Capacity Market
Secondary Trading User Guidance
v1.3.0
July 2017
**Disclaimer**

This guidance document has been prepared by National Grid Electricity Transmission plc (NGET) and is provided voluntarily and without charge. Whilst NGET has taken all reasonable care in preparing this document, no representation or warranty either expressed or implied is made as to the accuracy or completeness of the information that it contains and parties using information within the document should make their own enquiries as to its accuracy and suitability for the purpose for which they use it. Neither NGET nor any other companies in the National Grid plc group, nor any directors or employees of any such company shall be liable for any error or misstatement or opinion on which the recipient of this document relies or seeks to rely other than fraudulent misstatement or fraudulent misrepresentation and does not accept any responsibility for any use which is made of the information or the document or (to the extent permitted by law) for any damages or losses incurred.

In the event of any conflict or inconsistency between this document and the Capacity Market Rules, the Electricity Capacity Regulations or the Auction Guidelines, the latter documents take precedence. Capitalised terms used in this document shall have the same meanings given in the Capacity Market Rules.

**Confidentiality**

This guidance document, and its contents should be considered as confidential in nature, and document is supplied on this basis. No part of this document may be reproduced in in any material form (including photocopying and restoring in any medium or electronic means and whether or not transiently or incidentally) without the written permission of National Grid.

Copyright National Grid 2017, all rights reserved.
If you have any questions on any of the information contained in this guide, please contact the EMR team at emr@nationalgrid.com.
What is Secondary Trading?

As per CM Rule 9.2.4 (a), a Capacity Provider may transfer all or part of a Capacity Agreement for a Capacity Committed CMU (the “CMU Transferor”) for all or a specified number of calendar days in a Delivery Year to an Acceptable Transferee in respect of another CMU (the “CMU Transferee”).

The trade of the obligation occurs prior to the period for which the obligation is transferred (ex ante – at least 5 working days before) and the CMU Transferee would then receive payments for the period for which they hold all or part of the obligation. Please note, they will also be responsible for penalties incurred for no or under delivery for the obligation that they hold.

Why would you Secondary Trade?

In a System Stress Event a Capacity Committed CMU must delivery their Adjusted Load Following Capacity Obligation (ALFCO). If the CMU has a full or partial outage this could impact their ability to meet this obligation.

Secondary Trading provides the option to “hedge” this risk by transferring all or part of the Capacity Obligation to another CMU that would then be responsible for the delivery of the transferred capacity for such an event.

Alternatives to Secondary Trading would be Volume Reallocation (ex post) and Financial Products outside of the Capacity Market mechanism.
Requirements for Secondary Trading

The CMU Transferee must be prequalified for the delivery year in which the secondary trade takes place, either through an application for the T-4 or T-1 auctions of the delivery year or as a Secondary Trading Entrant (CM Rule 9.2.6).

In addition to the above:

• A New Build Generating CMU cannot participate in secondary trading until it has met their Substantial Completion Milestone (SCM).
• A Refurbishing Generating CMU cannot trade beyond their pre-refurbishment capacity until they have achieved their SCM on the post refurbishment capacity (if they have not opted out of the pre-refurbishing capacity).

CMUs cannot hold capacity agreements greater than their de-rated capacity and are not able to trade less than 2MW of capacity (the Minimum Capacity Threshold). If the Transferor does not trade their entire obligation they would also need to retain capacity of at least 2MW for their CMU.

The minimum period to secondary trade is 1 working day and the maximum length is the full delivery year. If a participant has a multi-year agreement they can only transfer their obligation for the delivery years that are active, therefore they are unable to transfer all of their obligation at the same time.

The first secondary trading window opened in May 2017 for the 2017-18 delivery year, but future trading windows will open following the release of the CANs for future T-1 auctions (CM Rule 9.2.5).
Secondary Trading Entrant Process

Capacity Providers can participate in Secondary Trading in two ways:

- **CMU prequalified for the delivery year in either the T-4 or T-1 auction**
- **Participant completes a Secondary Trading Application for a CMU**

If the CMU prequalified in either the T-4 or the T-1 auction for the relevant delivery year, the CMU will be able to participate in secondary trading without requiring a new application.

