



**Integrated Single Electricity Market
(I-SEM)**

Capacity Market Code Urgent Modifications Set 1

Decision Paper

SEM-18-174

30th November 2018

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 3 (Urgent Working Group) on 11th October 2018.

The decisions within this paper follow on from the associated consultation (SEM-18-162) which closed on 5th November 2018.

This paper considers a single modification proposal which permits the Regulatory Authorities (RAs) to modify the Locational Capacity Constraint (LCC) MW Limits proposed by the System Operator to a value other than zero. The modification is designed to enable the RAs to ensure a consistent approach to capacity procurement is taken for LCCs and the all island system given the changes that the RAs can already make to the all-island capacity requirement in forming the Demand Curve in F.3.1.4.

The modification will allow for changes made to the Demand Curve under section F.3.1.4 of the CMC to be reflected down to the Locational Capacity Constraints and their associated MW Limits.

Four responses were received to the Capacity Market Code modification proposal, none of which were marked as confidential. All responses to the consultation (SEM-18-162) will be published on the SEM Committee website and are summarized within this decision paper.

Summary of Key Decision

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

Adopt the minded to position to approve:

- CMC_14_18 – LCC MW Limits

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Appendix A – Approved Modifications Text Drafting

Appendix B – Responses to SEM-18-162 - Capacity Market Code Urgent Modification - Set 1

1. OVERVIEW

1.1 BACKGROUND

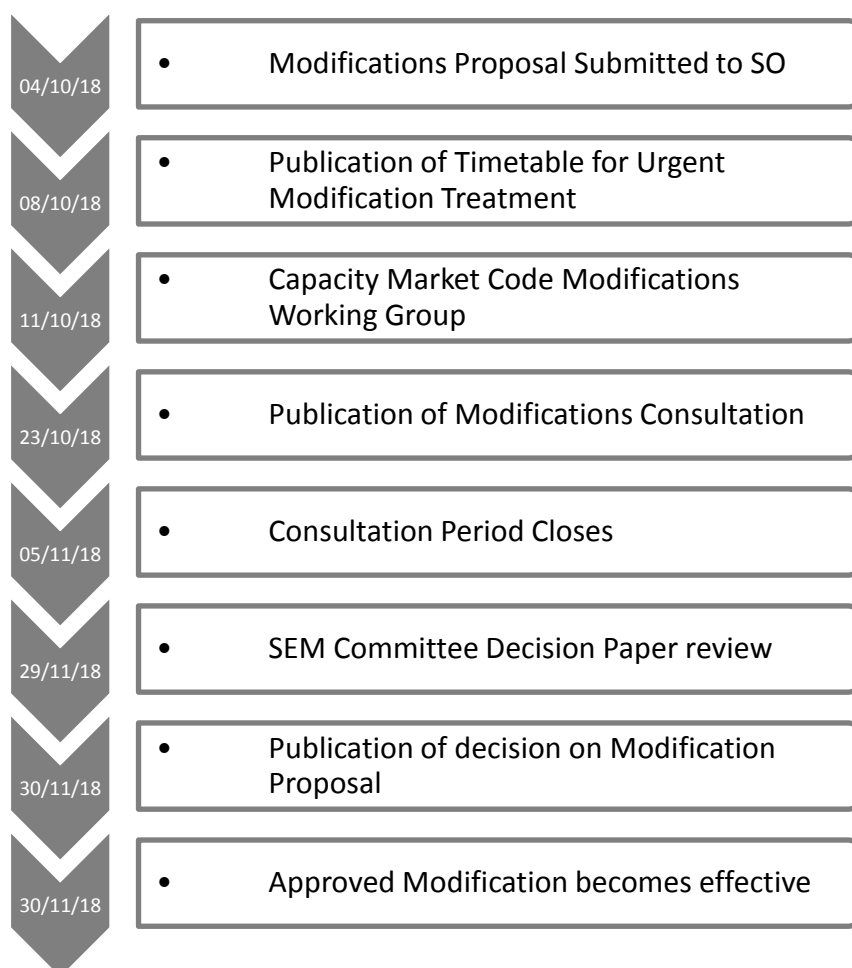
- 1.1.1 Decisions made during the development of the I-SEM CRM Detailed Design were translated into auction market rules to form the Capacity Market Code (CMC) (SEM-17-033) which was published in June 2017. The CMC sets out the arrangements whereby market participants can qualify for, and participate 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 modification discussed at WG3, the RAs determined the modification presented was deemed urgent as it fulfils the requirement set out in B.12.9.3 (a):

