

Secondary trading guidance v2.0

November 2018





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Version control



Version	Updates from last version
v1.1	Initial secondary trading guidance document released ahead of the first secondary trading window in May 2017.
v1.2	Updated FAQs regarding REMIT reporting and eligibility.
v1.3.0	Updated FAQs to explain how terminations are treated in relation to secondary trading, with timeline of events and scenarios provided for illustrative purposes.
v1.4	Introduced Version Control Page. Updated wording in Sections 1 and 2 to reflect the 2018-19 Delivery Year. Updated FAQs to include the difference between a secondary trade and CMU transfer, and why New Build CMUs are unable to transfer obligations prior to SCM being met.
v2.0	Complete overhaul of the secondary trading guidance, including new information on the Secondary Trading Entrant process, updated requirements for secondary trading and revised FAQs that are grouped into categories, for ease of use.



Contents

1	<u>What is secondary trading?</u>	8	<u>Secondary trading in the EMR DB Portal</u>
2	<u>Why would you secondary trade?</u>	9	<u>Secondary trading vs CMU transfer</u>
3	<u>Secondary trading timeline</u>	10	<u>Frequently Asked Questions - Transferee related</u>
4	<u>EMR DB Portal system requirements</u>	11	<u>Frequently Asked Questions - Transferor related</u>
5	<u>Participation in secondary trading</u>	12	<u>Frequently Asked Questions - Termination related</u>
6	<u>Secondary Trading Entrant Prequalification process</u>	13	<u>Frequently Asked Questions - General</u>
7	<u>Secondary Trading Entrant Prequalification screens</u>		



1. What is secondary trading?

As per 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 (at least 5 Working Days before but can be done months in advance if required) and the 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.



2. Why would you secondary trade?

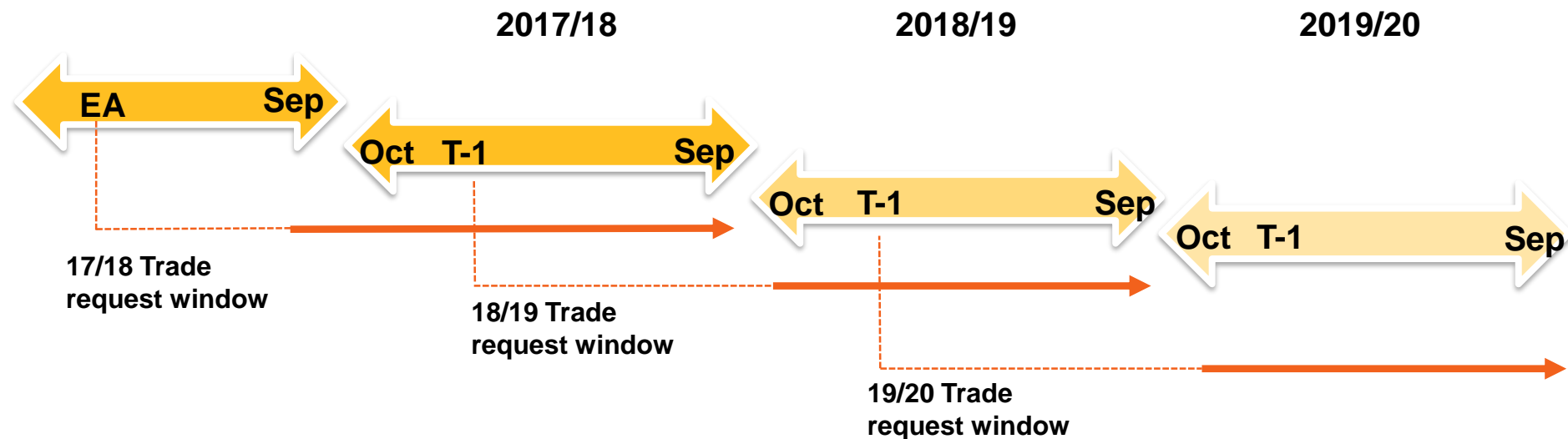
In a System Stress Event, a Capacity Committed CMU must deliver their Adjusted Load Following Capacity Obligation (ALFCO). If the CMU has a full or partial outage, this could impact their ability to meet this obligation.

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 (post event) and financial products outside of the Capacity Market mechanism.