However if the CMU entered both the T-4 and T-1 auctions for the delivery year in question, the latest application (T-1) would be the prequalification status referred to. If this was anything other than “Prequalified”, the CMU would need to complete a secondary trading entrant application.

The process for Secondary Trading Applications follows the same principles as those administered during the prequalification processes for the T-4 and T-1 auctions. For specific guidance on the prequalification process please refer to existing guidance found [here](#).
Secondary Trading Entrant Process

In addition to the normal prequalification requirements, to be classed as a Secondary Trading Entrant the CMU must meet the requirements set out in the CM Rules definitions:

**Secondary Trading Entrant** means the Applicant for:

(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; or,

(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 CMU because the CMU was not an Existing CMU.

Please refer to Chapter 9 of the CM Rules for further more details on Acceptable Transferees.

The screens for Secondary Trading Applications are as follows:
Secondary Trading Application Screens

Log into the EMR Delivery Portal and navigate to the **My EMR** section.

Select the **My Applications** icon on the screen.

Select the **Add New Application** icon in the bottom right of the screen.
Secondary Trading Application Screens

If the delivery year is open for Secondary Trading, there will be an option to select a secondary trading “auction” to apply for.

You would then complete the application using the same process as you would for a T-4 or T-1 auction.

The Delivery Body has 12 weeks to assess a Secondary Trading Application, upon which the applicant will receive a notification to confirm if the participant has been successful in the prequalification process.

If the participant is successful they are then eligible to participate in Secondary Trading.

If the application has been unsuccessful, the Delivery Body will provide a detailed explanation for the decision and the participant would need to remedy the actions to take part in secondary trading through a new application.
3. Secondary Trading in the EMR Portal

Overview

The Secondary Trading process is in four main steps:

Step 1: Party A (Transferor), the obligation holder, and Party B an Acceptable Transferee for obligation transfers, agree the terms of the trade between themselves.

Step 2: 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.

Step 3: The DB will then process the request and the transferor and transferee will be notified of the result.

Step 4: 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.
Electricity Market Reform
DELIVERY BODY

3. Secondary Trading on the EMR Portal

Step 1

The first step of the process takes place outside of the Portal. The EMR Delivery Body does not need to be involved in the commercial decisions of the secondary trade as this is purely between the transferor and the transferee. Secondary Trading contact details are available on the EMR Delivery Body website.

Step 2

The transferor party would need to initiate the secondary trade on the EMR Portal.

- Log into the EMR Portal
- Go to My EMR and then My Agreements
Step 2 (continued)

Once in **My Agreements** the transferor would then need to initiate the trade:

- Find the agreement that you want to secondary trade.
- Select the **Trade** button.

**Please note, all data displayed is dummy data on the screenshots**
3. Secondary Trading in the EMR Portal

Step 2 (continued)

The **Trade Request** screen will appear:

- In the top section of the screen select the delivery year for which you want to trade in from the drop down menu.
- The transferor needs to select the transferee company and the CMU it wishes to secondary trade with. The transferee company and CMU must be an acceptable transferee to appear in this list. If they do not appear the transferee will have to complete a secondary trading entrant application (see Section 2 of this guidance).
- In the bottom section of the screen the transferor needs to complete the date range for the secondary trade. The minimum period is one day (enter the same date for **Trade From** and **Trade To**). The maximum period is the entire delivery year (e.g. 01 October 2017 to 30 September 2018).
- The **Volume (MW)** must be at least 2MW and if it is a partial trade of the obligation then a minimum of 2MW must remain for the transferor.
- Once completed, select **Submit** to process the trade request.

**Please note, all data displayed is dummy data on the screenshots**
3. Secondary Trading in the EMR Portal

Step 2 (continued)

Once the trade has been initiated the transferor can view the details of the trade on the Portal:

- Go to My EMR and then My Trades
- The trade will appear on the list of trades. You will have the options to View and Withdraw the trade, however the latter option is only available if the transferee party has not yet approved the trade.
- Once a trade has been submitted you are unable to amend it. You would have to withdraw and submit a new one.

**Please note, all data displayed is dummy data on the screenshots**
Step 2 (continued)

Once the trade has been submitted by the transferor, the transferee will receive a notification stating:

- The CMU that wishes to trade an agreement.
- The proposed CMU they wish to trade with.
- The duration of the trade and the capacity in MW.

