

Secondary Trading

Rules Guidance Document for Capacity Market Participants



Secondary Trading Rules Guidance V1

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Secondary Trading Explained

1. Introduction and Purpose

Chapter 9 of the Capacity market rules details the ability of a Capacity Committed CMU to transfer all or part of a Capacity Obligation for a Delivery Year, also known as Secondary trading. This guidance document is intended to aid Applicants to understanding Secondary Trading. We have prepared this document on a non-legal basis, and it should not be taken as legal advice. In the event of any conflict or inconsistency between this document and the Regulations, the Rules or the Auction Guidelines those documents take precedence over this one.

Trading requests can be submitted to the Delivery Body from May following the Early Auction (EA) for the 2017/2018 Delivery Year. At this time participants will also be able to apply to become a Secondary Trading Entrant for the 2017/2018 Delivery Year.

Please note that obligations gained through the transitional auctions cannot be transferred and as such this guidance is not applicable for transitional agreements.

Capitalised terms used in this guidance document shall have the same meanings given in the Capacity Market Rules.

If you have any questions on any of the information contained in this guide, please contact us at Box.EMR.CM@nationalgrid.com or call us on 01926 655300.

2. What is Secondary Trading

Capacity Market Auction participants who are successful in the Capacity Auction will be awarded a Capacity Agreement. There are options for Capacity Providers to mitigate the risk of penalties if they think they will not be able to meet their obligation during the Delivery Year:

1. Physical Secondary Trading (ex ante)
2. Volume Reallocation (ex post)
3. Procurement of a financial hedge outside of the Capacity Market mechanism

Capacity Providers with a Capacity Obligation may transfer all or part of an obligation, subject to the conditions set out in Chapter 9 of the Rules. The original holder no longer receives Capacity payments for the transferred capacity obligation and has no exposure to penalties for the transferred capacity obligation as a result of a System Stress Event.

3. Who can Secondary Trade

Generally a CMU holding a Capacity Agreement can transfer its obligation (in part or full) to a CMU that has prequalified for the same Delivery Year and does not have a Capacity Agreement equal to the de-rating capacity of that CMU.

Note there are conditions on both the transferor and transferee wishing to transfer a capacity obligation covered in chapter 9. In particular there are requirements that a prospective CMU will have met the SCM (rule 9.2.5) and that the transferee has delivered a capacity at least equal to its De-rated Capacity or DSR Bidding Capacity in any settlement period falling within the six months prior to the first date in the relevant Delivery Year on which a request was submitted to the Delivery Body (rule 9.2.6 (d.ii.bb))

For certain types of CMU (details in section 4) It is possible for applications to be submitted to become a Secondary Trading Entrant for an open Delivery Year (prequalify for Secondary Trading)

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outside of the usual Prequalification period - however as prequalification for Secondary Trading is not permitted during the normal Prequalification period and there is up to a 3 month turnaround for the DB decision on the application, it may be expedient to follow the route of normal prequalification for the T-1 auction where possible.

An Acceptable Transferee; for a Delivery Year, is any of the following (9.2.6):

- A Bidder in a Capacity Auction which Opted-out at the T-4 Auction and has since Prequalified in the T-1 (note this is not relevant for the early auction as there is no associated T-1)
- A Capacity Provider in relation to the De-rated Capacity of a Prequalified Prospective CMU that has achieved the Substantial Completion Milestone prior to the Delivery Year in which the Capacity Obligation commences (provided that the transfer relates only to the period prior to such Delivery Year).
- A Capacity Provider of a CMU that Prequalified for that Delivery Year and that does not have a Capacity Agreement for that Delivery Year equal to the De-rated Capacity of that Prequalified CMU.
- An Eligible Secondary Trading Entrant.

