



Energia Response to SEM-23-093

***Proposal to Introduce Intermediate Length Contracts
Consultation Paper***

21 December 2023

Executive Summary

Energia supports the introduction of Intermediate Length Contracts (ILCs) within the Capacity Remuneration Mechanism (CRM), as communicated in Information Note SEM-23-083, and strongly agrees with the Regulatory Authorities (RAs) on the need for a category of plant refurbishment for existing generators. Refurbishment of Existing Capacity will have tangible system security, financial and environmental benefits for consumers across the island of Ireland.

In terms of implementation, Energia strongly recommends an ILC length of seven years and an investment rate threshold of approximately €70,000 per de-rated MW. It is also imperative that the Capacity Market Code (CMC) is updated so that shorter duration contracts continue to be given priority in order to meet the requirements of locational constraints and that capacity requirements are prudently determined to ensure adequate capacity is procured.

Energia strongly supports the RA's commitment to introducing refurbishment contracts in time for the T-4 28/29 auction, the process for which is due to commence in Spring 2024. Given the short timescales for implementation and the importance of this modification for refurbishing system-critical plants, Energia recommends that the RAs bring forward a modification that is as simple as possible targeted at achieving the key aims of the introduction of the ILCs in time for the T-4 28/29 auction.

Benefits of Refurbishment of Existing Capacity

Projections of Ireland's future energy requirements show that thermal, dispatchable, and non-energy limited capacity will remain vital to security of supply for years to come.¹ Retention of and continued investment in Existing Capacity is critical to security of supply and does not carry the delivery risks associated with New Capacity that would otherwise have to replace it at higher total cost. Existing units must be able to invest in refurbishment, but these investments will not occur unless those units undergoing refurbishment have the ability to recover their costs and make a reasonable return over a multi-year CRM contract.

There are substantial benefits to the Irish consumer of the refurbishment of Existing Capacity compared to its replacement by new units. These include:

- **Cost and Efficiency:** Replacing existing Combined Cycle Gas Turbines (CCGTs) with new Open Cycle Gas Turbines (OCGTs) would lead to significantly higher constrained-on energy costs for consumers, as well as higher CO₂ emissions. These costs are not captured anywhere in the existing CRM framework and are an important benefit of enabling Existing Capacity to refurbish rather than sending existing generators an exit signal and replacing them with New Capacity.
- **Security of Supply and Delivery Risk:** As has been experienced in the CRM since inception, the delivery of New Capacity involves substantial delivery risk.

¹ The government has explicitly acknowledged the role for gas in security of supply in its 2021 Security of Supply Programme of Actions and the 2023 Energy Security in Ireland package. The GCS and SOEF v1.1 forecast a continued need for dispatchable generation over the ten-year forecast period. All four scenarios in the draft TES 2023 scenarios from the TSOs include thermal dispatchable capacity for the period between 2040 and 2050.

Late delivery of capacity can lead to generation capacity shortfalls and costs to consumers including from the need for emergency generation or to extend the life of decommissioning units. Refurbishment of Existing Capacity comes with far less delivery risk than building New Capacity.

- **Locking-In Excess Capacity:** New units replacing existing units are eligible for capacity contracts of up to ten years, and have an economic life significantly beyond this (approximately 20 years according to the Best New Entrant study).² As the island of Ireland moves to resolve its locational constraints and transition to a renewables-led system, it is more efficient to refurbish existing units on shorter contracts than to allow those units to exit prematurely and replace them with new units that are likely to be contracted for a minimum of ten years.

Design of the Intermediate Length Contracts

International comparison shows that while other CRMs have refurbishment categories, in practice they are under-utilised. It is essential that the ILC is designed such that it effectively incentivises and facilitates efficient and necessary refurbishments.

ILCs of seven years would enable refurbishing units to include their full investment and Net Going Forward Costs (NGFC) in a Unit Specific Price Cap (USPC) application. Having to recover substantial investments over too short a period may put a refurbishing unit's USPC costs above the Auction Price Cap (APC), not currently permitted by the CMC. A contract length of seven years will enable significant refurbishments and allow refurbishing plants to bid more competitively in the auctions.

The Intermediate Contract Investment Rate Threshold (ICIRT) should be set at a level that enables units investing in substantial refurbishments to apply for ILCs. Setting the ICIRT at around €70,000 per de-rated MW would enable substantial refurbishments for typical existing CCGTs.

