

ELELEXON

CP364 Subgroup Meeting 1

06 March 2023

Meeting Agenda

Agenda Item	Lead
1. Welcome and Introductions	Elliott Harper (Chair)
2. Background and Context	Chris Arnold (Elexon)
3. Solution	Chris Arnold
3. Consideration of Key Questions	Kathryn Gay / Matt Woolliscroft (Elexon)
4. Actions and Next Steps	Chris Arnold
5. A.O.B	Elliott Harper



WELCOME AND INTRODUCTIONS



BACKGROUND AND CONTEXT

What is the Issue?

Under the current Capacity Market (CM) Rules, **secondary trades cannot be executed until after the T-1 auction for the relevant Delivery Year.**

The Proposer contends that this causes three main issues:

1. it means that the T-1 auction target capacity is set before any secondary trades can occur,
2. it means that any capacity which becomes available for the Delivery Year is first offered a T-1 Agreement before there is an opportunity to accept a secondary trade, and
3. by default it means that secondary trades have a maximum duration of one year.

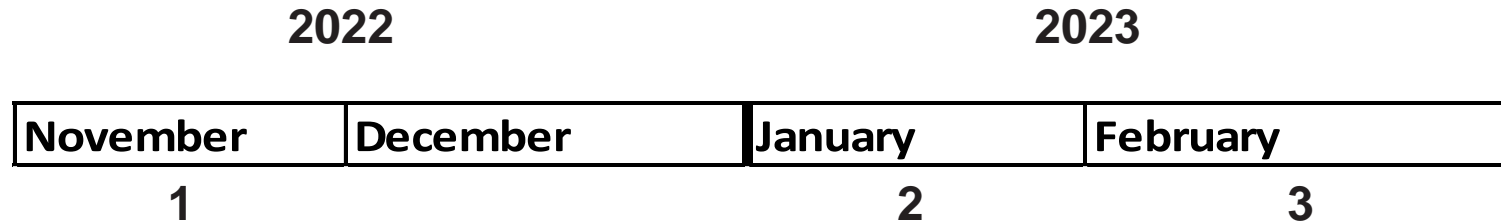
The Proposer believes that this leads to inefficient operation and administration of the Capacity Market and results in additional costs for consumers.

What is the Proposed Solution?

Allow secondary trading from the conclusion of the T-4 auction, rather than the conclusion of the T-1 auction.

- Utilise a weighted PTCO calculation to mitigate the potential for gaming by adjusting the bidding capacity at the T-1 auction ; and
- Introduce parameters to account for early trading in the T-1 auctions
 - Specifically to clarify how and in which scenarios weighted PTCOs should be used.

CMAG Progression of Proposal



- 1) Initial Consideration by CMAG. Proposer outlined issue and Proposed Solution to the CMAG.
- 2) CMAG agreed to request an NGENSO impact assessment (Attachment A) of the CP364 Proposed Solution
- 3) After considering the NGENSO impact assessment of the CP364 the CMAG agreed to form a subgroup to discuss the proposal in further detail.

Wider CMAG Secondary Trading Approach

- A significant number of live proposed Capacity Market Rules changes are associated with Secondary Trading
- This subgroup exists to further develop the solution for CP364, and to clarify if it also addresses CP369 and CP356



CP364 SOLUTION

Solution implications

The proposed solution:

To allow Secondary trading from T-4 with weighted PTCO to mitigate gaming

It is not currently possible for a CMU to hold a Capacity Obligation obtained via a secondary trade and then enter the T-1 auction for the same Delivery Year.

Implication:

It is not currently necessary for the Delivery Body to track the arrangement of components within CMUs, as these do not change within a Delivery Year. However, if our key proposal to allow secondary trading from the conclusion of the T-4 auction is implemented, it would be necessary for the CP to register its aggregation rules up to 4 years prior to the auction it proposes to trade for.

Solution - Limiting Maximum Bidding Capacity for trades

The solution requires a mechanism to ensure the Maximum Bidding Capacity threshold isn't exceeded. CP364 proposed that weighted PTCOs are introduced to account for traded capacity in auction parameters.

Change the definition of bidding capacity to be the de-rated capacity less any weighted PTCOs for the CMU's component parts.

This in effect reduces the bidding capacity by traded capacity allocated to component parts of a CMU.

