

## APPENDIX C – RESPONSE TEMPLATE

### SUMMARY INFORMATION

<b>Respondent's Name</b>	Bord na Móna
<b>Type of Stakeholder</b>	Generator
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<b>Confidential Response</b>	[N]

### CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

NB please add extra rows as needed.

#### 1) **CMC\_19\_23: Modification to Implement the SEMC Decision set out in SEM-23-038 and SEM-23-045 on Indexation of Capacity Payments**

Bord na Móna (BnM) has been pleased to respond constructively and in support of the preceding consultations on this topic<sup>1</sup>.

In our most recent response to the Call for Evidence consultation<sup>2</sup> Bord na Móna welcomed this opportunity to respond given the emerging capacity shortfall within the single electricity market (**SEM**) and the threat that high inflation is causing for the deliverability of new capacity.

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<sup>1</sup> Call for evidence regarding the impact of inflation on delivery of new Capacity Market projects SEM-22-071 5<sup>th</sup> October 2022 and Consultation and Call for further Evidence on Indexation of Capacity Payments SEM-23-014 10 February 2023

<sup>2</sup> Call for further Evidence on Indexation of Capacity Payments SEM-23-014 10 February 2023

## APPENDIX C – RESPONSE TEMPLATE

Within our response we emphasised that we believe that indexation of capacity contracts should be introduced as an enduring feature of the capacity remuneration mechanism (CRM) across all auctions – and not just for the specific T-3 2024\_25 and T-4 2025\_26 Auctions.

When the CRM was initially designed the SEM had excess generation capacity, the managed exit of older generation and growth in electricity demand has changed that. To date the CRM has evidently found it difficult to deliver new dispatchable thermal generation and there has been a need to deploy costly Emergency Generation which is very expensive to the Consumer.

The EY report<sup>3</sup> on the functioning of the CRM concluded that one key issue is that insufficient capacity is participating in the auctions. Which reduces the potential for sufficient capacity to be contracted but also reduces the competitive tension of the auction. This fundamental issue of a shortage of capacity participating in the auction is due to the CRM not being a sufficiently attractive route-to-market for energy developers in Ireland.

BnM believes that the fundamental reason for a lack of participation in the CRM is the balance of risk and reward that participants are exposed to. Projects successful in the auction are exposed to a wide variety of risks that could delay or undermine the delivery of their project which are not within their power to control. These risks are in addition to the commercial risks inherent in developing new thermal generation capacity in an electricity system that is rapidly decarbonising.

We believe that the element of Risk which is linked to Cost inflation over the Implementation period is one such risk which could and should be addressed for all auctions, for security of supply and for avoidance of passing to the Consumer the cost of Emergency generation which would not be required if the CRM was functioning effectively.

The Reward Risk is largely linked to the Auction Price Cap and the associated technology de-rating factors, which we do not discuss at length within this response, but which is fundamental to an effective level of Investor participation.

It is abundantly clear that the CRM design and initial decision around whether indexation should be applied to capacity payments was made amidst a period of sustained low inflation. The decision not to incorporate indexation into the CRM design was perhaps made to avoid additional complexity, with little apparent relevance at that time – all of which has now changed.

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<sup>3</sup> EY Report Reference: Performance of the SEM Capacity Remuneration Mechanism, v2.0 28<sup>th</sup> June 2022

## APPENDIX C – RESPONSE TEMPLATE

To summarise our key points in relation to this consultation:

- BnM strongly welcomes that indexation of capacity payments is afforded to project Capacity Payments for the T-3 2024/25 and T-4 2025/26 Capacity years. However we believe Indexation of Capacity Payments for future Capacity Auctions is fully justified with the recent return of high levels of inflation for which there is no visible sign of substantial reduction. It is a given that the inflationary environment remains extremely uncertain with consequential difficulty in fixing capital and other costs for the development of assets in this environment.
- Keep under review the Index used for Indexation of Capacity Payments for the T-3 2024/25 and T-4 2025/26 Capacity years – and extension of these provisions to Future Capacity Auctions  
We welcome the recognition of the need for indexation, as well as the initial step to link a corrective indexation mechanism using the Wholesale Price Index for building and construction materials produced by the CSO. This is very significant progress and will go some way towards restoring these projects to being financially viable.  
However, we advocate that the use of this Wholesale Price Index be kept under review, with regard to its potential replacement by an index which more closely reflects the actual material levels of inflation experienced across different technologies, given that it under compensates for the actual levels of inflation experienced over the construction phase.  
This would be equally relevant for the T-3 and T-4 auctions mentioned, as well as for Indexation of Capacity Payments for future Capacity Auctions.
- Indexation needs to be adjusted Annually over the Capacity Duration  
We particularly noted SEM-C considering the indexation of capacity payments as far back as SEM 23 014, followed up by explicit reference within SEM 23 045 detailed Decision Paper suggesting that it ‘may consider developing and adopting an enduring approach to indexation of capacity payments, potentially similar to the indexation arrangements within the GB Capacity Mechanism’. We welcome the current live consultation on this topic within Mod CMC 22\_23 Indexation of Capacity Payment Price for Inflation<sup>4</sup> and will in our response, express that Opex cost inflation currently in the market is unprecedented and we believe this approach is warranted for the T-3 and T-4 specific auctions as well as for Capacity Payments for future Capacity Auctions.

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<sup>4</sup> Workshop 33 Consultation Paper SEMC 23 084 and the associated Mod CMC 22\_23

## APPENDIX C – RESPONSE TEMPLATE

### 2) Detailed CMC Drafting Proposed to Deliver the Modification (ref response template below)

#### **M.13 Capacity Payment Price Indexation**

M.13.1 The provisions of this M.13 apply to Awarded New Capacity with a Maximum Capacity Duration of more than one Capacity Year, allocated pursuant to the T-3 Auction for the Capacity Year beginning 1 October 2024 and T-4 Auction for the Capacity Year beginning 1 October 2025, and included in the final Capacity Auction Results released by the System Operators on 4 March 2022 and 6 May 2022, respectively. **The provisions will also apply to all other subsequent T- 3 and T-4 auctions.**

M.13.2 The Capacity Payment Price Indexation Start Date shall be 20 January 2022 or 24 March 2022, as the case may be, being the date on which the System Operators conducted the relevant T-3 Auction or T-4 Auction, referred to in M.13.1. **For all other subsequent auctions the Capacity Payment Price Indexation Start Date shall be the date on which the System Operators conducted the relevant subsequent T-3 or T-4 Capacity Auction.**

M13.3 **In respect of the T-3 Auction for the Capacity Year beginning 1 October 2024 and T-4 Auction for the Capacity Year beginning 1 October 2025** Unless the Participant notifies the System Operator otherwise in accordance with M.13.4, the Capacity Payment Price Indexation End Date shall be the day before first day of the first Capacity Year to which the Awarded New Capacity relates. **For all other subsequent auctions the Capacity Payment Price Indexation End Date shall be the day before first day of the first Capacity Year to which the Awarded New Capacity relates.**

M.13.4 **In respect of the T-3 Auction for the Capacity Year beginning 1 October 2024 and T-4 Auction for the Capacity Year beginning 1 October 2025** If, no later than Substantial Financial Completion or within 30 days of the Capacity Payment Price Indexation Detailed Decision Date, the Participant so notifies the System Operators, the Capacity Payment Price Indexation End Date shall be the date of Substantial Financial Completion.

## APPENDIX C – RESPONSE TEMPLATE

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
<p><b>CMC_19_23:</b> Modification to Implement the SEMC Decision set out in SEM-23-038 and SEM-23-045 on Indexation of Capacity Payments</p>	<p>By addressing a risk that threatens the viability of a significant proportion of multi-year new capacity projects which won in the 2024/25 T-3 and 2025/26 T-4 auctions and could have a material impact on security of supply, the modification furthers Capacity Market Code Objectives (b), (c), (d) and (g). (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner; (c) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market; (d) to promote competition in the provision of electricity capacity to the SEM; (g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.</p>	<p>Relevance of protection to the investor against annual capex inflation exceeding 2% for Capacity Auctions other than the T-3 2024_25 and T-4 2025_26 auctions Relevance of protection to the Consumer by avoiding the avoidable cost of Emergency generation.</p>	<p>As shown above</p>