

Discussion Paper: extending the principles of partial secondary trading to Capacity Committed CMUs that are Storage Generating Technologies that are Duration Limited (DLSGTs)

1. Summary of the issue to be addressed: partial secondary trades are not taken into account when calculating Extended Performance in accordance with CM Rule 13.4A

- 1.1 The Capacity Market Rules do not adequately provide for the effect of a partial trade of a Capacity Obligation, for a full Delivery Year, on extended performance testing requirements under Rule 13.4A.2.
- 1.2 Under Rule 13.4A.2, a DLSGT is required to demonstrate extended performance by delivering evidence of discharge of at least its Adjusted Connection Capacity for the number of consecutive Settlement Periods that is equivalent in duration to its specified minimum duration (the **Extended Performance Test**).
- 1.3 Rule 9.5.8 states that a Capacity Committed CMU must satisfy the extended performance requirements in Rule 13.4A.2 irrespective of whether some or all of the Capacity Obligations to which the extended performance requirements related have since been transferred in accordance with the Capacity Market Rules Chapter 9, subject to Rule 9.5.
- 1.4 Whilst Rule 9.5 provides for scenarios where:
 - (a) a partial trade of Capacity Obligation is made for part (but not all) of a Delivery Year (see Rules 9.5.9, 9.5.10 and 9.5.12); and
 - (b) a full trade of a Capacity Obligation is made for an entire Delivery Year (see Rule 9.5.11),

it is not clear why partial secondary trading for the full duration of a Delivery Year is not.

- 1.5 The current methodology of testing against a DLSGT's Adjusted Connection Capacity does not automatically take account of reduced Capacity Obligations following a secondary trade. Without otherwise explicitly providing for this, we are of the view that:
 - (a) Rule 9.5.8 contradicts the principle set out in Rule 9.4.1 that a secondary trade rateably reduces the rights and obligations associated with a Capacity Committed CMU's Capacity Obligation following a secondary trade; and
 - (b) does not follow the effect of secondary trading on satisfactory performance testing (where requirements to demonstrate satisfactory performance are rateably reduced given testing against a Capacity Committed CMU's Capacity Obligation).

2. Proposed Solution: A new Rule 9.5.13 whereby Adjusted Connection Capacity is notionally reduced through secondary trading

- 2.1 As set out above, reducing Adjusted Connection Capacity through secondary trading would align with, and merely extend, the general principle that following a secondary trade, a Capacity Provider's rights and obligations are rateably reduced in line with its reduced Capacity Obligation (and also the principle under Rule 9.5.11).
- 2.2 This concept should be applied where part of a DLSGT's Capacity Obligation is traded for:

- (a) the full Delivery Year where the Extended Performance Test is to be demonstrated in accordance with Rule 13.4A.2(a); and
- (b) the entirety of the three Delivery Year period in respect of which Extended Performance Test is to be satisfied in accordance with Rule 13.4A.2(b),

2.3 The effect of this would be that in reducing a Capacity Committed CMU's Adjusted Connection Capacity by the traded MW_(de-rated) amount (i.e. the Transferred Part) the satisfactory Extended Performance Test threshold applicable to that Capacity Committed CMU would, for the purpose of Rule 13.4A.2, be equal to:

$$\text{Connection Capacity} \times \left(\frac{\text{Capacity Obligation following transfer}}{\text{Capacity Obligation prior to transfer}} \right) \times TCWAA$$

2.4 To fully extend the principles of secondary trading to the Extended Performance Test regime without fundamentally changing the Extended Performance Test regime itself, we propose that a new Rule 9.5.13 be incorporated along the lines of the following:

"In the case of a Capacity Committed CMU that has transferred part of its Capacity Obligation under Rule 9.2.4(a) for:

- (a) *the entire Delivery Year during which extended performance is to be demonstrated in accordance with Rule 13.4A.2(a); or*
- (b) *the entirety of each Delivery Year during which extended performance is to be demonstrated in accordance with Rule 13.4A.2(b) and for each of the next two (2) Delivery Years immediately thereafter,*

that Capacity Committed CMU's Adjusted Connection Capacity shall, for the purpose of demonstrating extended performance in accordance with Rule 13.4A.2 only, be reduced by the [Transferred Part]."

2.5 This Rule change should apply retrospectively to all Capacity Agreements. Any partial trade undertaken in accordance with 9.2.4(a)(iii) requires the aggregate of the CMU Transferor's, and the CM Transferee's, Capacity Obligation to be at least equal to the Minimum Capacity Threshold – a secondary trade should therefore alleviate any technology risk concerns which we assume to be the basis for the Extended Performance Test.