**Please note, all data displayed is dummy data on the screenshots**
Step 2 (continued)

Once the trade has been submitted the transferee needs to approve or reject the trade with at least 5 working days notice ahead of the period being traded:

- They need to log into the Portal, go to My EMR followed by My Trades.

- To process the trade the transferee needs to select Review.

**Please note, all data displayed is dummy data on the screenshots**
**Step 2 (continued)**

In the trade screen the transferee can view the details of the secondary trade that has been submitted.

All of the details on the screen are locked and the transferee is not able to change anything.

The transferee needs to check that the correct CMU has been selected for the secondary trade and that they are able to deliver the capacity to cover the trade.

Once the transferee has reviewed the details they have two options:

- **Reject** the trade – once rejected the trade will not progress and the transferor will be notified according.

- **Approve** the trade – once both parties have approved the trade the Delivery Body will then review the trade to ensure that it can progress.

**Please note, all data displayed is dummy data on the screenshots**
Step 3

Once the secondary trade has been approved by the transferee, the EMR Delivery Body will have 5 working days to review and process the trade. The key DB checks (although not restricted to) will be to ensure that:

- The transferor and transferee parties are eligible to transfer their obligation to another party (e.g. Prospective Generating CMUs have met their SCM).
- That the capacity being traded can be covered by the transferee for the period transferred.
- Where an obligation is partially traded, ensuring both parties have at least the minimum capacity threshold.

Once the checks have been completed, the DB will either Approve or Reject the trade.

Step 4

The transferor and transferee participants will receive a notification to confirm whether the trade has been approved or rejected by the Delivery Body.

If the trade is approved the CAN will be updated for the transferor’s CMU to reflect the period where the secondary trade has occurred. The transferee will also receive a CAN for the transferred period for their CMU to reflect the change.