As alluded to in the consultation paper, the current process by which the costs of refurbishments are to be recovered via USPC applications through multiple consecutive single-year contracts leads to a significant risk of stranded investments and prevents refurbishments from taking place. The dynamics of the constrained capacity auction means that investors in Existing Capacity can face sudden sharp exit signals with the relief of constraints, or unanticipated significant changes in the constraint requirements (for example, at the T-4 27/28 auction, the Dublin minimum LCC requirement was 261MW lower than at the previous T-4 auction).³ The introduction of a well-designed ILC will enable efficient and necessary refurbishments of Existing Capacity to occur.

Constraint Requirements and Procuring Sufficient Capacity

Currently, the CMC stipulates that where capacity needs to be constrained on to meet Locational Capacity Constraint (LCC) requirements, units bidding for single-year contracts should be constrained on ahead of units with multi-year bids. This is on the basis that as per Ireland's EU State Aid approval for the CRM, transmission constraints

² SEM-23-016 Best New Entrant Decision Paper

³ New Capacity awarded 10-year contracts are insulated from these risks.

are temporary in nature and should be resolved by upgrades to the grid.⁴ It is therefore logical to procure shorter duration contracts over longer ones to meet the requirements of LCCs.

It is consistent with this logic to ensure that capacity bidding with ILCs are given absolute priority over New Capacity bidding in with longer duration contracts. It is vital that the modification to introduce ILCs prior to the T-4 28/29 auction updates the CMC to reflect this unambiguously in the auction clearing rules.

In addition to introducing ILCs and facilitating refurbishment, in order to avoid the inefficient exit of Existing Capacity it will be necessary for the RAs to prudently determine capacity requirements, avoiding maximum MW limits in constrained areas and procuring sufficient capacity for future demand growth. It will be essential that the RAs procure sufficiently for late or potential non-delivery of New Capacity and avoid sending a premature exit signal to Existing Capacity. Underestimating such risks inherent in the energy transition would be a repetition of the errors outlined in the 2023 McCarthy Review.⁵

Furthermore, the RAs should ensure that when de-rating factors are adjusted, the assumed contribution of Awarded New Capacity is adjusted to account for the new de-rating factors, otherwise there is a risk that the final requirements overestimate the probable contribution of Awarded New Capacity and therefore under procure necessary capacity.

⁴ EU State Aid Case No. SA.44464 (2017/N) – Irish Capacity Mechanism [Microsoft Word - SA.44464_2017N_WLAL_WLWL.docx \(europa.eu\)](#)

⁵ Annex 5 - [gov.ie](http://www.gov.ie) - Energy Security in Ireland to 2030 (www.gov.ie)

1 Introduction

Energia welcomes the opportunity to respond to SEM-23-093 (“the consultation paper”). Since the inception of the CRM, Energia has consistently emphasised the importance of allowing multi-year contracts to facilitate the refurbishment of existing units. The proposal to introduce ILCs prior to the T-4 2028/29 auction is an important development for the CRM, and one that if implemented appropriately will be of significant benefit to consumers.

This response will outline some of the benefits of enabling the refurbishment of Existing Capacity for consumers, as these are important to consider in the ultimate design of ILCs. Energia will then respond in turn to each of the specific questions set out in section 7 of the consultation paper. Finally, Energia will cover additional changes to the CMC and the CRM auction process that should be implemented in tandem with the introduction of ILCs to deliver the full benefits of refurbishment of existing units.

2 Refurbished Capacity in the CRM

In Information Note SEM-23-083 the RAs explicitly acknowledged an increasing need for a category of plant refurbishment within the process for the existing generation portfolio. The consultation paper states that market participants have argued that an ILC would facilitate investment in capacity which in turn would improve efficiency and availability, ultimately decreasing the volumes of New Capacity needed.

Energia is one of the market participants that has long argued for Existing Capacity to be eligible to bid for multi-year contracts. It is important to set out the benefits of refurbished capacity to the CRM, as this will ultimately be the key driver in informing the design of ILCs within the CRM.