4. Eligible secondary trading entrant

Secondary Trading Entrant is defined in the rules:

(a) an Existing Generating CMU comprising biomass plant which is exiting the Low Carbon Exclusion(s) in which it participates;

(aa) an Existing Interconnector CMU;

(b) a Proven DSR CMU;

(c) a CMU:

(i) which is an Existing CMU;

(ii) to which the prohibition in Rule 3.3.3(f) applied at the time of the T-1 Auction for the relevant Delivery Year; and

(iii) for which an Application could not be made for that T-1 Auction as an Existing CM because the CMU was not an Existing CMU,

A Secondary Trading Entrant will be able to submit an application from May 2017 up to the end of the 2017/18 Delivery Year, other than during the Prequalification Assessment Window for any Capacity Auction.

An Application submitted in accordance with Rule 3.13.1 must comply with Chapter 3, except to the extent that Chapter 3 requires the submission of the Application during the Prequalification Window. The DB has 3 months to make its decision (rule 4.9).

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5. When can you Secondary Trade

Registration of capacity obligation transfers (rule 9.3) for participants that qualify as an acceptable transferee for secondary trading (rule 9.2.6) can start from May 2017 for the 2018/19 Delivery Year until the end of the Delivery Year. There must be at least 5WD days notice before the obligation period to be transferred. The minimum obligation that can be traded is 2MW for 1 calendar day with the maximum being the full obligation of the CMU for the delivery year. Note if any remaining obligation is to be held by a participant it must meet the minimum capacity threshold of 2MW (rule 9.2.4).

6. How to carry out the Secondary Trade

Step 1

Party A, the obligation holder, and Party B an **Acceptable Transferee** for obligation transfers, agree the terms of the trade between themselves.

Step2

Party A submits the trade request via the EMR Portal and Party B approves the request with at least 5WD notice before the obligation to be transferred starts. This will detail the transferor, transferee, length of the trade and the volume to be transferred.

Step3

The DB will then process the request and the transferor and transferee will be notified of the result.

Step4

If the trade is approved the details are added to the register and the obligation changes are sent to EMRS for the settlements to be amended.

7. Next steps

We are actively looking for feedback on capacity obligation transfers and welcome all comments or suggestions to improve our guidance document. It is intended that this document will be updated and we will hold some training sessions in the coming months including a webinar early April – details will be communicated in the next few weeks.

Please send us your feedback via email at Box.EMR.CM@nationalgrid.com

8. Appendix A – Frequently Asked Questions

The rules say that I can secondary trade after the T-1 auction which is any time after Jan 17 is that correct?

- The EA is in addition to the T-1 auction. The DB will be accepting trade requests from May 2017 for the Early Auction.

I have a 15 year agreement; can I carry out 1 trade for the 15 years?

-No the secondary trade notified to DB can only be for the one delivery year.

I am a new build generator but won't be built for the delivery year; can I Secondary Trade out my obligation?

-You will need to meet the SCM to be able to trade. Please refer to Rule 9.2.5 (a)

I didn't prequalify for the early Auction but wish to secondary trade, how do I do this?

-If you are eligible to qualify as a **Secondary Trading Entrant** then it is possible to take on obligations through Secondary Trading. If you don't fit into this category then you cannot receive an obligation through Secondary Trading.

How do I register to become a Secondary Trading Entrant?

-Carry out the prequalification process the same way as if you were to enter the auction for the same delivery year but apply for secondary trading (as opposed to applying to enter an auction)

-You will be able to submit a prequalification application outside the normal prequalification window and the DB has 3 months to give the decision.

If I take on an obligation through secondary trade, what performance monitoring is involved?

-If you hold an obligation (even for 1 day) in the winter (Oct-April) then you will need to meet the satisfactory performance days (Rule 13.4).

I own a number of CMU's; only some have agreements. Can I transfer agreements between them?

-Yes as long as they meet the acceptable transferee status then trading within the portfolio is allowable.

Can I carry out a secondary trade with another party with different fuel or technology type or does it have to be the same?

-there is no requirement for the CMU fuel or technology type, of the transferor and transferee, to be the same.

How do I get in touch with a counterparty in order to carry out a secondary trade?

-The contact details of interest parties for secondary trading will be published on the CM register as given with applicant information.

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