

Capacity Market

Secondary Trading User Guidance

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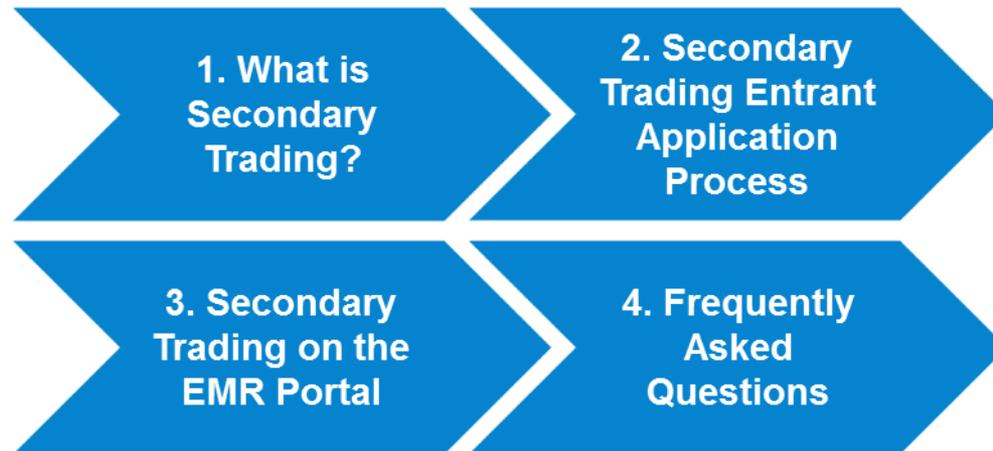
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Secondary Trading User Guidance - Contents

The icons below can be selected to access relevant sections of this guidance document:



If you have any questions on any of the information contained in this guide, please contact the EMR team at emr@nationalgrid.com.

1. What is Secondary Trading?

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) and the CMU Transferee would then receive payments for the period for which they hold all or part of the obligation.

Why would you Secondary Trade?

In a System Stress Event a Capacity Committed CMU must delivery their Adjusted Load Following Capacity Obligation. 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.

1. What is Secondary Trading?

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.

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-refurb).

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 CMU 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 .

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.

2. Secondary Trading Entrant Process

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 CMU

If the CMU prequalified in either the T-4 or the T-1 auction, 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](#). *Please note that this will be updated shortly to reflect 2017 Rules and Regulations.*

The screens for Secondary Trading Applications are as follows:

2. Secondary Trading Entrant Process

Secondary Trading Application Screens

Log into the EMR Delivery 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

2. Secondary Trading Entrant Process

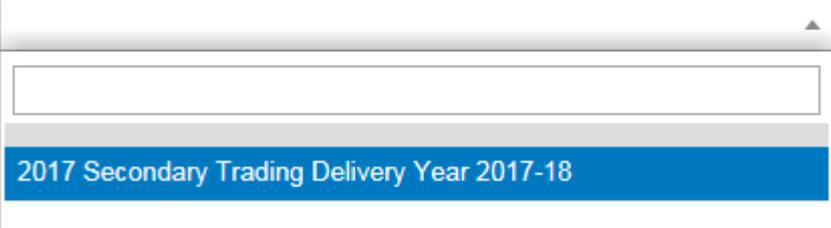
Secondary Trading Application Screens

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

Create New Prequalification Application for Second... ✕

Select Auction

Select the Auction that you wish to pre-qualify for



2017 Secondary Trading Delivery Year 2017-18

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.

