

Secondary Trading Above De-Rated Capacity

CMC_06_26

CMC_06_26 Overview

1. CMC_06_26 would allow CRM participants seeking to sell in the secondary trading market (i.e. increase their RO obligation) to trade above their de-rated capacity. This is aligned to the original CRM design decision, and CMC_11_21 which was approved by SEMC in September 2021.
2. CMC_06_26 would cap the extent to which a Seller can trade above its de-rated capacity to the lesser of its Commissioned Capacity or 2 x its Gross De-Rated Capacity. This is to address the concern raised by the SOs and RAs regarding highly de-rated units trading well in excess of their de-rated capacity.
3. CMC_06_26 would limit to 70 the number of days that Buyers (i.e. those seeking to decrease their RO obligation) could trade with Sellers that are seeking to increase their RO obligation above their de-rated capacity. This is in line with the original CRM design decision and SEMC's decision on CMC_11_21.

Background

This modification implements the part of the SEMC decision on secondary trading above de-rated capacity from the original CRM detailed design paper ([SEM-16-022](#)), re-iterated in SEMC's decision on CMC_11_21 ([SEM-21-077](#)) to allow for secondary trading above de-rated capacity.

At the outset of I-SEM, and reflected in the original CRM State aid approval, it was envisioned that I-SEM would have a fully functioning secondary trading market from Q4 2018. Eight years on participants are still operating with a sub-optimal fall-back secondary trading mechanism (ASTNs and ISTNs) with low and diminishing levels of liquidity, and that favours large portfolio players in their ability to secondary trade.

The case for secondary trading above de-rated capacity in the CRM has been carefully considered by SEMC and has been approved. In SEM-16-022, SEMC stated that:

“4.4.10 Allowing secondary trades of capacity above the level of de-rated capacity which can participate in a Reliability Option primary auction would be to increase the liquidity available for secondary trading and so enhance the ability of capacity providers to manage outages”.

SEMC considered any trade off between the risk to security of supply and efficiency and came down decisively in favour of allowing secondary trading above de-rated capacity. In the absence of a fully functioning secondary trading market, secondary trading above de-rated capacity in the fallback arrangements was approved again in CMC_11_21.

An SO [impact assessment](#) took four and a half years to complete and identified no system limitations to implementing secondary trading above de-rated capacity.

Secondary Trading Above De-Rated Capacity

CMC_06_26 would benefit customers through ensuring that CMUs can manage RO risk more efficiently. Specifically, through allowing CMUs to trade above their gross derated capacity, the code mod will increase liquidity in the secondary market thus further enabling market participants to manage risks of RO events by trading in and out of obligations.

Under the current secondary trading arrangements the ability to manage RO risk is severely limited, and even this ability has diminished with the general increase in PLFFs since the approval of CMC_11_21. Opening this risk management option to a greater share of the market will lower hurdle rates for CMUs, which may put downward pressure on the clearing prices in the primary capacity auction, which will ultimately benefit consumers in the SEM.

The pending implementation of the changes to the Administered Scarcity Pricing calculation ([SEM-25-029](#)) are designed to increase the likelihood of RO events. Furthermore, in [SEM-26-037](#) SEMC are actively considering further availability incentives resulting in financial exposure for CRM participants. The absence of a corresponding increased ability to manage RO risk would likely lead to this increased risk being reflected in the bids of CRM participants or a reduction in the amount of New Capacity seeking to enter CRM auctions.

Worked Example 1: Seller is a unit with a high de-rating factor. Buyer has not exceeded the 70-Day limit – Outcome: Fully approve

	Ref	Calculation	Parameter	Buyer	Seller
Capacity Inputs	A	N/A	Commissioned Capacity (MW)	100 MW	100 MW
	B	N/A	De-Rated Capacity (MW)	70 MW	70 MW
	C	N/A	Live Secondary Trades (MW)	0 MW	0 MW
	D	N/A	Product Load Following Factor	1	1
	E	$(B + C) \times D$	Initial Position x PLFF	70 MW	70 MW
	F	N/A	# Days Secondary Traded with Sellers above de-rated capacity	0	N/A
Proposed Trade	G	N/A	Proposed Trade Volume (MW)	-10 MW	+10 MW
	H	$E + (G \times D)$	Proposed New Position	60 MW	80 MW
	I	Buyer = B+C. Seller = (Lesser of A and B x 2) - E	Limit (MW)	70 MW	30 MW
	J	N/A	Trade Days	7	7
	L	If H > B for Seller then J, otherwise 0.	Trade Days with Seller Above De-Rated Capacity	7	N/A
Tests	M	$G \leq I$	Is proposed trade within the limits?	Yes	Yes
	N	$F + L \leq 70$	Is trade within the 70-day threshold?	Yes	N/A
Decision	O	N/A	Decision	Approve 10 MW	Approve 10 MW
	P	$(B + C + O) \times D$	New Position	60 MW	80 MW