3. Secondary trading timeline

- ❑ Below is an overview of the secondary trading timeline, which shows when Delivery Years become available to trade.
- ❑ Until the T-1 Auction has completed for a Delivery Year, it will not be possible to initiate any secondary trades or submit Secondary Trading Entrant Applications.





4. EMR DB Portal system requirements

Please ensure that you are familiar with these recommended requirements before completing your Secondary Trading Entrant Applications and secondary trades in the EMR DB Portal:



Recommended PC Operating System:
Microsoft Windows
(e.g. Windows 2003 to Windows 10)

Recommended Internet Browsers:
Internet Explorer, Goggle Chrome or Firefox



If multiple file uploads are not accepted:
Please compile files into a single PDF or ZIP

Maximum file size for uploads:
2GB

Mandatory file formats:
Microsoft Office files, PDF or JPEG
(e.g. .docx/.xlsx/.pdf)





5. Participation in secondary trading

There are two ways in which a Capacity Provider can be eligible to receive a secondary trade:

Acceptable Transferee

- CMU Prequalified in either the T-4 or the T-1 Auction for the relevant Delivery Year.
- Prospective CMUs and Unproven DSR CMUs would need to meet relevant milestones to become an Acceptable Transferee (e.g. New Build Generating CMU needs to meet SCM).
- Those who meet milestones early become Acceptable Transferees in the Delivery Years prior to their obligation.

Secondary Trading Entrant

Defined in Rule 1.2, means an 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; or
- (b) a Proven DSR CMU; or
- (c) an Existing CMU which is not an Excluded CMU, wishing to acquire a Capacity Obligation through secondary trading.

This rule was updated in July 2018, therefore more can participate this way as a result.

6. Secondary Trading Entrant Prequal process



- ❑ Secondary Trading Entrant Applications are submitted via the EMR DB Portal and follow the most recent Capacity Market Rules and Regulations. Please refer to the latest version of the Prequalification guidance that can be found [here](#).
- ❑ Following the Rule change in July 2018, **all Existing Generating CMUs that were not Prequalified for the Delivery Year** can participate as a Secondary Trading Entrant, as long as they are not an Excluded CMU (see Rule 1.2 definitions for more information).
- ❑ Applicants should use the most up to date Exhibits within the Capacity Market Rules and these must be completed as they would for the usual Prequalification window.
- ❑ The Delivery Body will use the de-rating factors for the T-1 Auction for that Delivery Year as it is the most up to date view of the de-ratings available.
- ❑ The Delivery Body has three months to assess Secondary Trading Entrant Applications, as per Rule 4.9.1, so please bear this in mind if the CMU as a specific secondary trade to complete.
- ❑ Also, becoming an Acceptable Transferee does not mean the CMU will necessarily get an agreement; the Applicant would still need to initiate a successful secondary trade to gain an obligation.

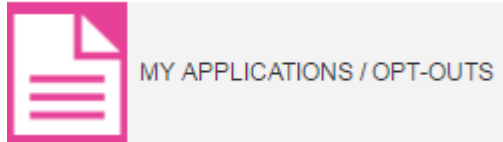
7. Secondary Trading Entrant Prequal screens (1/2)



- ❑ Log into the EMR DB Portal and navigate to the **My EMR** section.

Home Capacity Market Contracts for Difference About EMR Contact Us **My EMR**

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



- ❑ Select the **Add New Application** icon in the bottom right of the screen.

Add New Application

7. Secondary Trading Entrant Prequal screens (2/2)



- ❑ If the Delivery Year is open for secondary trading, there will be an option to select a secondary trading “Auction” to apply for.

Create New Prequalification Application for Second... ✕

Select Auction
Select the Auction that you wish to pre-qualify for

A screenshot of a web application interface. At the top, there is a title bar that says "Create New Prequalification Application for Second..." followed by a close button (✕). Below this is a section titled "Select Auction" with a subtitle "Select the Auction that you wish to pre-qualify for". A dropdown menu is open, showing a list of options. The first option is "2017 Secondary Trading Delivery Year 2017-18", which is highlighted in blue. The rest of the list is obscured by a grey bar.