The proposed solution does this by introducing the concept of **weighted PTCOs**:

If a CMU received a trade ahead of the T-1 auction, the traded capacity is allocated to the component parts in the same ration as the de-rated capacity of each component.

At T-1 auction. The bidding capacity of a CMU is reduced by this amount.

Is there another solution option which could be delivered faster?

The purpose of weighted PTCOs is to account for changes to CMU composition between acquiring a trade and the start of the delivery year.

This obstacle could also be overcome by preventing a CMU from making any changes once it has acquired a trade

This would be less desirable, but would simplify the solution potentially allowing for a quicker implementation

However given the time required for due process to be followed for any CM rules change (such as Ofgem's statutory duties and consultation period), it is unlikely that even a simpler solution can be considered, approved and implemented ahead of July 2023.

Given the complexity of the solution requiring new mechanisms to be introduced for weighted PTCOs, we do not believe it is likely that the CP364 solution can be delivered before July 2023.



CONSIDERATION OF KEY QUESTIONS

Questions to be considered by the CP364 Subgroup

- How do we ensure that the Maximum Bidding Capacity threshold is not exceeded?
 - Use Weighted PTCOs to adjust the maximum Bidding Capacity for the Auction.
- What are the impacts on Credit Cover?
- To allow for the demand curve adjustment process to consider completed secondary trades should restrictions on trading be extended further to the last day of the Pre-Qualification Application Submission Window through to the Auction Results Day?
- How should possible differences in De-Rated Capacity positions be managed?
- Are multi-year agreements to be included as part of this proposal? – If so, what are the impacts of allowing this and what amendments may need to be made to accommodate this?
- Is there a more basic proposal that could be implemented by July 2023 that could be progressed?
- Should CP356 and CP369 also be considered as part of the subgroup?

- What are the impacts of this proposal on Capacity Market Credit Cover?

We have not identified any impacts on the credit requirements for Applicants and Capacity Providers.

In order to be eligible to accept a trade, transferees would need to have satisfied the conditions that trigger the return of credit cover.

As such we do not believe there will be any requirement for a transferee to lodge any collateral and so no new mechanisms for this are needed

Demand Curve

- To allow for the demand curve adjustment process to consider completed secondary trades should restrictions on trading be extended further to the last day of the Pre-Qualification Application Submission Window through to the Auction Results Day?

Restrictions are currently 6 weeks prior to the T-1 Auction.

Solution proposes a trading suspension over the T-1 Auction to allow the auction parameters to be fixed.

Management of De-rated Capacity Positions

This could apply in the case where a Secondary Trade Entrant application is made after the T-4 and then a separate T-1 Application is made for the CMU. In this case both Applications may be Prequalified on different de-rated capacities.

Weighted PTCO formula example 1

So in this example, the four components in CMU X are de-rated as per the table below. The 100MW Capacity Obligation obtained via the T-4 secondary trade is then apportioned across the components based on the split of the de-rated capacities:

Component	Connection Capacity (MW)	De-Rating factor for T-4 auction	De-Rated Capacity (MW)	Weighted PTCO from Secondary Trade (MW)
A	100	90%	90	$\frac{90}{340} \times 100 = 26.471$
B	100	90%	90	$\frac{90}{340} \times 100 = 26.471$
C	100	80%	80	$\frac{80}{340} \times 100 = 23.529$
D	100	80%	80	$\frac{80}{340} \times 100 = 23.529$
CMU X Total	400		340	

Management of De-rated Capacity Positions

Weighted PTCO formula example 1

This example is based on a 400MW site which consists of four generating units (components A,B,C, and D), each with a capacity of 100MW and three CMUs (X, Y and Z). Consider the following scenario:

- At T-4 prequalification, the four units are assembled into one 400MW CMU (CMU X), but the CMU is unsuccessful in the auction. Sometime after the T-4 auction concludes, the Applicant for CMU X accepts a Capacity Obligation from another Capacity Provider via a secondary trade for 100MW.
- At the following T-1 prequalification, the Applicant wants to split the site into two 200MW CMUs and enter the T-1 auction that way instead, where: components A & C form CMU Y, and components B & D form CMU Z.

The secondary trade from the previous T-4 auction will need to be accounted for in the bidding capacity across the four components to ensure the de-rated capacities are not exceeded following the T-1 auction. The proposed Weighted PTCO formula attempts to do this.