B.12.9.3 -

(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 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.
- 1.1.9 The RAs, on 8th October 2018, published the timetable for the consideration, consultation and decision relating to the proposed Modification and the Working Group to facilitate industry discussion of the modification (WG3) took place on 11th October 2018.
- 1.1.10 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



- 1.1.11 The purpose of this decision paper is to set out the decision relating to the Proposed Modification discussed during Working Group 3 to either:
- Implement a modification;
 - Reject a modification; or
 - Undertake further consideration in regards to matters raised in the modification proposal.

1.1.12 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-18-162) which was published on 23rd October 2018.

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

- Power NI
- Energia
- 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_14_18 – LCC MW LIMITS

2.1 CONSULTATION SUMMARY

- 2.1.1 The Modification was proposed to permit the RAs to modify the LCC MW Limits proposed by the SOs to a value other than zero, enabling the RAs to ensure a consistent approach to capacity procurement is taken for LCCs and the all island system given the changes that the RAs can already make to the all-island capacity requirement in forming the Demand Curve in F.3.1.4.
- 2.1.2 The modification was proposed to implement the T-4 Parameters Decision for CY2022/23 (SEM-18-155), with regards to withholding of capacity set out in section 6.5.
- 2.1.3 The modification proposes the addition of two new paragraphs to section F.4.1.8. (Appendix B).
- 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.

2.2 SUMMARY OF RESPONSES

- 2.2.1 Of the four responses received to the consultation several advised of their support towards the proposed modification. One of the responses stated the acceptance of the need for the proposal, whilst also highlighting the need for transparency to be made. One respondent disagreed with the proposal, citing their reasoning behind this.
- 2.2.2 Both Power NI Energy Limited (PPB) and Energia stated they would be in a position to conditionally support the proposed modification.
- 2.2.3 PPB advised they were in agreement with the sentiments expressed at the Working Group (WG3) in that they believe there should be a transparent methodology in place prior to the RAs enacting F.4.1.8A.
- 2.2.4 Energia advised of their conditional support of the proposed modification stating they believe it is in line with the code objectives given the rationale to allow the RAs flexibility in amending the LCC MW limit is consistent with the RA ability to do so on an all-island basis.
- 2.2.5 Energia further elaborated that they are of the view that the proposed modification will also provide the necessary flexibility to help manage and deal with any potential security of supply concerns that may arise in LCCAs in the future, given the recent publications by both CRU and EirGrid (e.g. CRU/18/228 Information Paper on Dublin Security of Supply and CRU/18/229a Letter to EirGrid supporting participation of New Capacity in the Dublin area in the T-4 CY2022/23 Capacity Auction without a prior grid connection offer).
- 2.2.6 Energia did however note that within the consultation paper (SEM-18-162) paragraph 2.2.10 states that the RAs will take into consideration the publication of the necessary information in regards to any amendments to the LCC MW limits. Energia believe that the information behind any changes made by the RAs should be published to support the calls made during WG3, and

within the responses to the consultation to provide transparency regarding this. They have also requested the process around the timing of publications should be codified to provide clarity and certainty for participants.

2.2.7 As stated above, Energia highlighted their support of the proposed modification would be on a conditional basis. They have elaborated that this conditionality relates to their disagreement in regards to the withholding of capacity from the T-4 auction. Energia advised they have set out their rationale behind not supporting the withholding of capacity in their response to the Capacity Remuneration Mechanism Parameters Consultation Paper SEM-18-028.

2.2.8 BGE state that whilst they accept there is a need for a change to the CMC to reflect the decisions made in the T-4 Parameters decision (SEM-18-162), they are of the view that the proposal creates an inconsistency with Code Objectives D and E and have several concerns in relation to the proposed modification.

2.2.9 They advise the proposal does not take into consideration the situation whereby if the RAs set the LCC Required Quantity for a Level 2 LCC, that the Level 1 LCC it sits within must also be consistent with the chosen Level 2 LCC.

In this instance, BGE believe could lead to a market inconsistency and potentially market decoupling. They elaborate that the design of the capacity market should ensure that the market is given the opportunity to clear on an unconstrained basis in the first instance and that it is only after this unconstrained run that the RAs/TSOs should determine whether a local capacity constraint was met, and only then determine the need for out-of-merit capacity contracts.