- ❑ You would then complete the Application using the same process as you would for a T-4 or T-1 Auction; please refer to the Prequalification guidance document and videos found [here](#).
- ❑ If the Application has been unsuccessful, the Delivery Body will provide a detailed explanation for the decision and the participant will either be able to:
 - Resolve the issue(s) via a Tier 1 dispute if allowed by Regulation 69. Please refer to the disputes guidance found [here](#). The dispute must be raised within five Working Days of receiving the result letter. The Delivery Body will then process the dispute within 10 Working Days. If overturned, the CMU will become an Acceptable Transferee.
 - If unsuccessful at Tier 1, the Applicant can submit a new Secondary Trading Entrant Application; you are not restricted to one Application per Delivery Year as a Secondary Trading Entrant. Bear in mind, a new Application can take up to three months to be processed.

8. Secondary trading in the EMR DB Portal (1/11)



Overview

The secondary trading process is in four main steps:

Step 1

- Party A (Transferor), the obligation holder, and Party B (Acceptable Transferee), agree the terms of the trade between themselves outside of the EMR DB Portal.

Step 2

- Party A submits the trade request via the EMR DB Portal and Party B approves the request within at least five Working Days' notice before the obligation is set to be transferred. The trade request will include details on the Transferor, Transferee, length of the trade (days) and the capacity transferred (MW).

Step 3

- The Delivery Body will process the request and will notify the Transferor (Party A) and Transferee (Party B) of the result.

Step 4

- If the trade is approved, the details of the trade are added to the Capacity Market Register (CMR), a new Capacity Agreement Notice (CAN) is generated for the Transferee (Party B), the CAN for the Transferor (Party A) is updated to reflect the trade, and the obligation changes are sent to EMRS for settlement.

The system screens are displayed in the following slides.

8. Secondary trading in the EMR DB Portal (2/11)



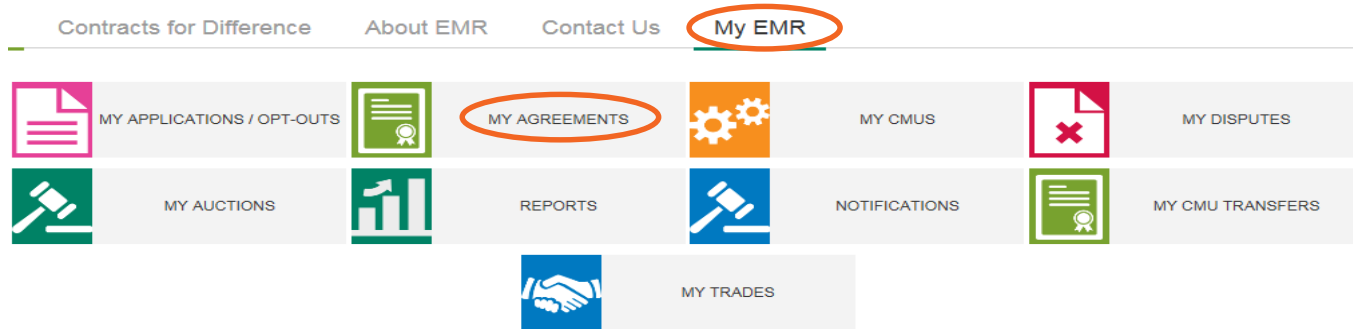
Step 1

The first step of the process takes place outside of the EMR DB 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 Capacity Market Register.

Step 2

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

- Log into the EMR DB Portal
- Go to **My EMR** and then **My Agreements**



8. Secondary trading in the EMR DB Portal (3/11)



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.

Agreement ID	CMU Identifier	Type of CMU	
CAN-2017-KK1123-001	KK1123	New Build Generating CMU	<input type="button" value="VIEW"/> <input type="button" value="UPLOAD MILESTONE"/> <input type="button" value="REQUEST TERMINATION"/> <input type="button" value="PROVE PERFORMANCE"/> <input type="button" value="TRADE"/>
CAN-2017-KM0002-001	KM0002	Existing Generating CMU	<input type="button" value="VIEW"/> <input type="button" value="REQUEST TERMINATION"/> <input type="button" value="PROVE PERFORMANCE"/> <input type="button" value="TRADE"/>
CAN-2017-KM0004-001	KM0004	Proven DSR CMU	<input type="button" value="VIEW"/> <input type="button" value="REQUEST TERMINATION"/> <input type="button" value="PROVE PERFORMANCE"/> <input type="button" value="TRADE"/>

Please note, all data displayed is dummy data on the screenshots

8. Secondary trading in the EMR DB Portal (4/11)



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 2018 to 30 September 2019).
- 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.