Worked Example 2: Seller is a unit with a low de-rating factor. Buyer has not exceeded the 70-Day limit - Outcome: Partially approve

	Ref	Calculation	Parameter	Buyer	Seller
Capacity Inputs	A	N/A	Commissioned Capacity (MW)	100 MW	100 MW
	B	N/A	De-Rated Capacity (MW)	70 MW	7 MW
	C	N/A	Live Secondary Trades (MW)	0 MW	0 MW
	D	N/A	Product Load Following Factor	1	1
	E	$(B + C) \times D$	Initial Position x PLFF	70 MW	7 MW
	F	N/A	# Days Secondary Traded with Sellers above de-rated capacity	0	N/A
Proposed Trade	G	N/A	Proposed Trade Volume (MW)	-10 MW	+10 MW
	H	$E + (G \times D)$	Proposed New Position	60 MW	17 MW
	I	Buyer = B+C. Seller = (Lesser of A and B x 2) - E	Limit (MW)	70 MW	7 MW
	J	N/A	Trade Days	7	7
	L	If $H > B$ for Seller then J, otherwise 0.	Trade Days with Seller Above De-Rated Capacity	7	N/A
Tests	M	$G \leq I$	Is proposed trade within the limits?	Yes	No
	N	$F + L \leq 70$	Is trade within the 70-day threshold?	Yes	N/A
Decision	O	N/A	Decision	Approve 7 MW	Approve 7 MW
	P	$(B + C + O) \times D$	New Position	63 MW	14 MW

Worked Example 3: Seller seeking to trade above de-rating factor. Buyer has reached the 70-Day limit – Outcome: Reject

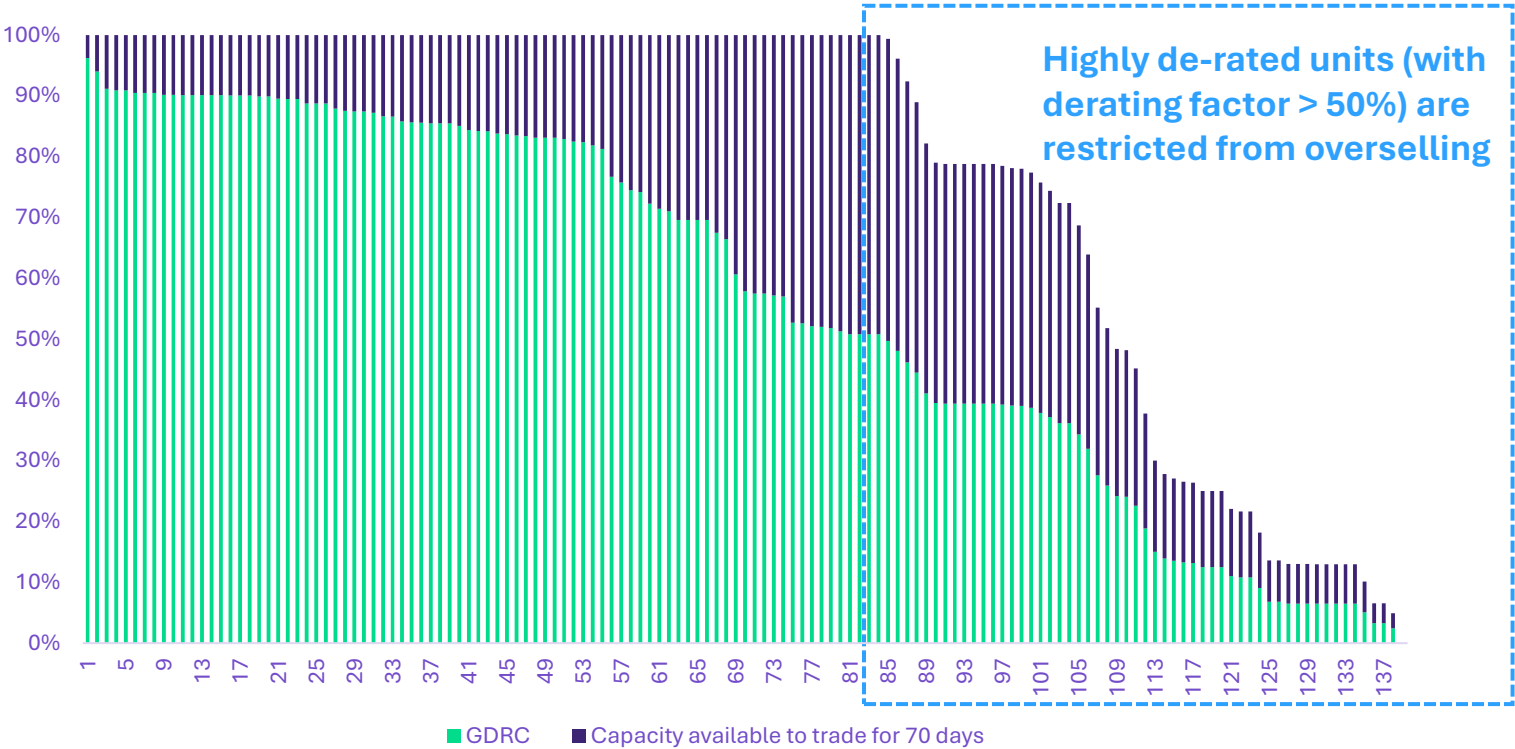
	Ref	Calculation	Parameter	Buyer	Seller
Capacity Inputs	A	N/A	Commissioned Capacity (MW)	100 MW	100 MW
	B	N/A	De-Rated Capacity (MW)	70 MW	7 MW
	C	N/A	Live Secondary Trades (MW)	0 MW	0 MW
	D	N/A	Product Load Following Factor	1	1
	E	$(B + C) \times D$	Initial Position x PLFF	70 MW	7 MW
	F	N/A	# Days Secondary Traded with Sellers above de-rated capacity	70	N/A
Proposed Trade	G	N/A	Proposed Trade Volume (MW)	-10 MW	+10 MW
	H	$E + (G \times D)$	Proposed New Position	60 MW	17 MW
	I	Buyer = B+C. Seller = (Lesser of A and B x 2) - E	Limit (MW)	70 MW	7 MW
	J	N/A	Trade Days	7	7
	L	If H > B for Seller then J, otherwise 0.	Trade Days with Seller Above De-Rated Capacity	7	N/A
Tests	M	$G \leq I$	Is proposed trade within the limits?	Yes	No
	N	$F + L \leq 70$	Is trade within the 70-day threshold?	No	N/A
Decision	O	N/A	Decision	Reject	Reject
	P	$(B + C + O) \times D$	New Position	70 MW	7 MW