The CM Register for the auction that the original obligation related to will include a new columns with Secondary Trading details for the obligation that has changed. More information will be provided on this in due course.
4. Frequently Asked Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am a new build generator but won’t be built for the delivery year; can I Secondary Trade out my obligation?</td>
<td>You will need to meet the SCM to be able to trade. Please refer to Rule 9.2.5 (a)</td>
</tr>
<tr>
<td>I didn’t prequalify for the early Auction but wish to secondary trade, how do I do this?</td>
<td>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.</td>
</tr>
<tr>
<td>If I take on an obligation through secondary trade, what performance monitoring is involved?</td>
<td>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).</td>
</tr>
<tr>
<td>I can generate above my Auction Acquired Capacity Obligation (AACO) – am I able to secondary trade this additional capacity?</td>
<td>For a generating CMU you are not able to secondary trade capacity above your AACO. However if you over-generate in a stress event it is possible for you to participate in Volume Reallocation after the event. For a Proven DSR CMU, if the AACO is below their de-rated capacity then it is possible to secondary trade up to the proven de-rated capacity level. Again, DSR units can participate in Volume Reallocation after the event.</td>
</tr>
</tbody>
</table>
## 4. Frequently Asked Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a capacity committed CMU, if a CMU connection capacity increases post the relevant T-1 or T-4 auction can the de-rated capacity increase above the capacity obligation and the difference be used for secondary trading?</td>
<td>No, only through volume re-allocation after the event.</td>
</tr>
<tr>
<td>Can a Capacity Provider trade with itself? For instance, by transferring Existing Gen capacity to pre-qualified DSR capacity that did not receive a Capacity Agreement?</td>
<td>Yes, a transferor and transferee can be part of the same bidding company, company owner etc.</td>
</tr>
<tr>
<td>In order to be an eligible transferee, does the CMU need to have achieved the SCM by May 30th of the delivery year?</td>
<td>No, there is no limit on the time when an applicant can be eligible as a Transferee (Rule 9.2.5 currently suggests 30th May for this year and 10WD for subsequent years this will be amended for the next publication of the rules).</td>
</tr>
<tr>
<td>Can a transferee (party B) take on more than 1 year obligation?</td>
<td>No, only one year can be traded at a time with the exception of the time period just after the T-1 auction when there is an overlap within a delivery year and ability to trade the next delivery year.</td>
</tr>
<tr>
<td>Which would take precedent - termination or secondary trading?</td>
<td>If a termination notice has been issued then secondary trading cannot occur.</td>
</tr>
</tbody>
</table>
### 4. Frequently Asked Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can an Unproven DSR be an Eligible Secondary Trading Transferee?</td>
<td>As per rule 9.2.6(d) (Vii), unproven DSR is not an eligible transferee; Rule describes that DSR test certificate must be issued to that CMU and capacity stated must be at least equal to the obligation that is being transferred.</td>
</tr>
<tr>
<td>Is a Capacity Trade a Wholesale Energy Market product as defined by REMIT?</td>
<td>It is National Grid’s internal view that REMIT describes capacity trades as being required to be reported under article 8 of REMIT. <strong>We suggest that each party take their own legal advice on this.</strong></td>
</tr>
<tr>
<td>Is the physical trading done at auction clearing price or is price negotiated between counterparties?</td>
<td>The transferee receives the obligation payment direct from ESC which is based on the clearing price of the obligation being transferred. If there is a separate cost involved in the transaction this is bilateral between the transferor and transferee and not made public.</td>
</tr>
</tbody>
</table>
4. Frequently Asked Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can an agreement be traded out to avoid termination?</td>
<td>It depends on different scenarios but two examples below show the differences:</td>
</tr>
<tr>
<td></td>
<td>- In the case of New Build CMUs, they would need to meet SCM to transfer so secondary trading would not be possible.</td>
</tr>
<tr>
<td></td>
<td>- If they meet the transferor requirements and transfer the whole obligation period they would no longer be classed as a Capacity Committed CMU, which are not subject to terminations.</td>
</tr>
<tr>
<td>Are Secondary Trades subject to Tax?</td>
<td>Revenue from secondary trading would be subject to the normal tax implications for the company. We suggest you take advice from your</td>
</tr>
<tr>
<td></td>
<td>financial consultants.</td>
</tr>
<tr>
<td>How is the (2 month) cap on penalties applied if you only hold an obligation for a short period (e.g. 1 day)?</td>
<td>Even if the obligation is only held for one day the max penalty would still be based on 200% of monthly capacity market payments. For</td>
</tr>
<tr>
<td></td>
<td>example if there was a stress event for 4 hours of the day that the 1 day obligation was held; the penalty would be 8*1/24 capacity</td>
</tr>
<tr>
<td></td>
<td>market obligation (capped at 200% of monthly income).</td>
</tr>
</tbody>
</table>
## 4. Frequently Asked Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| Would the termination of a transferor CMU impact upon any obligations traded to a transferee CMU?                                      | Depending upon the circumstances, the termination of a transferor CMU could result in a transferee CMU losing its right to an obligation. Full details can be found in CM Rule 9.2.3 and Regulation 70, however below is a brief overview:  

a) If the trade was submitted before the termination notice was received, and the relevant period of the termination is after the transferred period, the transfer will have effect.  
b) If the trade was submitted before the termination notice was received, and the relevant period of the termination is during the transferred period, the transfer will have effect up to the termination date, but will not take effect after the termination date.  
c) If the trade was submitted before the termination notice was received but the relevant period of the termination is before the transferred period, the transfer will not take effect.  
d) If the trade was submitted after the termination notice was received then the transfer will not take effect.  

Please see the diagram on next slide.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

Please note, the liability for termination fees follows the obligation. If a transferor causes a termination event and incurs a fee then they are responsible for the fee, likewise if the transferee causes a termination event in the period they hold the obligation then they are responsible for the termination fee.  


4. Frequently Asked Questions

Timeline of the Secondary Trade

**Trade A** was initiated before the termination notice was issued and the period traded is before the termination takes effect.

**Trade B** was initiated before the termination notice was issued and the period traded covers when the termination takes effect.

**Trade C** was initiated before the termination notice was issued but the period traded is after the termination takes effect.

**Trade D** was initiated after the termination notice was issued so the period cannot be transferred before or after the termination date.
If you have any questions about the content of this guidance document, please contact the EMR team at:

emr@nationalgrid.com

+44 (0) 1926 655 300