Single Electricity Market
(SEM)

Capacity Remuneration Mechanism
CY2028/29 T-4 Capacity Auction Parameters

Decision Paper
SEM-24-028

01 May 2024

1. EXECUTIVE SUMMARY

Under the revised SEM arrangements, implemented in October 2018, capacity revenues are allocated by capacity auction for a relevant capacity year. Prior to each capacity auction, a number of capacity auction parameters must be set. The list of parameters to be determined by the Regulatory Authorities is described in paragraph D.3.1.3 of the Capacity Market Code.

This paper describes the SEM Committee's proposals for the relevant parameters to apply in the 2028/2029 T-4 Capacity Auction, scheduled to take place on 28th November 2024.

The proposed parameters for T-4 2028/29 Capacity Auction are:

Parameter	Proposed Value for 2028/2029 T-4 capacity auction
De-Rating Curves, defining De-Rating Factors by unit Initial Capacity and by Technology Class (including Interconnectors)	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Capacity Requirement	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Indicative Demand Curve (before taking account of Previously Awarded Capacity)	The Demand Curve for the 2028/2029 T-4 auction will be set as the following: • Horizontal at the Auction Price Cap from 0 MW to 84% of the adjusted Capacity Requirement. • Slopes down in a straight line to 115% of the adjusted Capacity Requirement at a price of zero.
Auction Price Cap	€230,000 / de-rated MW / Year.
Existing Capacity Price Cap	0.5 x Net CONE i.e., €55,678 / de-rated MW /year.
New Capacity Investment Rate Threshold	€300,000 /de-rated MW / year.

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2. CONTENTS

Table of Contents

3. BACKGROUND

Decisions made in this document reflect requirements set out in the Capacity Market Code (CMC), which sets out the arrangements whereby market participants can qualify for, and participate in, auctions for the award of capacity in the Capacity Remuneration Mechanism (CRM) in the SEM. The settlement arrangements for the CRM form part of the revised Trading and Settlement Code (TSC) (SEM-17-024) published in April 2017[1].

The introduction of the CRM involved formal notification to the European Commission (EC) of the proposed mechanism for purposes of State aid consent. This process was led by the Department of Communications, Climate Action & Environment (DCCAE) and the Department for the Economy (DfE) who, together with the Regulatory Authorities (CRU and UR), engaged with the EC in advance of the notification and during the notification process.

The Parameters, as set out in this document, relate to the T-4 CY2028/29 Capacity Auction. The T-4 auction for CY2028/29 is planned for 28 November 2024. A detailed timetable for the auction is also available[2].

On 21 March 2024, the SEM Committee issued a consultation on parameters for the 2028/29 T-4 Capacity Auction (SEM-24-019).

The purpose of this decision paper is to:

- Provide a summary of the responses received to the parameters consultation
- Provide a SEMC summary response to responses received
- Set out the decisions and final parameters for the T-4 CY2028/29 Capacity Auction parameters.

Parameters to be determined:

- the De-Rating Curves, defining De-Rating Factors by Technology Class, (including for Interconnectors).
- the Capacity Requirement;
- an indicative Demand Curve;
- the Auction Price Cap;
- the Existing Capacity Price Cap;

[1] WP-05: Institutional Arrangements (semcommittee.com)
[2] CAT2829T-4-2028-2029-T-4-Capacity-Auction-Timetable-v1.0.pdf (sem-o.com)

- the €/MW rate of the New Capacity Investment Rate Threshold;
- the Annual Stop-Loss Limit Factor;
- the Billing Period Stop-Loss Limit Factor;
- the indicative Annual Capacity Payment Exchange Rate;
- the Increase Tolerance and Decrease Tolerance by Tolerance Class that may be applied by a Participant in its Application for Qualification to Capacity Market Unit de-ratings;
- in respect of Performance Securities:
    - the final Performance Security Posting Dates/ Events applicable to Awarded Capacity allocated in the Capacity Auction; and
    - for each Performance Security Posting Date/ Event, the final €/MW rate to be applied in setting Performance Securities applicable to Awarded Capacity allocated in the Capacity Auction;
- the €/MW fee rates for calculating Termination Charges;
- values for the Full Administered Scarcity Price and the Reserve Scarcity Price; and anticipated values for the parameters to be applied in determining the Strike Price

4. SUMMARY OF PROPOSALS IN THE CONSULTATION PAPER

The table below details the Parameters to be Determined as published in the Consultation Paper:

Parameter	**Proposed Values for 2028/29 T-4 capacity auction**
De-Rating Curves, defining De-Rating Factors by unit Initial Capacity and by Technology Class (including for Interconnectors)	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Capacity Requirement	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Indicative Demand Curve	The Demand Curve for the 2028/2029 T-4 auction will be set as the following:

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<tr><td>Auction Price Cap</td><td>SEM Committee proposes to increase the APC by applying a higher multiplier to Net CONE.