2.1 Ongoing Need for Dispatchable Generation

The 2022 Generation Capacity Statement (GCS) forecast the continued availability of existing generators (other than those already identified for closure) and the delivery of New Capacity to support the energy transition through to 2031.⁶ While the outlook for the delivery of the 2030 renewable generation targets is uncertain, it is undisputed that conventional generation will continue to be needed to support the transition and to meet Ireland’s growing demand during periods of low renewable output.

Ireland’s ageing fleet of existing generators are vital to security of supply. Without refurbishment, the Forced Outage Rate for conventional generators is likely to continue to increase, which could include prolonged outages. To be able to continue to operate economically in the CRM, especially in the context of potential changes to scarcity pricing, existing generators need to be able to invest in refurbishment.⁷ The establishment of ILCs for Existing Capacity would help facilitate that refurbishment by allowing investors to recover their substantial investments over multi-year contracts.

⁶ [EirGrid SONI 2022 Generation Capacity Statement 2022-2031.pdf](#)

⁷ [SEM-23-047](#) on the Administered Scarcity Pricing Review has closed to responses and is awaiting a decision from SEMC in the near future.

2.2 Benefits of Enabling Refurbished Existing Capacity to Compete

The alternative to facilitating refurbishment in Existing Capacity is an increased likelihood that these units will not be able to operate economically in the CRM, leading to inefficient exit and the need to replace these units with New Capacity. This section considers in more detail a subset of the substantial benefits to consumers of refurbishing existing units compared to replacing these units with New Capacity.

2.2.1 Cost and Efficiency

Much of the existing fleet of generators in Ireland are CCGTs, while the majority of the New Capacity that has been procured thus far via the CRM are OCGTs (in line with the technology class used to set the most recent BNE). It is important to consider the cost implications of replacing existing CCGTs with new OCGTs, as these costs are not fully captured in the BNE or in the CRM auction process.

Energia has compared the economic and environmental efficiency of its existing Huntstown CCGTs in Dublin with those of a new OCGT, using the metrics published in the 2023 BNE Net CONE decision paper. As CCGTs, the Huntstown units are able to generate power at significantly lower cost and with significantly fewer emissions than new OCGTs.

Energia analysed the costs and CO₂ emissions from the Huntstown plants running for the year from April 2022 and compared what the costs would have been for the same amount of output from new OCGTs. While run hours for all thermal units are forecast to decrease in the future, and subsequently IMR revenue is greatly reduced, this ignores the impact of constraints and the extent to which plants will be constrained on by the TSOs, particularly in areas of high demand. Consumers ultimately pay for the cost of this constrained running, but that cost is not reflected anywhere in the BNE calculation or the CRM auctions, which looks only at the cost to consumers via capacity payments.

Energia's analysis showed that OCGTs replacing Huntstown 1 and Huntstown 2 would have energy costs €68m and €97m per year higher for the same level of output. This translates as an additional €36.64 and €46.26 per MWh cost to consumers in energy payments to replace Huntstown 1 and Huntstown 2 respectively with new OCGTs. Furthermore, in both scenarios the new OCGTs release approximately 35% more emissions for the same amount of energy generated by the existing the Huntstown units.

It is clear from our analysis that there are significant cost and environmental benefits to allowing existing CCGTs to refurbish, particularly in constrained areas, compared to replacing them with the new OCGTs. These benefits are not captured anywhere in the current CRM methodology, but they constitute an important benefit to allowing Existing Capacity to refurbish.

2.2.2 Security of Supply and Delivery Risk

The experience of the CRM thus far is that New Capacity procured at CRM auctions is subject to substantial delivery risk. The McCarthy Review identifies the termination of 513MW of new generation capacity in 2021 as one of the major contributing factors to Ireland's security of supply crisis. Furthermore, much of the New Capacity procured

in 2022 in response to the crisis has flagged the need for extensions to their capacity delivery dates for reasons of planning delays, judicial reviews and cost increases.

Refurbishment of Existing Capacity is likely to be subject to far less delivery risk than that of New Capacity, meaning that it can be better relied upon to deliver its commitments in a multi-year contract on time. There are likely to be far fewer, if any, planning and grid consents required given that the Existing Capacity is already in place.

Were the RAs to allow Existing Capacity to exit and to be replaced by a fleet of New Capacity, based on past experience the risk of delay and/or termination of the New Capacity would be high, potentially leading to the RAs needing to rely upon more temporary out-of-market solutions, which is ultimately not in the interests of the consumer.