Transferor CAN
CAN-2017-KM0004-001

Trade Delivery Year
Choose delivery year

Transferor Company
AM1K

Transferee Company
Select a Company

Transferee CMU
Select a CMU

Clearing price
100.00

Trade From
[Empty field]

Trade To
[Empty field] [1 day(s)]

Volume (MW)
[Empty field]

Save Submit Cancel

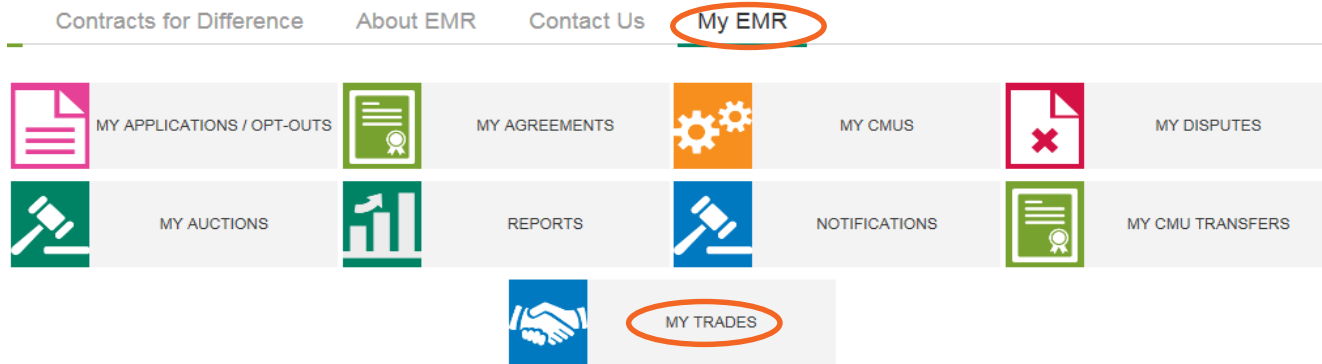
8. Secondary trading in the EMR DB Portal (5/11)



Step 2 (continued)

Once the trade has been initiated the Transferor can view the details of the trade on the EMR DB Portal :

- Go to **My EMR** and then **My Trades**



8. Secondary trading in the EMR DB Portal (6/11)



Step 2 (continued)

- 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.

Trade ID	Transferor CMU	Transferee CMU	Transfer Request Date	Submitted By	
CAN-2017-MK0004-001-T001	MK0004	ARFI14	05/01/2017 13:52	am1k.mainadmin	<input type="button" value="VIEW"/> <input type="button" value="WITHDRAW"/>
CAN-2016-MK2201-001-T001	MK2201	APRO11	15/09/2016 10:44	am1k.mainadmin	<input type="button" value="VIEW"/>

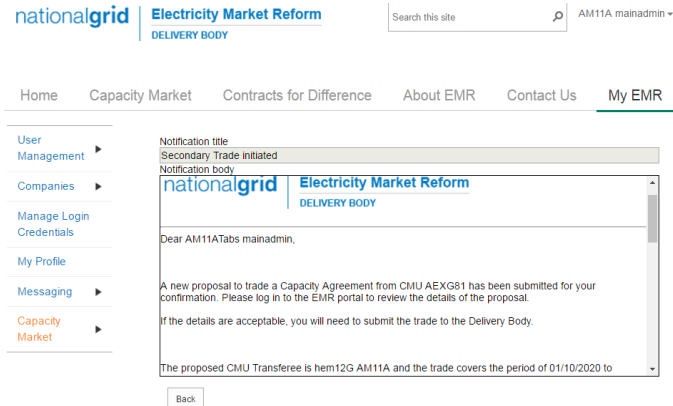
8. Secondary trading in the EMR DB Portal (7/11)



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.