Management of De-rated Capacity Positions

Weighted PTCO formula example 1

For the subsequent T-1 auction, the site is split into CMU Y and CMU Z, and we imagine that the de-rating factors have changed to say 95% and 85%. The table below shows how the secondary traded capacity would be accounted for using the T-4 Weighted PTCO formula and used to determine the T-1 bidding capacities available for the CMUs.

Component	Connection Capacity (MW)	De-Rating Factor for T-1 auction	De-Rated Capacity (MW)	Weighted PTCO from previous T-4 secondary trade (MW)	Bidding Capacity 'left' for the T-1 auction (MW)
A	100	95%	95	26.471	-
C	100	85%	85	23.529	-
<i>CMU Y total</i>	<i>200</i>	-	<i>180</i>	<i>50</i>	<i>130</i>
B	100	95%	95	26.471	-
D	100	85%	85	23.529	-
<i>CMU Z total</i>	<i>200</i>	-	<i>180</i>	<i>50</i>	<i>130</i>
Site total	400	-	360	100	260

Management of De-rated Capacity Positions

Weighted PTCO formula example 1

So the Applicant is left with the same total Capacity Obligation for the Delivery Year (360 MW in this case) as it would have had if the components concerned had not been involved in a secondary trade and had instead entered all available capacity into the T-1 auction. The calculations also work if the de-rating factors are reduced or move in opposite directions.

Proposed Rules amendments

The Proposer believed there would be three main issues which would need to be pre-emptively resolved:

1. A CMU would need to be prevented from gaining multiple Capacity Obligations that exceed its total de-rated capacity in one Delivery Year, to prevent over-payments and potential under-delivery of capacity in a System Stress Event or for a performance test.
2. A Capacity Provider would need to have the option to reduce its CMU's bidding capacity if the CMU prequalified for a T-1 auction and then gained a Capacity Obligation for that relevant Delivery Year through a secondary trade before the auction took place. This would be especially necessary for existing CMUs which are Price Takers and could not otherwise withdraw from the auction after prequalification.
3. As components of CMUs can change between years of prequalification, there would need to be a way for the Delivery Body to track Capacity Obligations at a component-level, and ensure any obtained via secondary trades are accounted for in the bidding capacity before entering a subsequent auction.

Management of De-rated Capacity Positions

Proposed Rules amendments

CMUs would need the ability to bid into an auction with a value less than its total de-rated capacity, if it were already subject to a secondary trade. An amendment to the definition of Bidding Capacity could allow this – i.e. the capacity entering the auction would be the de-rated capacity minus the Weighted PTCO, which includes any capacity already subject to a secondary trade. If the CMU had already accepted a secondary trade up to its maximum de-rated capacity, then the bidding capacity for the CMU would be set to zero and it could not obtain an additional Capacity Obligation.

To address the issue described in point 3, the formula in the suggested definition of the Weighted PTCO could be used to address any changes at the generating unit or DSR component level. The next slides provide worked examples to explain in greater detail.

Management of De-rated Capacity Positions

Background

Under the current CM Rules:

- Secondary trades cannot be executed until after the relevant T-1 auction has concluded,
- a CMU's 'bidding capacity' for an auction is currently set by default as its de-rated capacity, and
- for context, CMUs are made up of components which can vary from prequalification to prequalification at the discretion of the Applicant.

Questions to be considered by the CP364 Subgroup

For the case where a CMU does have (a) secondary trade(s) but this is not equal to or greater than the de-rated capacity and therefore is still permitted to apply for the T-1 Auction. Is there a need for further rules to prevent a CMU from any further Secondary Trades during the Prequalification Window? If so, what are these Rules?

Are multi-year agreements to be included as part of this proposal? – If so, what are the impacts of allowing this and what amendments may need to be made to accommodate this?

- The Proposer has indicated that the solution is only intended to cover single year agreements.
- Should the solution be extended to 3 year agreement or 15 year agreements?
- If not, why not?

Other CPs considering Secondary Trading

High Level Topics	Issue Areas	Change Grouping
Trading	-Timeframes	CP356, CP369, CP364 – Are all looking to increase the window for secondary trading
	-Calculation	CP364 – This change is looking to address the capacity bid calculations to strengthen the rule
	-Trading Eligibility	CP362 – This change is looking to delete rule 9.2.5(a)(i) this would allow sites to trade before meeting their Significant Completion Milestones.
Auctions	N/A	
Prequalification	N/A	
Credit Cover	N/A	



ACTIONS AND NEXT STEPS



A.O.B