2.2.3 Locking-In Excess New Capacity

Based on the current proposals, generators that successfully bid for ILCs will have a contract duration that is significantly shorter than the ten years that will be received by most New Capacity. While a multi-year contract for refurbishing Existing Capacity is vital, the shorter contract will give the RAs more flexibility when it comes to procuring capacity in the future relative to if Existing Capacity was allowed to exit and needed to be replaced by New Capacity.

New Capacity procured in future auctions with a ten-year contract will have a minimum lifespan of ten years and is likely to be built on the assumption of an approximately 20-year economic life as per the BNE Decision Paper. This would mean that the New Capacity would expect to still be operational around 2050, when Ireland is legally required to have reached Net Zero.

Clearly, it would be inconsistent to replace the existing fleet and replace it with an entirely new fleet that would be incompatible with Ireland's climate requirements. It is far more efficient for the RAs to enable Existing Capacity to refurbish to continue to meet Ireland's security of supply requirements over the coming years rather than attempting to replace that fleet with new generators that are incompatible with Ireland's climate requirements.

3 Design of the ILC

Having elaborated on the benefits of refurbishing Existing Capacity in the CRM, this section considers in more detail the consultation paper questions regarding the proposed design of the ILCs.

The correct design of the ILC is critical to enabling the refurbishment of Existing Capacity and the host of corresponding benefits. The consultation paper briefly covers refurbishment contract arrangements in other European CRMs. As noted in the consultation paper, in some of these markets such as GB the existing refurbishment arrangements have resulted in the procurement of negligible volumes of refurbished capacity. It should not be assumed that the identified international comparators should serve as models of effective mechanisms for an ILC or would be appropriate for the CRM in Ireland.

The risk for the RAs is that if they introduce a refurbishment category, as requested by SEMC, but it is designed such that it effectively cannot be availed of by existing system critical generators, then none of the benefits will be seen by the Irish consumer.

Avoiding this outcome should be a key focus of the RAs when finalising the design of the ILC.

3.1 ILC Length

The consultation paper requests feedback on the appropriate length of ILCs. The paper provides some analysis of the costs of refurbishment at various thresholds and how this would be reflected in contract bids with three-year or five-year contract lengths. The analysis shows that longer contract lengths lead to lower bids from participants as the costs of refurbishment can be spread over a longer period.

The benefit of a longer contract duration is that it will better enable Existing Capacity to recover its investment costs over a longer period, leading to lower, more competitive, bids in the CRM. It will also provide additional certainty in terms of security of supply by securing capacity for a longer period. If Existing Capacity is required to recover its refurbishment costs over a shorter period, there is a risk that its final bid price will be above the APC and it will therefore not be able to recover its costs which in turn will lead to the refurbishment not taking place and inefficient exit.

In section 5.4 of the consultation paper, the RAs use an example of a unit with a refurbishment spend of €200,000 per MW spread over five years and NGFC of €50,000, resulting in a USPC comfortably below the 27/28 APC. However, in reality the RAs will be aware that NGFCs for many plants are likely to be considerably higher than in the illustrative example, and therefore requiring Existing Capacity to recover their refurbishment costs in a shorter period could quickly put their bid above the APC.

A contract length of seven years for ILCs will lead to greater competition in the CRM, lower bid prices for consumers and will enable more refurbishment proposals to come forward to the ultimate benefit of consumers.

3.2 Intermediate Contract Investment Rate Threshold (ICIRT)

The ICIRT should be set at a level that enables substantial investments to qualify for ILCs. The benefit of a refurbishment should not solely be measured by the level of spend, but instead is based on the scale of the improvements made to the Existing Capacity. If the ICIRT is set at too high a level, it could prevent genuinely beneficial investments in refurbishment from taking place.

For example, a CCGT with a capacity of 400MW spending €20m would only meet an ICIRT of approximately €70,000/MWd based on the de-rating factors from the T-1 24/25 auction. €20m is a very substantial sum of money that could lead to a significant refurbishment with tangible benefits for the reliability of the existing generator. If the ICIRT is set above a level that would allow such quantities of investment to qualify for an ILC, it will unnecessarily rule out potentially beneficial investment.