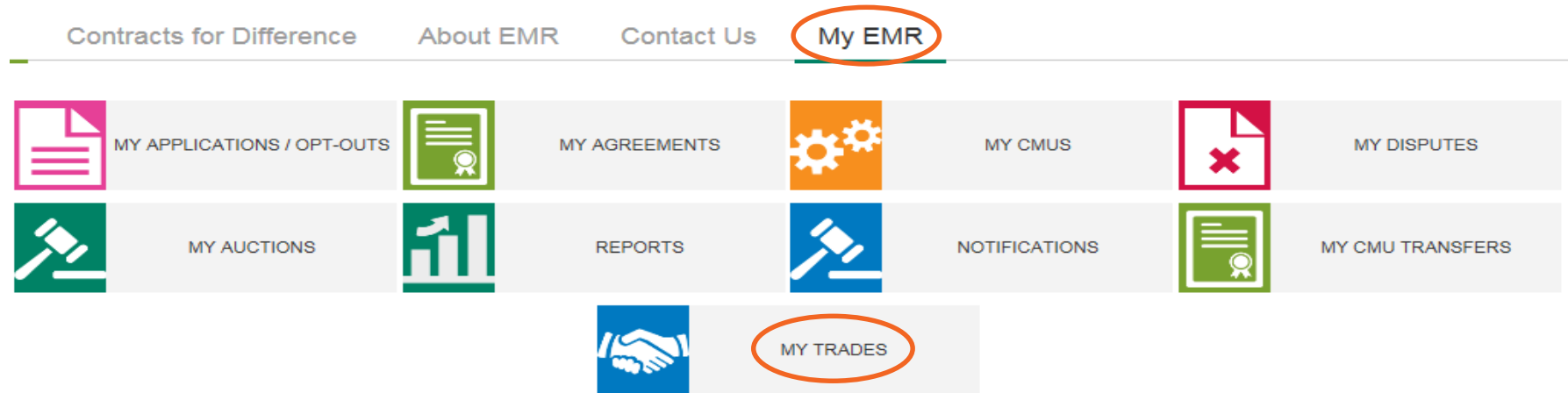
8. Secondary trading in the EMR DB Portal (8/11)



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 will need to log into the EMR DB Portal, go to **My EMR** followed by **My Trades**.



8. Secondary trading in the EMR DB Portal (9/11)



Step 2 (continued)

To process the trade the Transferee needs to select **Review**.

Trade ID	Transferor CMU	Transferee CMU	Transfer Request Date	Submitted By		
CAN-2016-NBGN35-001-T001	NBGN35	ANBG91	11/01/2017 10:02	am1e.mainadmir	VIEW	REVIEW

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.

Trade Request

Trade Identifier
CAN-2016-NBGN35-001-T001

StatusText
Submitted by Transferor

Transferor CAN
CAN-2016-NBGN35-001

Trade Delivery Year
2016

Transferor Company
AM1E

Clearing price
70.00

Trade From
18/01/2017

Trade To
18/01/2017 [1 day(s)]

Volume (MW)
3.000

Approve Reject Check In Cancel

8. Secondary trading in the EMR DB Portal (10/11)



Step 3

Once the secondary trade has been approved by the Transferee, the Delivery Body will have five 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 (2MW).
- If the Transferee has other obligations associated to the CMU, there is a check that the De-rated Capacity is sufficient to meet all of its obligations.
- The Transferee CMU has completed a Metering Assessments (and Metering Test if required). Please refer to the existing metering guidance available [here](#).
- The Transferee CMU has demonstrated evidence that it has delivered its De-rated Capacity in the previous six months. At present, there is no option to provide this within the EMR DB Portal but if you could supply this data to emr@nationalgrid.com when you submit the secondary trade, this will minimize any delay in completing the activity.
- Checks that the Transferor/Transferee CMU has no termination notices issued or in place.

All requirements must be met before the trade can be approved; any outstanding actions will result in the trade being rejected.

If the Delivery Body is satisfied that the secondary trade meets the requirements, the trade will be approved. If the Delivery Body is not satisfied, the trade will be rejected and an explanation will be provided via a notification.

8. Secondary trading in the EMR DB Portal (11/11)



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. You will receive notifications from the system to inform you of changes to the CAN(s) as a result.

The Capacity Market Register (CMR) for the Auction that the original obligation related to will include new columns with secondary trading details for the obligation that has changed. Below is an example of the column readings in the CMR and is located to the right of the Capacity Obligation information that is contained on the register.

