



CMC Modification – CMC_05_25 - Early Termination of Intermediate Length Contracts
Capacity Workshop 43

Early Termination of Intermediate Length Contracts

Background

- Intermediate Length Contracts (**ILCs**) were introduced in CMC_10_24. This modification introduced Section G.3.1.9 to the Capacity Market Code, which states that where an ILC fails to achieve Substantial Completion by the beginning of the relevant Capacity Year, it will be treated as Existing Capacity with a payment price equal to the Auction Clearing Price.
- This is consistent with SEM-24-035 which states that "*the second and subsequent years of the ILC will be terminated if a Directors certificate has not been submitted by the first day of the second contract year (i.e., reverts to a single year contract, like contracts available to other Existing Capacity)*".
- Due to the timing of this mechanism, where an ILC fails to achieve Substantial Completion, it will not be possible for the project to contract through T-4 auctions, and some of the T-1 auctions with respect to the terminated years.
- This modification proposes to introduce a mechanism to bring the termination of subsequent ILC contract years forward where it is apparent that achieving Substantial Completion will not be possible.

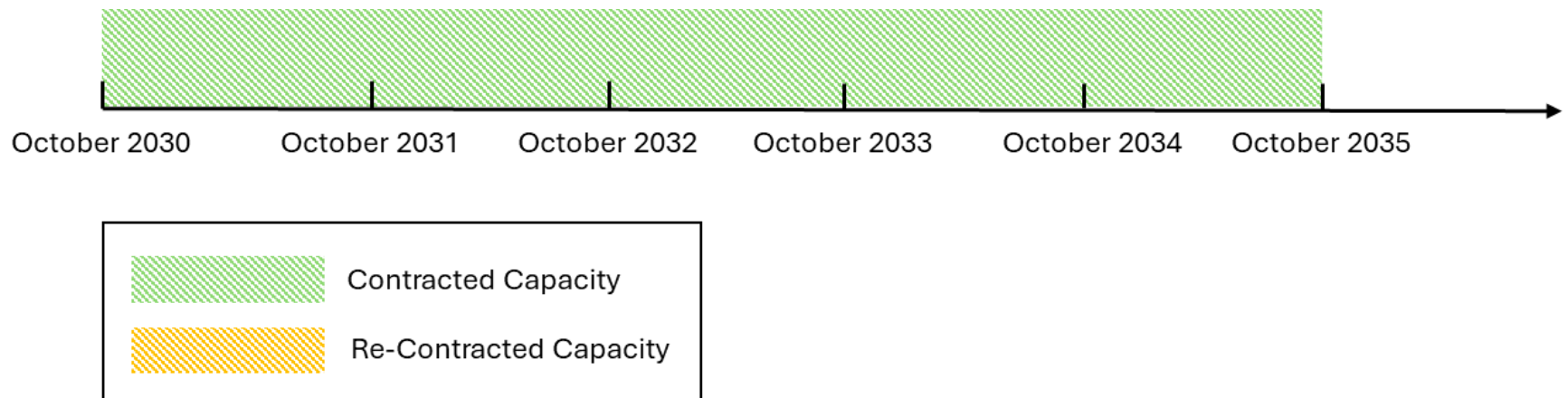
Rationale

- Failure to implement this modification would mean that Existing Capacity would circumvent mandatory participation in the Capacity Market in the case of failing to complete an ILC within 12 months of the beginning of the Capacity Year.
- This creates an immediate Security of Supply risk whereby terminated ILC Capacity (delivery in year Y) which would have been included in the Awarded Capacity with respect to Y+1 will be terminated on the first day of the Capacity Year Y+1. This may also impact Y+2 depending on the timeline of any T-1 Capacity Auction.
- There is a longer-term Security of Supply risk due to the risk of potential market exit for Existing Capacity which is awarded an ILC and later becomes uncontracted as a result of failing to achieve Substantial Completion.
- This modification will ensure that where Substantial Completion becomes impossible, an ILC project can prematurely terminate subsequent years and participate in future Capacity Auctions minimising impact to the Capacity Market.
- This modification has been categorised as urgent, so that participants will have clarity on this issue in time for the T-4 2029/2030 Capacity Auction.