Under the current process of only being allowed to recover 20% of refurbishment costs via single-year contracts, significant investment in Existing Capacity is not facilitated. The constrained dynamics of the Irish CRM mean that the relief of local constraints or unanticipated changes in the capacity requirements (e.g. due to changes in assumptions used to set requirements) can lead to sudden sharp exit signals for existing capacity in highly constrained areas, with New Capacity awarded 10-year contracts insulated from these risks. Given the risks and uncertainties of not being able to recover the costs of refurbishment, an investor cannot commit to the level of investment required without being able to recover the cost over a multi-year contract.

In Energia's view, setting a mandatory ICIRT that must be reached to qualify for an ILC is more likely to encourage gaming, which the RAs are expressly concerned to avoid. If a participant's proposed spend is marginally short of a binding ICIRT, then an incentive would be created to unnecessarily increase the level of spend in order to qualify for an ILC. This ultimately leads to poor value for consumers. Instead, the ILC should act as guidance of a recommended minimum level of spend, allowing the RAs to consider the benefit of the proposed refurbishment as a whole when deciding whether to approve the proposal for an ILC.

3.3 Avoidance of Gaming

The ILC consultation paper raises concerns regarding gaming of the new arrangements, particularly with regards to the amount of money that needs to be spent to support economic viability.

As per Section 3.2 of this response, one method of reducing this risk is by placing less emphasis on the ICIRT and focusing more on the benefits of the proposed refurbishment to consumers. A focus on the amount of money spent per de-rated megawatt is not the best method of ensuring that a refurbishment genuinely delivers value for consumers. If the RAs have concerns regarding ensuring actual spend meets ex-ante estimates they can set appropriate reporting requirements or request third party audit/assurance to validate the actual spend.

As emphasised, more important is that participants can evidence that the proposed refurbishment is efficient and necessary and will support the achievement of the CMC objectives. The RAs can utilise independent assurance and / or director certification to gain comfort in this regard. The RAs already have processes in place that requires them to exercise judgement and oversight in terms of for example assessing USPC applications and the validity of New Capacity contract extension requests. Given that the RAs proposal for introducing ILCs is through an expansion of the Exceptions Application process, the RAs should utilise the existing processes that are used for other Exceptions Applications such as a standard USPC application that serve to avoid potential gaming.

3.4 Changes to the Exceptions Application Process

Energia views the description of the changes to the Exceptions Application process as broadly reasonable. Energia remains of the view that the USPC application process should allow existing capacity the ability to opt-out of the auction if they do not receive an adequate USPC determination, as units should not be expected to participate in an auction when doing so may not be economically viable.

In the event that a generator's application for an ILC is rejected by the RAs, it would be logical for that generator to still be considered for a one-year USPC contract if the NGFC outlined in the Exceptions Application would take its costs above the ECPC. It would be useful for the RAs to clarify at implementation stage of the proposed modification as to what happens in the event that an application for an ILC is rejected.

The consultation paper notes that applicants applying for a multi-year contract may need to demonstrate an intent to decarbonise aligning with energy strategies in Ireland and Northern Ireland. As discussed later in this response, this would be a major departure from the existing process that only requires compliance with the existing EU emissions requirements. Energia's view is that if the RAs intend to introduce new decarbonisation requirements into the CRM, this should be a separate workstream to

the request from SEMC to bring forward a refurbishment category in time for the T-4 28/29 auction and should be consulted upon separately in detail.

3.5 Implementation Plans

It is appropriate for plants in receipt of an ILC to submit implementation plans. Submitting implementation plans in advance as part of the qualification process should help ensure that the RAs can filter out speculative applications that will prevent realisable and beneficial applications for refurbishment from succeeding in the CRM auction, protecting consumers from unnecessary costs.

With regards to the milestones, the same milestones that exist for New Capacity should apply for Existing Capacity to the extent that they are appropriate to do so. For example, as discussed above Existing Capacity is likely to require significantly fewer permits and connections than New Capacity, and therefore it may not make sense for all Existing Capacity awarded an ILC to have all of the same milestones as exist currently.

3.6 Long Stop Dates

The appropriate length of the Long Stop Date for refurbished capacity will depend on the final length of the ILC that is proposed by the RAs. Energia notes that the decision in SEM-23-046 gives the more flexibility in the setting of a Long-Stop date for Awarded New Capacity, and that if necessary this could be amended to include all capacity awarded ILCs.