Secondary Trading Information		
The Physically Traded Capacity Obligation for the Period of the Transfer	Period for which the transfer applies	Capacity obligation Summary
T1: +3.887 MW	T1: 01/10/2018 - 30/09/2019	01/10/2018 - 30/09/2019 = 3.887 MW



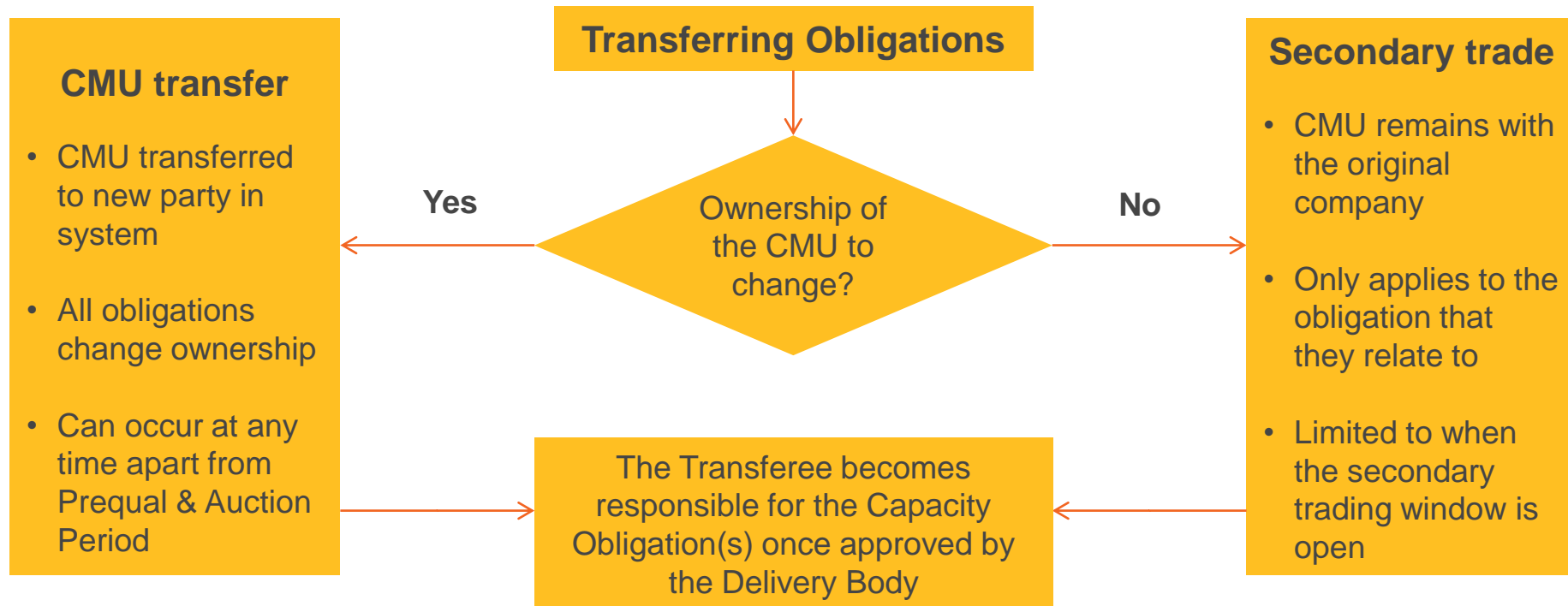
9. Secondary trading vs CMU transfer (1/2)

What is the difference?

- ❑ Capacity obligations can be transferred from one party to another through either secondary trading or through a CMU transfer.
- ❑ Secondary trading is different to a CMU transfer as only the capacity obligation is transferred between the relevant parties but the physical CMU remains with the original owner.
- ❑ A CMU transfer sees the ownership of the entire CMU and all associated obligations move to the new company.
- ❑ On the next slide is a brief diagram to show the difference. For more information on CMU transfers please refer to the guidance document that can be found [here](#).

9. Secondary trading vs CMU transfer (2/2)

What is the difference?





10. Secondary trading – Transferee FAQs (1/4)

I didn't Prequalify for either of the T-4 or T-1 Auctions in the Delivery Year 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. The definition of Secondary Trading Entrant was updated in the July 2018 update to the Rules to allow more Existing Generating CMUs to participate in this way. If you don't fit into this category then you cannot receive an obligation through Secondary Trading.

I can generate above my Auction Acquired Capacity Obligation (AACO) – am I able to secondary trade this additional capacity?

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.

10. Secondary trading – Transferee FAQs (2/4)



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?

No, only through Volume Reallocation after the event.

Can a Capacity Provider trade with itself? For instance, by transferring Existing Generating capacity to Prequalified DSR capacity that did not receive a Capacity Agreement?

Yes, a Transferor and Transferee can be part of the same bidding company, company owner etc.



10. Secondary trading – Transferee FAQs (3/4)

Can a Transferee (party B) take on more than a 1 year obligation?