Worked Example 4: Seller seeking to trade within de-rated capacity – Outcome: Fully approve

	Ref	Calculation	Parameter	Buyer	Seller
Capacity Inputs	A	N/A	Commissioned Capacity (MW)	100 MW	100 MW
	B	N/A	De-Rated Capacity (MW)	70 MW	70 MW
	C	N/A	Live Secondary Trades (MW)	0 MW	0 MW
	D	N/A	Product Load Following Factor	0.8	0.8
	E	$(B + C) \times D$	Initial Position x PLFF	56 MW	56 MW
	F	N/A	# Days Secondary Traded with Sellers above de-rated capacity	70	N/A
Proposed Trade	G	N/A	Proposed Trade Volume (MW)	-10 MW	+10 MW
	H	$E + (G \times D)$	Proposed New Position	48 MW	64 MW
	I	Buyer = B+C. Seller = (Lesser of A and B x 2) - E	Limit (MW)	70 MW	44 MW
	J	N/A	Trade Days	7	7
	L	If H > B for Seller then J, otherwise 0.	Trade Days with Seller Above De-Rated Capacity	0	N/A
Tests	M	$G \leq I$	Is proposed trade within the limits?	Yes	Yes
	N	$F + L \leq 70$	Is trade within the 70-day threshold?	Yes	N/A
Decision	O	N/A	Decision	Approve 10 MW	Approve 10 MW
	P	$(B + C + O) \times D$	New Position	48 MW	64 MW

Impact of Setting Threshold to 2x multiple of Gross Derated Capacity

- Based on qualification data from the 2025/2026 T-1 Capacity Auction, allowing secondary trading above de-rated capacity with the proposed 2x multiple threshold would free up 2.3GW of existing capacity for secondary trading – 41% of the additional capacity is provided by thermal generation.



Technology	Additional capacity (MW)
Interconnector	696
Wind	64
Demand Side Unit	261
Autoproducer	15
Gas Turbine	909
Hydro	25
Pumped Hydro Storage	89
Other Storage	205
Steam Turbine	35
Total	2,298

Annex 1 : How to assess a secondary trade under the proposed code modification



The four worked examples illustrate the mechanics of our proposed code modification