and may lead to increased costs of delivering capacity, as capacity will have to be re-procured at short notice.

5.3.7. The SEM Committee recognise that one of the key drivers for this change is the measures being adopted to deal with the current expectation of capacity shortages in the SEM, which include weakening of the conditions required for Qualification. However, we would note that there is no obligation to set a net maximum quantity for an LCC and so will not be set when no longer required.

5.3.8. The legal drafting has been amended to include new paragraphs F.4.1.8C and D which give the RAs the right to adjust the level of LCC Maximum Quantity proposed by the SOs, if required.

5.3.9. Various additional minor drafting changes have been made to the consulted legal text to fix various minor formatting and consistency issues.

5.3.10. Given the above, the SEM Committee is implementing a modified version of the proposal, with the revised legal drafting set out in Appendix C.

6. CMC_09_22 – SECONDARY TRADE APPROVAL NOTIFICATION

6.1. CONSULTATION SUMMARY

6.1.1. This proposal was submitted by Energia and proposed the introduction of a step in the SOs processes in relation to secondary trades that they notify participants directly to confirm that their submitted ISTN or ASTN has been successfully validated.

6.1.2. This step was aimed at removing any ambiguity for market participants and to avoid any confusion that can currently arise when carrying out secondary trades and within their proposal, Energia highlight that in the absence of a fully developed Secondary Trading auction, market participants are able to avail of Interim Secondary Trade Notifications (ISTN) as per section M.7 of the CMC or Alternative Secondary Trade Notifications (ASTN) as per section M.12 of the CMC.

6.1.3. In their proposal Energia stated that, currently, the CMC stipulates that the Capacity and Trade Register is required to be updated by the System Operator after submission of the respective ISTN or ASTNs.

However, they are of the view that this process is not always clear in confirming that the submitted secondary trade notifications have been successfully validated and causes unnecessary concern and confusion for market participants in respect of trying to manage their obligations and risks.

6.1.4. As part of the consultation paper, the SEM Committee were cognisant of the limitations as a result of the Secondary Trading Platform not yet being in place, but also welcomed the confirmation that, upon implementation, notifications will be provided within 2 hours of submission.

6.1.5. The SEM Committee, taking account of the volume of work and complexity involved in validating Secondary Trades under the current process, were minded-to approve the proposal, with the initial 5WD notification which will then reduce to the intended 2 hour period, upon implementation of the required systems.

6.2. SUMMARY OF RESPONSES

6.2.1. All but one of the respondents to the consultation paper provided commentary on this proposal and, of those who provided feedback, all were in favour of the implementation of the modification.

6.2.2. Energia, the proposer of the modification, welcomed the RAs minded to position to approve the modification proposal, however noted that notification is to be sent to market participants within 5 Working Days to reflect the current SO validation period, which is then due to reduce to a 2 hour period once implementation of systems have been completed to allow for validation to be carried out within this timeframe.

With regards to this, Energia reiterated their support for the implementation of systems to allow for full implementation of the modification proposal CMC_11_21.

6.2.3. ESB GT highlighted that from their experience to date the confirmation or validation of a secondary trade has, on some occasions, unfortunately taken longer than the 5 working days and it has been on the participant to request confirmation.

They advised that this modification should help in streamlining the process for both the SOs and market participants and are therefore supportive of its implementation.

6.2.4. BGE stated they are supportive of this proposal and highlight that any ambiguity around Market Participants in terms of the ISTN or ASTN being processed and accepted /rejected should be reduced and the timeframe should be as short as possible.

They are of the view that the 5-day waiting period for a trade to be approved rejected is unacceptable. Whilst they accept there is a degree of complexity to assessing a trade, they believe the 5 working days is overly generous.

Elaborating on this, BGE state that receiving confirmation 5 working days after an ASTN/ISTN is submitted, gives market participants insufficient time to find an alternative method of managing their capacity market obligations. They have requested that the SO implement as soon as possible a 1-hour window for the provision of the required information to participants.

6.2.5. The SOs advised that they support the principles of transparency as applied to timely processing and communications in relation to Secondary Trades.

6.2.6. The SOs highlighted that the first proposal within CMC_09_22 introduces an additional requirement for the SOs to send a validation notification of Interim Secondary Trade Notifications within five working days of submissions.

They advised that they already aim to achieve this through existing business processes and noted the SEM Committee's intention to approve the proposal and welcome the codification of this existing standard.

6.2.7. Further to this, the SOs refer to the second proposal within CMC_09_22 which introduces an additional requirement for the SOs to send a validation notification of Alternative Secondary Trade Notifications within 2 hours of submission.

The SOs confirmed that existing business processes could not facilitate the achievement of this proposal and stated that considerable automation would be required to achieve a sustainable 2-hour processing timeframe on a 24-hour basis.

The SOs did however note the SEM Committee's intention to approve the proposal subject to implementation of the necessary Secondary Trading platform functionality and welcomed this approach.

6.3. SEM COMMITTEE DECISIONS

6.3.1. The SEM Committee welcomes the feedback provided by participants, both as part of the Working Group forum and with regard to the Consultation process and note that all responses were in favour of approving this proposal.

6.3.2. As set out in the consultation paper, the SEM Committee are cognisant of the limitations as a result of the Secondary Trading Platform not yet being in place. Given that this proposal will provide clarity with regards to the utilisation of the Secondary Trading Process, the SEM Committee approves the Modification with the legal drafting set out in Appendix D.

6.3.3. As set out in the proposal, the SEM Committee instruct the SOs to continue with the initial 5WD notification which must be reduced to the intended 2 hour period, upon implementation of the required systems.

7. NEXT STEPS

7.1.1. The SEM Committee require that the SOs incorporate the approved Modifications contained within this paper into the CMC via an appropriate version control process and the Modifications are to become effective by no later than:

Modification	Implementation Date
CMC_04_22 – New Reference Rates for Default Interest	30/09/2022
CMC_08_22 – Locational Capacity Constraints Maximum Quantities	30/09/2022
CMC_09_22 – Secondary trade approval notification	30/09/2022

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