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.

Can an Unproven DSR be an Eligible Transferee for secondary trading?

As per Rule 9.2.6(d)(vii), Unproven DSR is not an eligible Transferee. The Rule describes that the DSR test certificate must be issued to that CMU and the capacity stated must be at least equal to the obligation that is being transferred.

The CMU I wish to complete a secondary trade with, is not available from the drop down list in the EMR DB Portal – is there a system issue?

The EMR DB Portal validates if CMUs meet a number of the criteria required for an Acceptable Transferee, therefore it is likely that the CMU you wish to trade with has not met the requirements (e.g. New Build CMU has not met its SCM). If you believe there is a genuine error with the EMR DB Portal, please contact the team.



10. Secondary trading – Transferee FAQs (4/4)

Do I receive written confirmation from the Delivery Body when I become an Acceptable Transferee as per Rule 9.2.8?

An Acceptable Transferee CMU for the purposes of secondary trading does not receive written confirmation of this; Rule 9.2.8 refers to CMUs that are transferred in ownership, rather than obligations being transferred between CMUs. The confirmation that the CMU meets the requirements to be an Acceptable Transferee is that it is available to trade with.

I'm an Acceptable Transferee in the system – do I need to do anything more?

Whilst the CMU may be available to trade with in the EMR DB Portal, the Acceptable Transferee CMU must complete a Metering Assessment (and Test if needed), as well as provide proof of the CMU's De-rated Capacity before a trade can be approved. The Delivery Body will reject any trade that fails to meet these requirements.



11. Secondary trading – Transferor FAQs (1/2)

I am a New Build generator but my CMU(s) 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), as well as Rule 6.7, which states that an obligation does not come into effect until SCM is met, therefore it is not possible to transfer the obligation. Please note, whilst the obligation is not in effect, the participant is still liable for termination events that relate prior to SCM being met.

Can an Unproven DSR be an Acceptable Transferor prior to completing a DSR Test?

The Capacity Market Rules permits an Unproven DSR to initiate and complete a secondary trade with an Acceptable Transferee CMU before it has completed a DSR Test.



11. Secondary trading – Transferor FAQs (2/2)

If an Unproven DSR CMU trades away all of its obligation for the full Delivery Year, can it reclaim its credit cover back from EMRS?

In theory, if an Unproven DSR trades all of its obligation away and is no longer Capacity Committed, there is no requirement to maintain credit cover and it can claim this back from EMRS once the register has been updated to reflect the credit cover amounts. Bear in mind, if the same Unproven CMU (or clone of the CMU) has agreements as an Unproven DSR in subsequent Delivery Years, the credit cover will not be released until a DSR Test has been completed or all obligations are traded away.

If an Unproven DSR CMU partially trades capacity away, can it claim back the difference in required credit cover?

If the secondary trade does not cover the full Delivery Year, the full credit cover amount must be maintained. If the secondary trade is for the full Delivery Year but only part of the Capacity, it is possible for the credit cover requirement to be reduced in line with the new Capacity following the trade. As per the last point, if the CMU has agreements in subsequent Delivery Years at a higher Capacity level, the full amount is required.



12. Secondary trading – Termination FAQs (1/3)

Would the termination of a Transferor CMU impact upon any obligations traded to a Transferee CMU?