3.7 Termination Payments and Performance Securities

Energia agrees with the RAs that Existing Capacity undergoing refurbishment should not be required to pay termination payments or lodge performance securities. The risks involved in the non-delivery in the case of Existing Capacity with an ILC are different to those for New Capacity, and in particular delivery risk of refurbishing capacity is far lower than the delivery risk for New Capacity. Notwithstanding this, some degree of flexibility should be afforded to the delivery of Existing Capacity undergoing refurbishment akin to the flexibilities given to New Capacity in SEM-23-080.

3.8 Low Carbon Technologies

Energia supports the intention to promote investment in low carbon technology. Thermal capacity is projected to continue to play an important part in Ireland's energy security for years to come, and it is important to ensure that the technology that is procured is consistent with Ireland's climate obligations. Energia has already set out in section 2 how there is a significant environmental benefit of maintaining existing units compared to replacing them with new units in terms of their running emissions.

Energia's view is that proposals to promote investment in low carbon technology should be detailed and form part of a separate consultation process. Energia would not support the introduction of such initiatives as part of this consultation to introduce ILCs ahead of the T-4 2028/29 auction. The direction from SEMC was clearly to enable the refurbishment of existing units for the benefit of security of supply. It would be a mistake for the RAs to add on significant proposals on carbon reduction via this consultation that had not had the opportunity to be fully considered and could lead to unintended consequences. For the purposes of introducing ILCs prior to the T-4 28/29 to facilitate the refurbishment of existing capacity, the RAs should bring forward a

modification that is as simple and as focused as possible consistent with those aims. This is particularly the case given the very tight timelines to implement the decision on ILCs in time for the start of the T-4 28/29 auction process in Spring of 2024.

4 Constraints and Volume Requirements in the context of ILCs

There are two additional aspects of the introduction of ILCs that are not covered in the consultation paper but are essential to achieving the benefits of the refurbishment of Existing Capacity. Energia urges that these are considered by the RAs and decisions communicated via any decision paper ahead of the T-4 2028/29 auction.

4.1 Constraint Requirements and CRM Rules

According to the CMC, Exempt Price-Quantity Pairs are all bids above the clearing price with a capacity duration of more than one year that have been exempted by the RAs in order to help meet LCCs.

LCCs exist in the CRM due to local network constraints on the transmission system that prevent power generated in one location flowing to another location. The expectation, as per Ireland's application to the EU for State-Aid approval for the CRM, is that the network constraints that exist are short-term, and will be removed in time by upgrades to the transmission system. At this point, capacity that was constrained on to meet LCC requirements should no longer be needed.

Section F.8.4.4 of the CMC on the rules for capacity auction clearing states that Exempt Price-Quantity Pairs are not to be cleared to satisfy LCCs or to maximise Net Social Welfare until all applicable price-quantity pairs with an offered capacity duration of one Capacity Year have been cleared.

The clear intent of F.8.4.4 is that it is rational to meet the needs of short-term constraints with shorter term contracts, as this helps avoid locking-in capacity for longer than necessary. Given that all capacity contracts awarded thus far in the CRM have been either for one or ten years, it was not practically necessary for the CMC rules to distinguish for contracts of other duration.

However, upon the introduction of ILCs, contracts of intermediate duration may also be available to meet LCC requirements alongside offers with a duration of one or ten years. The current wording of F.8.4.4 would only prioritise one-year contracts and would not distinguish between ILCs and 10-year New Capacity contracts.

It is imperative to maintain the intent of the current CMC rules that the CMC is modified such that capacity bids with a shorter duration are always constrained on ahead of bids with a longer duration. This would maintain the current intent of the CMC, being the principle that short-term constraints should be resolved via shorter-duration contracts where possible. This modification must be in place prior to the T-4 2028/29 auction. Failure to do so risks damaging investor confidence and failing to facilitate the efficient and beneficial refurbishment of Existing Capacity.

4.2 Volume Requirements

The ILC is intended to facilitate greater competition between Existing and New Capacity and bring forward proposals to refurbish Existing Capacity with the aim of better reliability and extended operational life. To work as intended, it is essential that

sufficient volume of capacity is procured in future auctions to meet Ireland's capacity requirements.

In November 2023, SEMC published an information note on the decisions made by SEMC in determining volumes procured for the 2026/27 T-4 CRM (SEM-23-089). The note outlined just under 3GW of adjustments to the capacity requirement across the LCCs, less than had been recommended by the TSOs. Of particular interest was the adjustment for non-delivery risk, which has been a significant issue in auctions to date.