2.2.10 To alleviate the above concerns, BGE suggest the following text should be added to the proposed modification drafting:

F.4.1.8B (c) - If the Locational Capacity Constraint is a Level 2 Locational Capacity Constraint, the Level 1 Locational Capacity Constraint that it sits within should have a value that is equal to or greater than the value set for the Level 2 Locational Capacity Constraint.

2.2.11 BGE raised a further concern around a lack of transparency presented within the proposal around F.4.1.8A. They advise that this could be interpreted in a way that it gives the RAs full discretion to change (or set) a Locational Capacity Constraint Required Quantity without the need to engage with industry or the SOs before doing so. However, they recognise the Consultation paper suggests that if the modification is approved, the RAs would consider publishing any necessary information regarding any amendments to the LCC MW Limits. They state this needs to be reflected in the RAs' proposed Modification redrafting to ensure full transparency in the process.

2.2.12 To facilitate this they advise the drafting of the proposal should be amended to:

F.4.1.8A - The Regulatory Authorities may by written notice to the System Operators set the Locational Capacity Constraint Required Quantity for one or more specified Locational Capacity Constraints in one or more Capacity Auctions to a value other than that proposed by the System Operators under paragraph F.4.1.5, as modified in accordance with paragraph F.4.1.6, and shall in the notice give clear reasons. Prior to said notice to the System Operators, market participants shall be consulted on the rationale for any such changes and related numerical values.

2.2.13 Whilst BGE recognise there will be insufficient time to consult with market participants before the upcoming T-1 CY2019/20 auction in December 2018 they request that this consultation requirement is applied in advance of the T-4 CY2022/23 auction due to take place in March 2019.

They also advise that upon the need for the RAs to set any Locational Capacity Constraint Required Quantity ahead of the upcoming T-4 auction, they request that market participants are consulted and a decision published in advance of the Final Auction Information Pack (FAIP) publication date. They justify the request stating that such decisions would potentially have material impacts on bidding strategies and/ or market outcomes both for new and existing capacity market units.

2.2.14 In their response to the consultation, ESB Stated they do not believe the current drafting of the proposed modification is consistent with the Code Objectives. They advise this inconsistency arises from a lack of clarity in regards to a methodology for changing the MW values provided by the SOs.

2.2.15 ESB highlight that in their view Code Objectives B and G have not been assessed within the modification proposal and that the proposal does not achieve Objectives D nor E. They highlight that, without clarity on a methodology on how the Capacity Requirement can change from Auction to Auction, this will lead to regulatory uncertainty which, would not be conducive to incentivising investment.

2.2.16 They advise that the RAs stance of ensuring any amendments to the LCC MW Limit that may be required are deemed appropriate through interacting with the SOs to allow for an understanding the process of calculating the LCC MW Limit, is in fact, not appropriate and does not meet the Code Objectives. To ensure that clarity and transparency is provided to market participants, they request the proposed drafting be amended, or a commitment is made, that identifies the RAs will follow a process that delivers on the aforementioned clarity and transparency.

2.2.17 ESB suggest the proposed drafting of F.4.1.8A should be amended to reflect:

F.4.1.8A - The Regulatory Authorities may, by written notice to the System Operators, set the Locational Capacity Constraint Required Quantity for one or more specified Locational Capacity Constraints in one or more Capacity Auctions to a value other than that proposed by the System Operators under paragraph F.4.1.5, as modified in accordance with paragraph F.4.1.6 and subject to the pre-determined methodology, and shall in the notice give reasons.

2.2.18 ESB have commented in regards to the impact the proposal could have in relation to the Trading and Settlement Code (T&SC). They have suggested that the proposal has failed to identify impacts relating to section F.18.2.1 of the T&SC – qCREQAR. They have queried if a modification would subsequently be required to allow for different values per unit or will this be an island value regardless of the approach applied.

2.2.19 ESB have made a final comment in relation to the proposal failing to refer to the potential interaction with the recent CRU information note “Dublin Security of Supply: Measures to mitigate the risk of disorderly exit” (CRU/18/228). ESB highlight their belief that any implications

of a change to TSO derived capacity requirement in the T-1 auctions and existing LRSA contracts should have been provided.