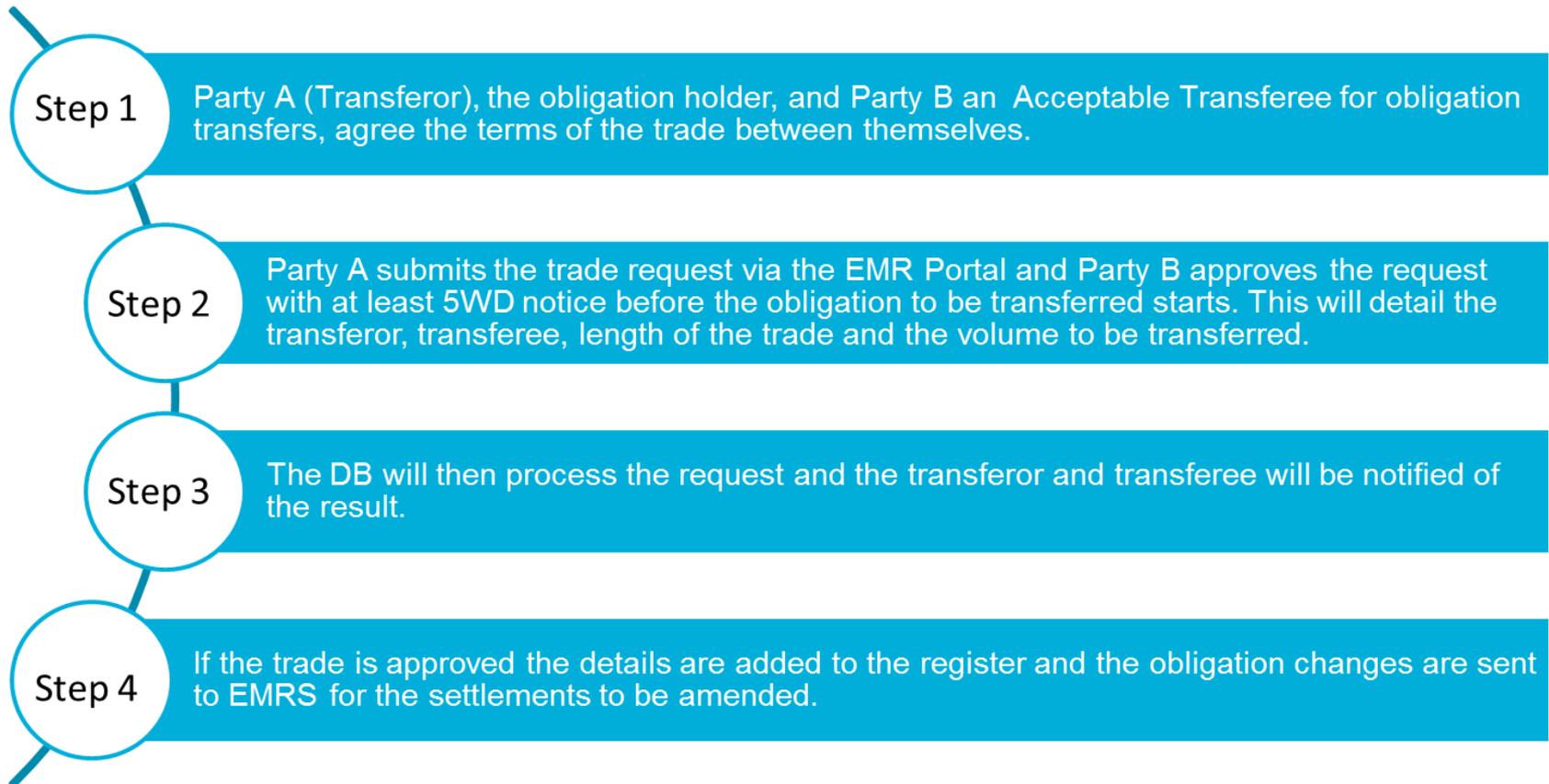
If the participant is successful they are then eligible to participate in Secondary Trading.

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 on the EMR Portal

Overview

The Secondary Trading process is in four main steps:



3. Secondary Trading on the EMR Portal

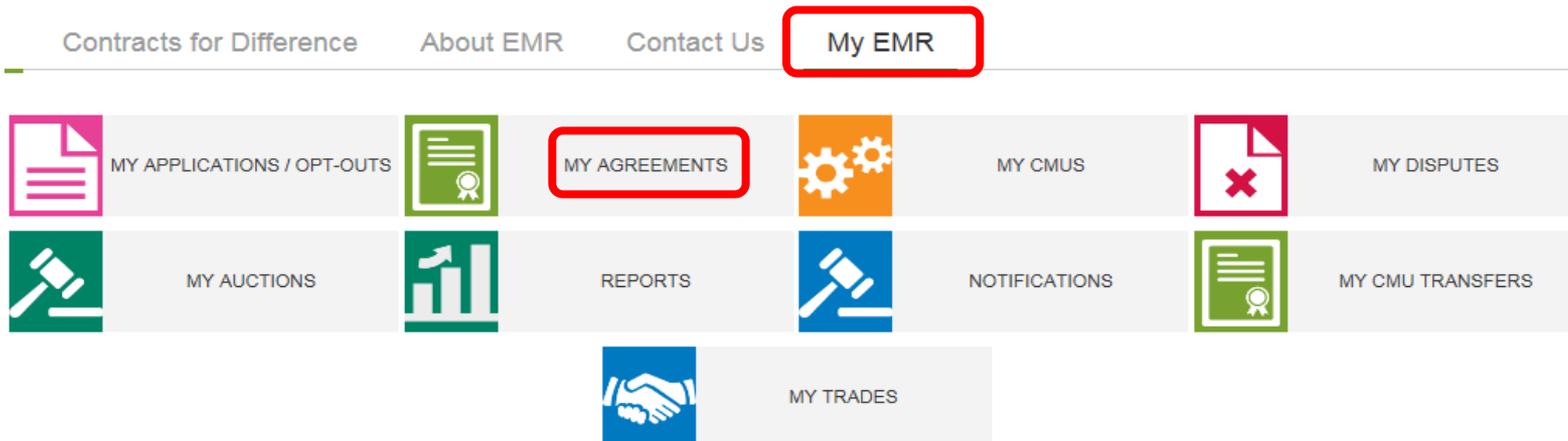
Step 1

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



3. Secondary Trading on the EMR Portal

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	<div style="display: flex; flex-wrap: wrap; gap: 5px;">VIEWUPLOAD MILESTONEREQUEST TERMINATIONPROVE PERFORMANCETRADE</div>
CAN-2017-KM0002-001	KM0002	Existing Generating CMU	<div style="display: flex; flex-wrap: wrap; gap: 5px;">VIEWREQUEST TERMINATIONPROVE PERFORMANCETRADE</div>
CAN-2017-KM0004-001	KM0004	Proven DSR CMU	<div style="display: flex; flex-wrap: wrap; gap: 5px;">VIEWREQUEST TERMINATIONPROVE PERFORMANCETRADE</div>

3. Secondary Trading on 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.

Trade Request

Transferor CAN

Trade Delivery Year

Transferor Company

Transferee Company

Transferee CMU

Clearing price

Trade From

Trade To

 [day(s)]

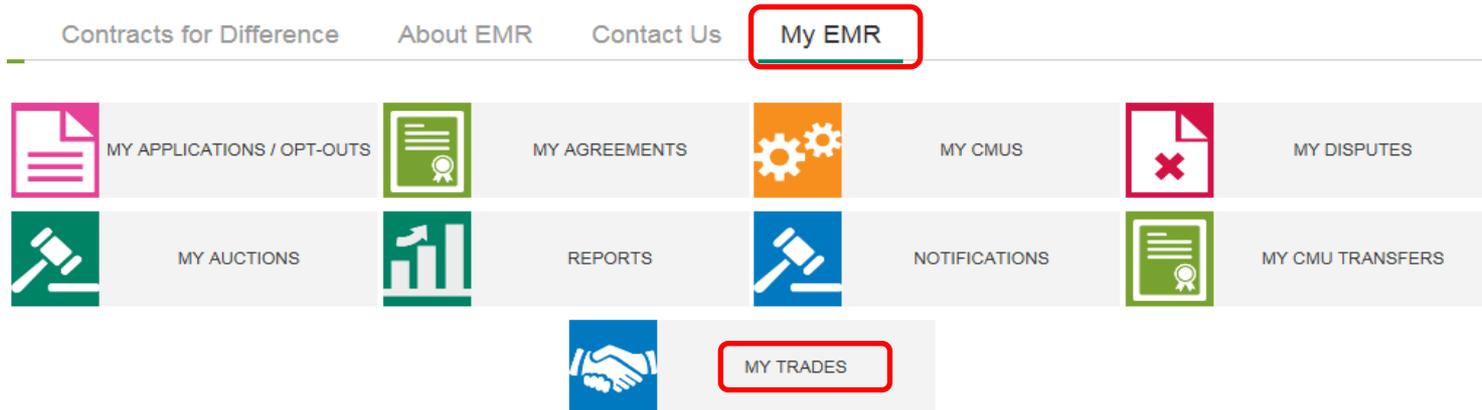
Volume (MW)

3. Secondary Trading on 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.

Trade ID	Transferor CMU	Transferee CMU	Transfer Request Date	Submitted By
CAN-2017-MK0004-001-T001	MK0004	ARF114	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"/>

3. Secondary Trading on the EMR Portal

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.

User Management ▶

Companies ▶

Manage Login Credentials

My Profile

Messaging ▶

Capacity Market ▶

Notification title
Secondary Trade initiated

Notification body

nationalgrid | **Electricity Market Reform**
DELIVERY BODY

Dear AM11ATabs mainadmin,

A new proposal to trade a Capacity Agreement from CMU AEXG81 has been submitted for your confirmation. Please log in to the EMR portal to review the details of the proposal.