While the publication of the note was a welcome development, the information note did not fully explain how SEMC had arrived at their final adjustments, and why they had procured less than the TSO had recommended. Furthermore, the note confirmed that for the most recent T-4 2027/28 auction, the volume setting had moved to the ISAC 2 methodology, which should reduce (but not remove) the requirement for post-modelling adjustment.

Given the level of change, including the move to a new Reliability Standard and the forthcoming changes to the GCS, it is essential that SEMC provide as much transparency as possible on how the capacity requirements are being calculated. At a minimum, the information note on the volumes for the T-4 2027/28 auction should be published well in advance of the T-4 2028/29 auction.

Given the known delivery risks for New Capacity, and the significant levels of demand growth forecast by the TSOs, the RAs need to be prudent in ensuring that they procure sufficient volumes of capacity. This is particularly the case in areas of high demand such as Dublin, where growth has historically been highest.

As per Energia's response to the introduction of modification CMC_08_22, Energia remains strongly opposed to the continued utilisation of maximum LCCs in the CRM. Energia remains of the view that the risks of over-procurement in capacity are theoretical in nature and the prospects of all generation in an LCC being dispatched simultaneously (in a 28/29 portfolio) are highly improbable and to assume this is inconsistent with the Transmission System Security and Planning Standards which requires the TSOs to use "credible dispatches" for network modelling. The utilisation of Maximum LCC Requirements to account for this theoretical risk is more likely to lead to the under-procurement of capacity, inefficient exit of existing generators, and more reliance on high-risk new or emergency generation.

Furthermore, the TSO's monitor potential short circuit levels in real time and (if required) take action to ensure limits are not exceeded, this is business as usual and does not constitute a safety issue as previously characterised by the TSOs. Energia strongly recommends that the RAs relax the maximum MW limit in Dublin, which is neither justified or required and could cause significant harm.

Energia also notes that while de-rating factors have continued to decline in recent auctions based on historic availability, when it comes to the reduction of Awarded New Capacity already procured from the auction requirement, the de-rating factors are not updated from those which were in existence at the time that the capacity was awarded. This could lead to an over-estimation of the reliability of Awarded New Capacity, and an under-procurement of capacity for the capacity year in question.

In addition, Net CONE is calculated based on the de-rating factors at the time of the BNE paper. The 2023 BNE Decision Paper was based on de-rating factors for the T-1 2023/24 auction. It is important that when the APC is set for the T-4 28/29 auction (and for all future auctions), that the price caps are based on the current de-rating

factors, so that the price caps more accurately reflect the actual cost of New Entry based on the de-rated values that will apply for that auction.

The McCarthy Review was clear that the key factor in the emergence of the security of supply crisis in Ireland at the start of this decade was the underestimation of the risks involved to the smooth transition of the electricity market. It is vital that the SEMC accounts for the appropriate risks when deciding how much capacity to procure at CRM auctions.

5 Conclusion

Energia is fully supportive of the introduction of ILCs to facilitate refurbishment of existing units in the CRM. As set out in this response, allowing existing units to refurbish and compete with New Capacity via multi-year contracts will bring important benefits to consumers. Avoiding inefficient exit of existing units and the need to replace those units with excessive numbers of expensive new units that carry significant delivery risk is the key benefit of the introduction of the ILC.

It is imperative that the ILC mechanism is well designed to achieve the benefits of refurbishment. The contract length and the ICIRT must be set at a level that genuinely enable a range of refurbishments that contribute to the objectives of the CMC and allow Existing Capacity to qualify and to compete effectively in CRM auctions.

The CMC should be updated to ensure that capacity with ILCs is constrained-on ahead of New Capacity with 10-year contracts, as is consistent with the current principles operating in the CRM and the logic that temporary constraints should be resolved with shorter duration contracts first. The RAs must continue to procure sufficient capacity to cover delivery risk in the CRM and avoid underestimation of the risks involved in the energy transition.

Energia welcomes the proposal to introduce ILCs prior to the T-4 2028/29 auction, and is confident that if designed correctly, the introduction of ILCs will be a significant improvement to the functioning of the CRM to the benefit of consumers and security of supply.