2.3 SEM COMMITTEE DECISIONS

- 2.3.1 The SEM Committee recognise the value of the comments with respect to the provision of a greater degree of clarity and transparency in regards to any changes that may be made by the RAs. The SEM Committee note that the purpose of this modification is to reflect any changes made to the Demand Curve under section F.3.1.4 of the CMC down to the LCCs and their associated MW Limits.
- 2.3.2 The SEM Committee has published the CRM Reserves Decision Paper SEM-18-173 which focuses specifically on the reserves approach for the CY2019/20 T-1 Capacity Auction and the CY2022/23 T-4 Capacity Auction. As the timing of the CRM Reserves Decision coincides with the publication of the CY2019/20 T-1 Final Auction Information Pack, more information has been provided in that decision as to the reserves adjustments considered necessary by the SEM Committee for each LCC area and at the all-island level. In respect of the CY2022/23 T-4 Capacity Auction the SEM Committee will make their final decision as to the amount of reserves to apply when finalising the demand curve for the CY2022/23 T-4 Final Auction Information Pack due to be published 7 March 2019. For future auctions the proposed level of reserves will be considered in the corresponding parameters consultation for each specific auction.
- 2.3.3 A number of respondents noted that to allow for absolute transparency the RAs intention should be to consult upon the methodology for making any changes to the LCC MW Limits. However, the time constraints around the Qualification and Auction processes does not allow permit time for consultation.
- 2.3.4 The SEM Committee note that the Modification is to reflect changes at the LCC level which have been made to the Demand Curve under F.3.1.4 and which are not subject to consultation. It is the view of the SEM Committee that there is no need to change this existing principle already established within the CMC.
- 2.3.5 However, the SEM Committee agree that there is merit in providing additional clarity around the scope of the changes being made to the LCC MW Limits. To provide for this, the SEM Committee have amended the proposed drafting of F.4.1.8A to be more explicit about the grounds for changing the LCC MW Limits. This revised drafting is contained within Appendix A.
- 2.3.6 One respondent stated support for the proposal is based upon the condition that any decision in regards to the withholding of capacity from the upcoming CY2022/23 T-4 Capacity Auction would not be actioned.

The SEM Committee note that the withholding of capacity does not form part of this modification proposal and is therefore beyond the scope of this decision paper. With this being the case, no further consideration is taken in regards to this within this decision paper.

- 2.3.7 The SEM Committee note the comments from BGE in regards to the possibility of setting an L2 MW Limit at a value higher than the associated L1 MW Limit. While the SEM Committee are of the view that this is an unlikely event, the Committee does believe it is worthwhile to explicitly foreclose this possibility.

While BGE have provided suggested amendments to the drafting proposed for F.4.1.8B (c), upon review, the SEM Committee are not convinced the proposed drafting is suitably robust, in that it does not take into account the possibility of multiple L2 zones occurring within a single L1 constraint zone. The SEM Committee have added a new sub-paragraph F.4.1.8B (c) to fully deal with the issue flagged by BGE. The amended drafting is contained within Appendix A.

- 2.3.8 ESB queried in their response whether a modification to F.18.2.1 of the T&SC – qCREQAR is being considered as a result of the impact of this proposed modification to the CMC. The SEM Committee note that qCREQAR is an all-island value used in the determination of load following. The SEM Committee confirms that there is no intention to change the basis of the determination of qCREQAR or of the principles behind load following in CRM settlement as a result of this Modification.

- 2.3.9 One respondent commented on the impact of the proposal and the lack of referral in this regard to the potential interaction with the recent CRU information note “Dublin Security of Supply: Measures to mitigate the risk of disorderly exit” (CRU/18/228).

The SEM Committee note that this is a CRU paper, not a SEM Committee paper that was published subsequent to the submission of this proposed modification. Aside from this, and upon review, the SEM Committee do not consider that of the measures set out in the CRU Information Note will have a direct bearing on the implementation of the Decision (SEM-18-155, sections 6.5.1 - 6.5.3) through this Modification.

- 2.3.10 The SEM Committee recognises the sensitivity about changes to LCC MW Limits which arise from the Modification. The Committee is content that with the amendments described above, the powers being taken by the RAs under the CMC are consistent with existing powers in that document and, in particular, the adjustment of the Demand Curve set out in F.3.1.4.

Consequently, the SEM Committee maintain their minded to position to approve this modification, with the amendments to the drafting as shown in Appendix A.

3. NEXT STEPS

- 3.1.1 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 30th November 2018.
- 3.1.2 All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com