If the details are acceptable, you will need to submit the trade to the Delivery Body.

The proposed CMU Transferee is hem12G AM11A and the trade covers the period of 01/10/2020 to

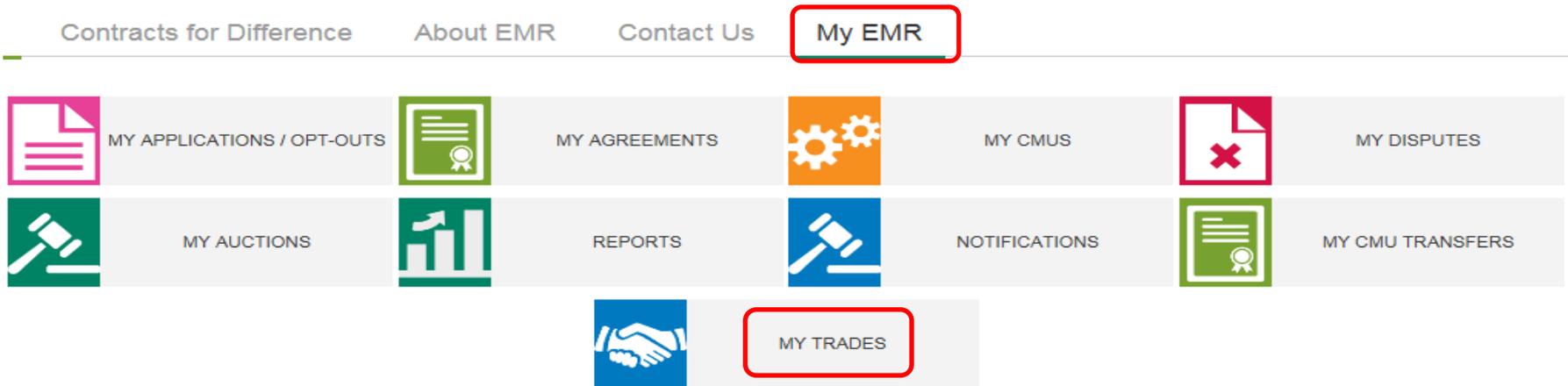
Back

3. Secondary Trading on the EMR Portal

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**.



The screenshot shows the navigation menu of the EMR Portal. The menu items are: Contracts for Difference, About EMR, Contact Us, My EMR (highlighted with a red box), MY APPLICATIONS / OPT-OUTS, MY AGREEMENTS, MY CMUS, MY DISPUTES, MY AUCTIONS, REPORTS, NOTIFICATIONS, MY CMU TRANSFERS, and MY TRADES (highlighted with a red box).

- 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	<input type="button" value="VIEW"/> <input type="button" value="REVIEW"/>

3. Secondary Trading on the EMR Portal

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 accordingly.
- **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

3. Secondary Trading on the EMR Portal

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 more than 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 tab with Secondary Trading details for the obligation that has changed. More information will be provided on this in due course.

4. Frequently Asked Questions

Question	Answer
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.
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).

4. Frequently Asked Questions

Question	Answer
<p>I can generate above my Auction Acquired Capacity Obligation (AACO) – am I able to secondary trade this additional capacity?</p>	<p>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.</p> <p>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.</p>

4. Frequently Asked Questions

Question	Answer
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 re-allocation after the event.
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?	Yes, a transferor and transferee can be part of the same bidding company, company owner etc.

4. Frequently Asked Questions

Question	Answer
In order to be an eligible transferee, does the CMU need to have achieved the SCM by May 30th of the delivery year?	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).
Can a transferee (party B) take on more than 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.
Which would take precedent - termination or secondary trading?	If a termination notice has been issued then secondary trading cannot occur.

4. Frequently Asked Questions

Question	Answer
Can an Unproven DSR be an Eligible Secondary Trading Transferee?	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.
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.

4. Frequently Asked Questions

Question	Answer
Is the physical trading done at auction clearing price or is 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.
Can an agreement be traded out to avoid termination?	It depends on different scenarios but two examples below show the differences: <ul style="list-style-type: none"><li data-bbox="788 936 1804 1096">- In the case of New Build CMUs, they would need to meet SCM to transfer so secondary trading would not be possible.<li data-bbox="788 1110 1789 1322">- 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.

4. Frequently Asked Questions

Question	Answer
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).



Contact

If you have any questions about the content of this guidance document, please contact the EMR team at:

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