Early Termination of Intermediate Length Contracts

Example

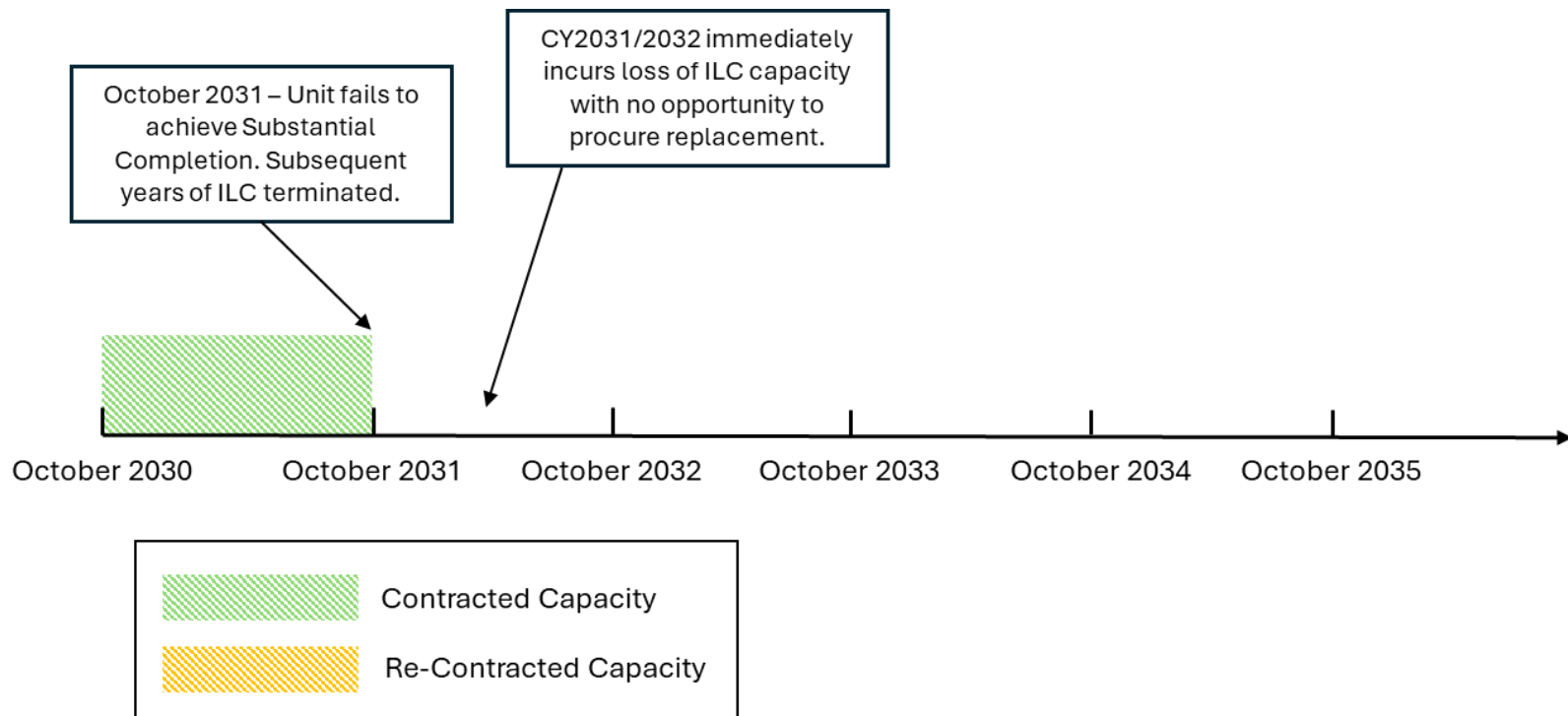
- The following example assumes a unit awarded a five-year ILC in the T-4 2030/2031 Capacity Auction.