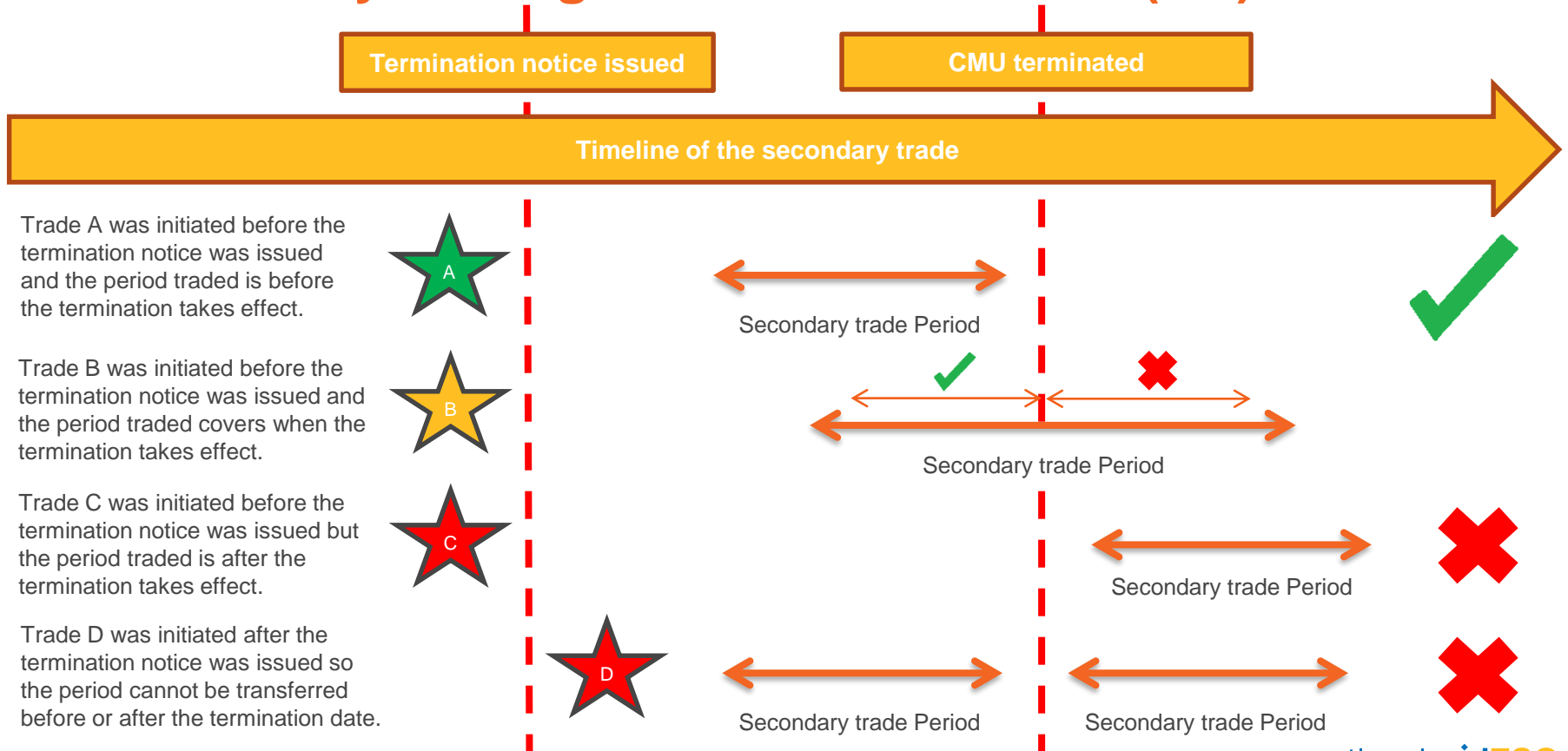
Depending upon the circumstances, the termination of a Transferor CMU could result in a Transferee CMU losing its right to an obligation. Full details can be found in CM Rule 9.2.3 and Regulation 70, however below is a brief overview:

- 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.

12. Secondary trading – Termination FAQs (2/3)





12. Secondary trading – Termination FAQs (3/3)

Which would take precedent - termination or secondary trading?

If a termination notice has been issued then secondary trading cannot occur.

Can an agreement be traded out to avoid termination?

It depends on different scenarios but two examples below show the differences:

- In the case of New Build CMUs, they would need to meet SCM to transfer so secondary trading would not be possible.
- 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.

13. Secondary trading – General FAQs (1/2)



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

If you hold an obligation (even for 1 day) then you will need to meet the Satisfactory Performance Days requirements (Rule 13.4).

Is a capacity trade a wholesale energy market product as defined by REMIT?

It is National Grid's internal view that REMIT describes capacity trades as being required to be reported under article 8 of REMIT. We suggest that each party take their own legal advice on this.

Is the physical trading completed at the Auction Clearing Price or is the price negotiated between counterparties?

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.

13. Secondary trading – General FAQs (2/2)



**Are secondary trades
subject to Tax?**

Revenue from secondary trading would be subject to the normal tax implications for the company. We suggest you take advice from your financial consultants.

**How is the (2 month) cap
on penalties applied if you
only hold an obligation for
a short period (e.g. 1 day)?**

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 example, if there was a stress event for 4 hours of the day that the 1 day obligation was held; the penalty would be $8 \times \frac{1}{24}$ capacity market obligation (capped at 200% of monthly income).



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