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Example

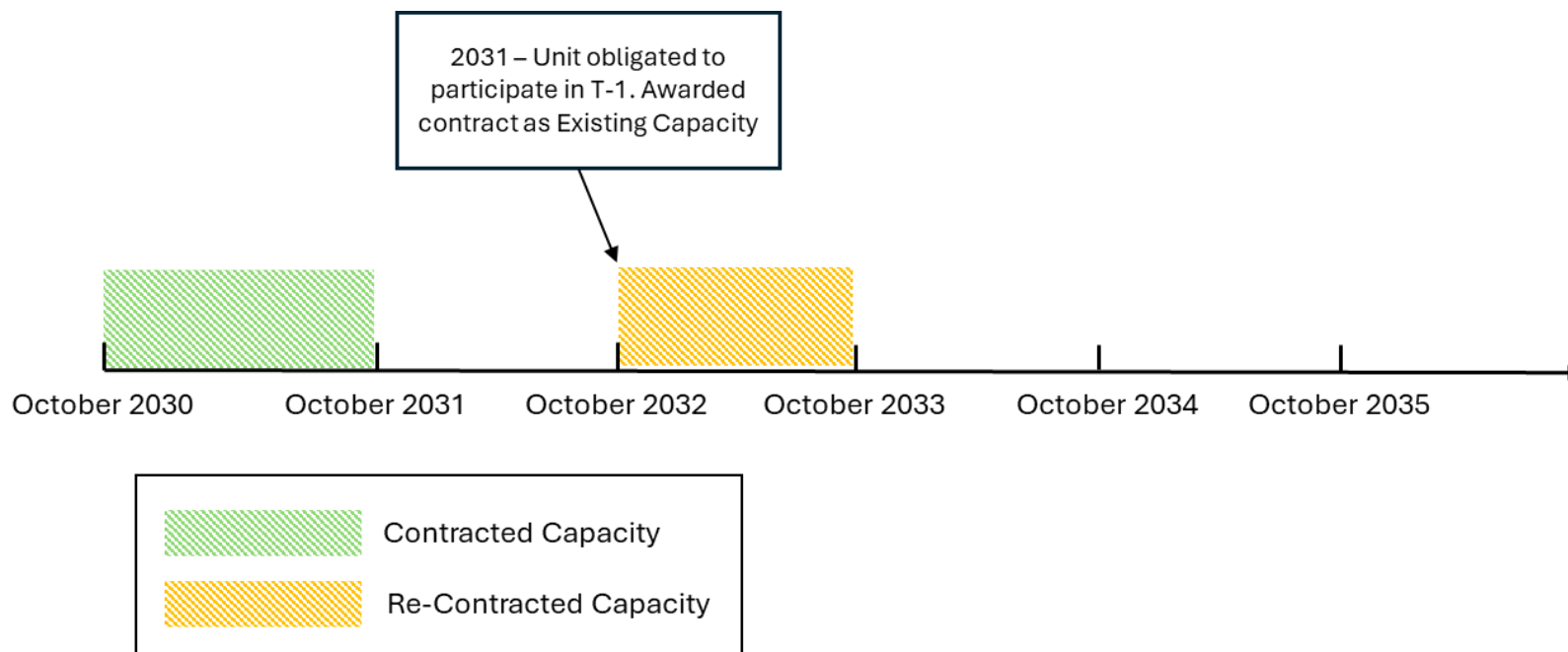
- Unit is aware that it will not be possible to achieve Substantial Completion of the ILC:



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Example

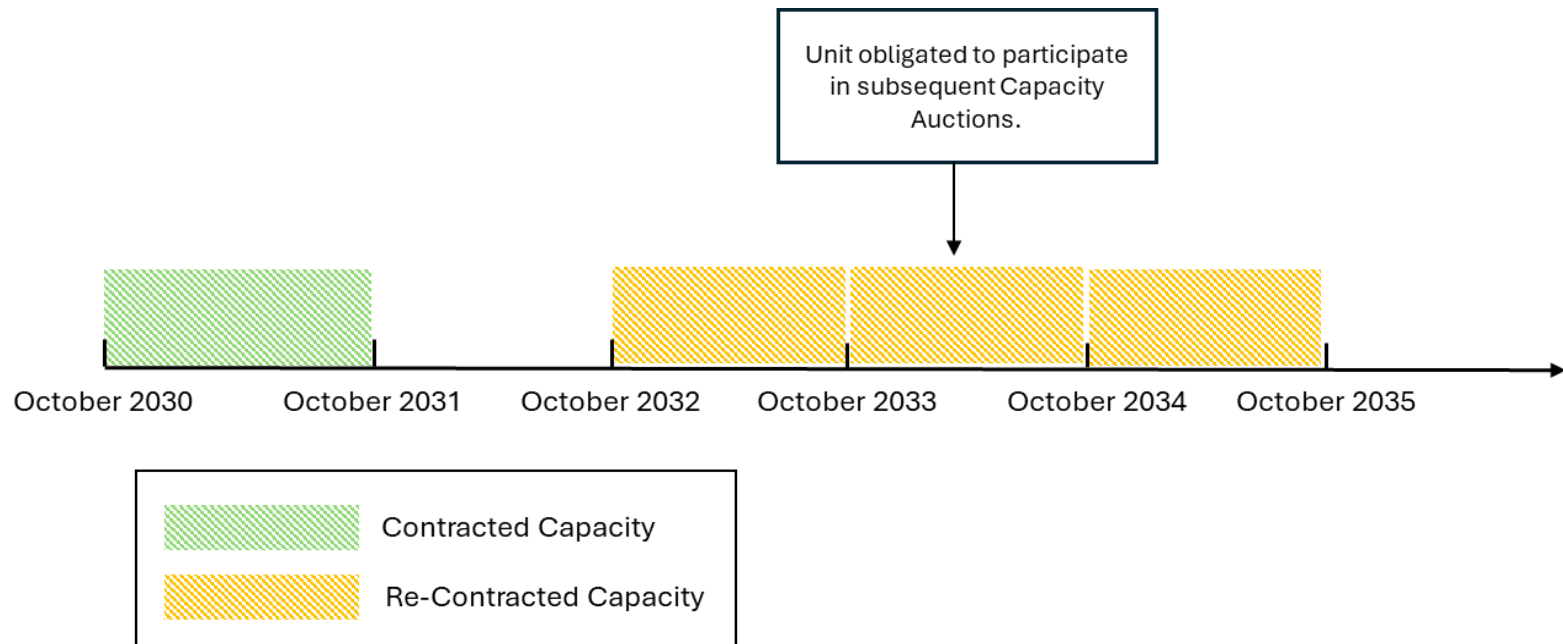
- Mandatory participation requires the unit to re-enter the 2032 T-1 Capacity Auction:



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Example

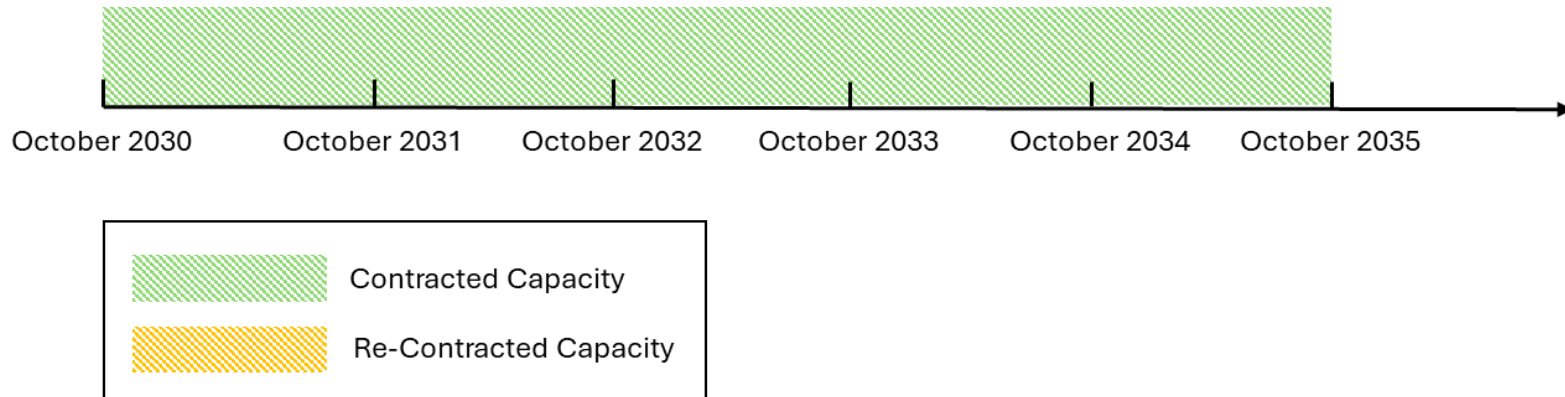
- Unit contracted as single-year Existing Capacity for subsequent years:



Early Termination of Intermediate Length Contracts

Example – Proposed Solution

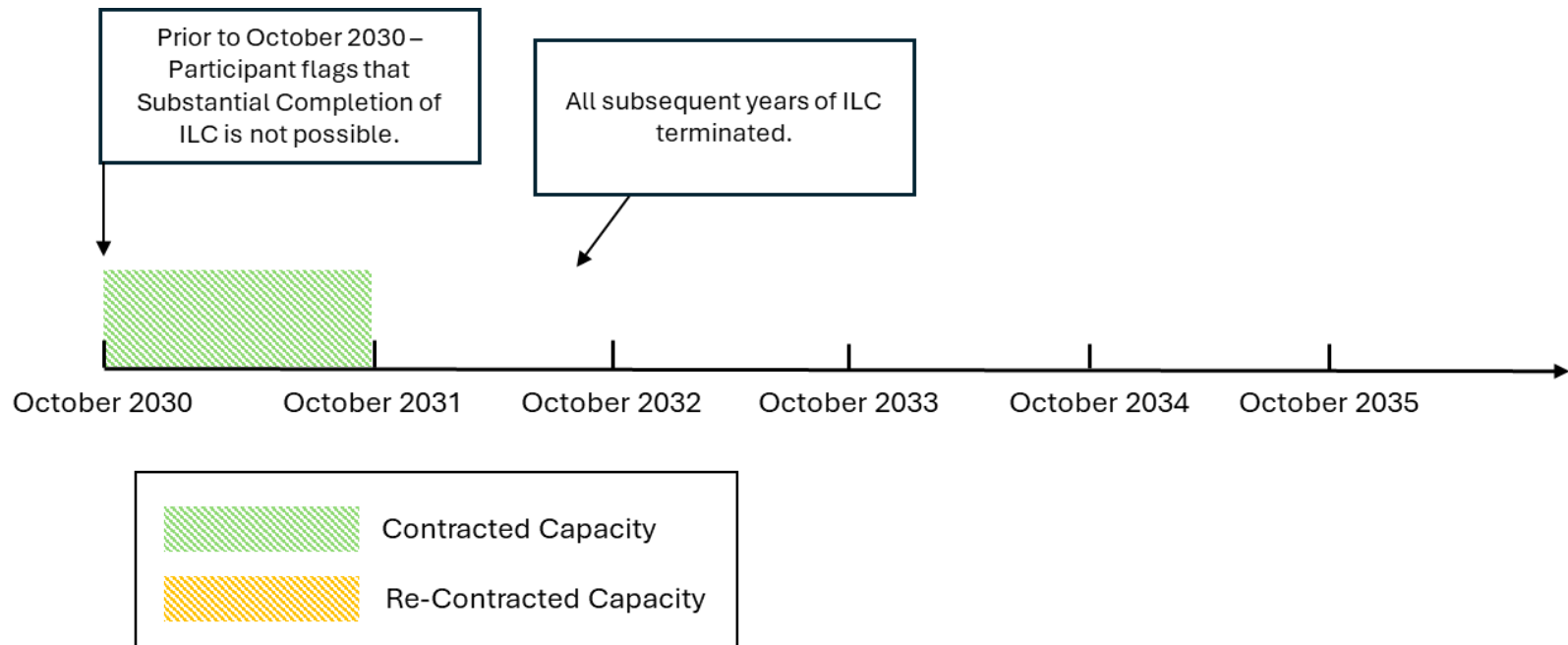
- Unit possesses a five-year ILC contract beginning CY2030/2031:



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Example – Proposed Solution

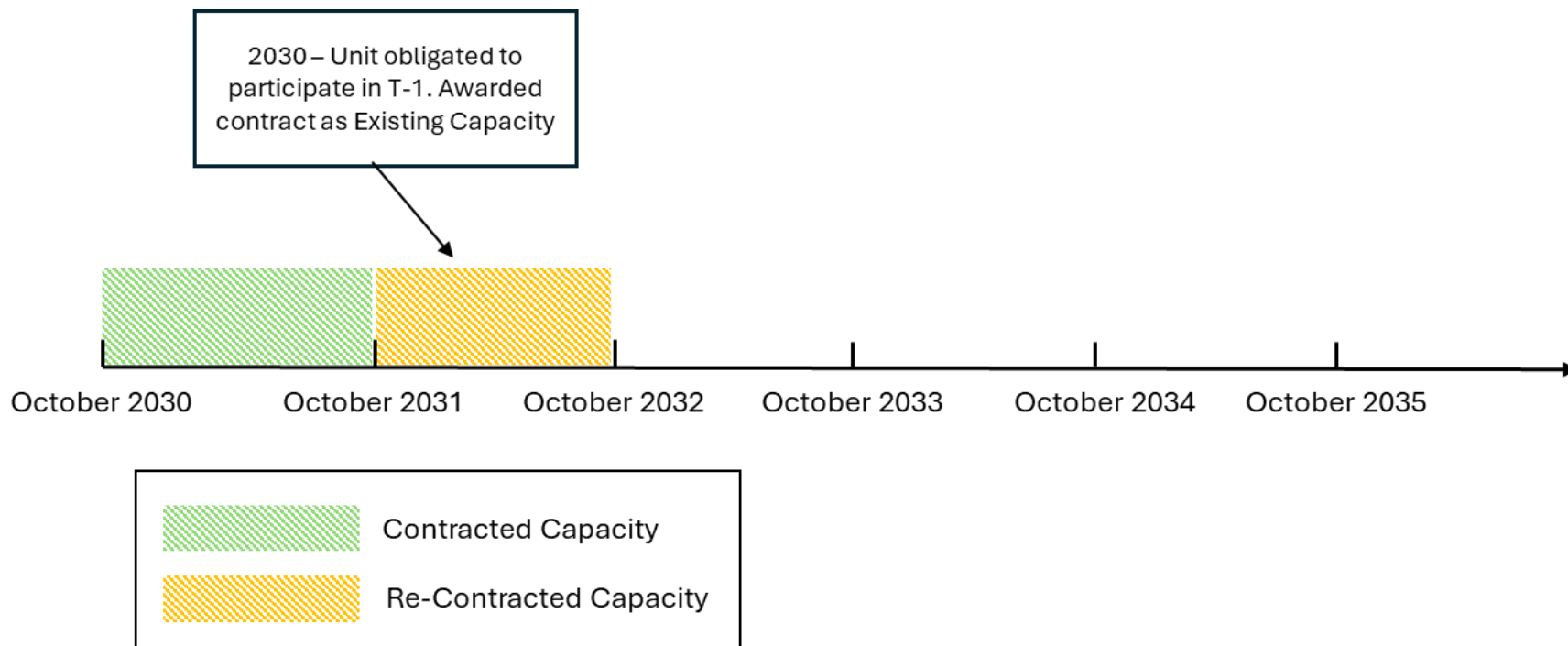
- Unit becomes aware that it will not be possible to achieve Substantial Completion of the ILC and triggers early termination:



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Example – Proposed Solution

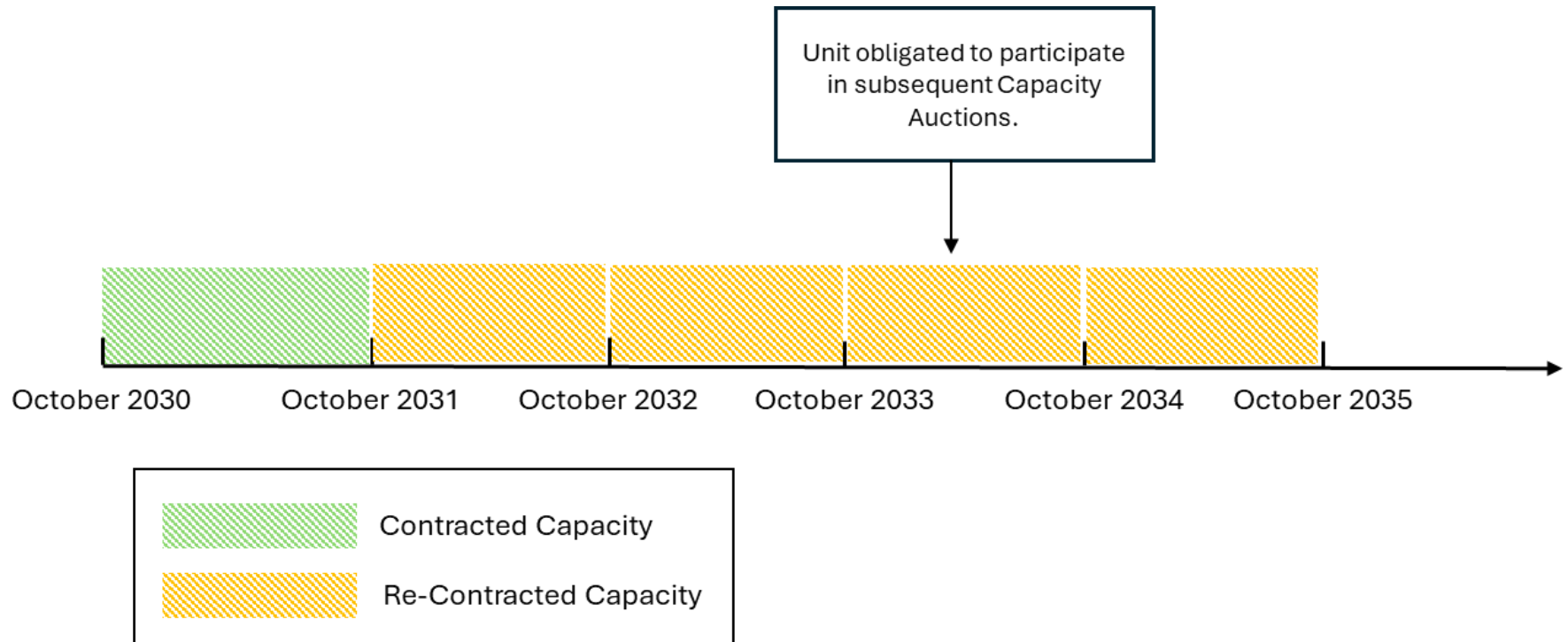
- Unit recontracts terminated ILC capacity as Existing Capacity in the T-1 for CY2031/32:



Early Termination of Intermediate Length Contracts

Example – Proposed Solution

- Unit recontracts as Existing Capacity for subsequent years:



Drafting Changes

- This modification will introduce a new section to the Code under J.5 Remedial Actions:
- *J.5.9 Early Termination of Intermediate Length Contract*
- *J.5.9.1 With respect to Awarded Capacity with a capacity duration greater than one year and less than or equal to five years, where a Participant acknowledges in an Implementation Progress Report that it does not expect to achieve Substantial Completion by the Long Stop Date, the Awarded Capacity will be paid the Auction Clearing Price for the first Capacity Year of the Capacity Award and all subsequent years of its Awarded Capacity will be terminated.*
- This drafting is based on the current mechanism which is in place for termination of New Capacity (i.e., through the Implementation Progress Report procedure).
- This implementation will ensure that Existing Capacity maintains an obligation to provide capacity in its first year (including exposure) and will be subject to existing mandatory participation rules in subsequent years.
- This ensures that Existing Capacity retains obligations placed on Existing Capacity without an ILC.