Respondents are invited to consider this question and submit detailed evidence (which can be submitted confidentially) to substantiate an appropriate value. Evidence provided in response to SEM-24-012 will also be taken into account, but we invite respondents to provide further evidence, where appropriate.</td></tr>
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The SEM Committee proposes to retain setting the value of Full ASP in relation to VOLL. However, the SEM Committee requests respondents' views on whether any changes could be made to the parameters of the ASP function to encourage availability at times when system margins are tight.
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5. SUMMARY OF RESPONSES

Nine responses were received with one being marked confidential and another being marked partially confidential. The non-confidential responses were from:

1. Bord Gáis Energy (BGE);
2. Bord na Móna (BnM);
3. Demand Response Association of Ireland (DRAI);
4. Electricity Association of Ireland (EAI);
5. Energia;
6. ESB GT;
7. Kilshane Energy Limited (KEL); and
8. Scottish and Southern Electricity (SSE).

Action Price Cap (APC)

The vast majority of responses supported the proposal to increase the APC by applying a higher multiplier to Net CONE. However, ESB GT, SSE, EAI, BnM and BGE believed the fundamental issue was the Best New Entrant methodology and proposed that this should be reviewed. On the basis that a review couldn't be achieved within the timeframe for the T-4 CY2028/29 capacity auction, then an increase to the APC multiplier was largely welcomed.

Only a small number of respondents proposed a value for the multiplier, with these varying across submissions. ESB GT believed that any multiplier should be towards the upper end of the range 1.5 to 2.0, while KEL thought it should be 2.14. BnM considered 2.4/2.5 an appropriate multiplier although BGE thought that due to the considerable market pressure being faced by new capacity units that would secure, at most, a 10-year contract to recover their investment, an APC multiplier of 4.0 would be needed to keep required projects viable for investors. If the maximum contract duration for New Capacity was extended to more than 10 years (for example, 15 years, to reflect the contracts being offered to offshore developers), then BGE believed the multiplier could be in the 2.0-2.5 range.

Existing Capacity Price Cap (ECPC)

Many submissions thought that the ECPC should also be increased in a similar manner to APC. Energia maintained that the ECPC set at 0.5 x Net CONE did not adequately allow investors in Existing Capacity to recover their costs and that the alternative, in the form of the USPC, did not adequately allow for the recovery of Net Going Forward Costs or Unavoidable Future Investments. Energia also drew attention to the fact that both of the last two T-4 capacity auctions had a clearing price significantly above ECPC, suggesting that there may be scope to raise the ECPC with the expectation that it will not set the clearing price.

BGE shared similar views, stating that existing unit bids limited by the ECPC were facing the same level of commercial market pressures for their operational and improvement costs and should there be a delay in recognising this by failing to increase the multiplier for the ECPC for this auction, then the exceptions process that is the USPC application will become the only course of action for most of the existing generation fleet. Similar views were echoed by EAI, SSE and ESB GT.

Indexation

KEL argued that the lack of any indexation to the CRM auction awards meant that contract erosion due to higher levels of global inflation was a bigger risk now than it may have been five or six years ago. BnM and SSE also supported indexation, with the latter having a strong preference for an enduring indexation mechanism for future auctions to provide a lasting signal to investors.

Non-Zero INCTOL

While the majority of responses agreed that INCTOL should be set at a non-zero value, Energia raised a concern that there was a high possibility such an action could lead to a significant deterioration in the overall security of supply position. It argued that without adjusting the capacity requirement commensurately, such measures would likely lead to the displacement of units that would otherwise have cleared and were necessary from a security of supply perspective. In its view, the lowest risk solution was to not proceed with the INCTOL proposal.

ESB GT shared a similar opinion cautioning that a non-zero INCTOL should be balanced against the overall Capacity Requirement. It argued that increasing de-rated capacity for existing CMUs did not add new, physical capacity and could potentially lead to individual CMUs not being awarded a contract, becoming unviable and exiting the market. The aggregated total contracted capacity would then be provided by less individual CMUs leading to increased impact of any individual CMU outage.

DRAI also expressed concerns stating that while it strongly advocated for the SEMC to allow all market participants the option to voluntarily set a non-zero INCTOL, without any details on how New Capacity could justify exceeding the marginal de-rating factor to a demonstratable value, DRAI was unable to support its use at this time. (Energia had similarly asked how New Capacity would be able to provide evidence that it could exceed its marginal de-rating factors.) DRAI questioned whether a unit which applied for an INCTOL but was rejected, would find itself without a qualified unit in the market.

SSE believed that the main concern to be addressed was the de-rating methodology itself, as a de-rating performance based on historic performance was being applied equally to all

ages and efficiencies of technology with more efficient newer assets being faced with inappropriate downward de-rating factors in previous auctions. SSE argued that a non-zero INCTOL did not fix the underlying problem but was instead a ‘sticking plaster’ change which did not provide a clean, enduring and stable environment for an investor. However, as this was the method currently in use, it favoured a non-zero INCTOL to help mitigate the impact of de-rating factors.

ESB GT, BnM, BGE and Kilshane all supported the non-zero INCTOL proposal with ESB GT considering market participants best placed to manage the appropriate level of risk they assumed in relation to the Reliability Option they were seeking to hold for each of their units. ESB GT supported the proposal in relation to New Capacity (excluding DSUs), while other respondents, such as BGE, thought that INCTOL should apply to both existing and new (including ‘contracted but “yet-to-commission”) units.

KEL agreed with the arguments supporting an INCTOL above zero and noted that a unit-by-unit, evidence-based approach would more accurately reflect the availability of a new or existing unit. However, it cautioned that there were limitations as there was a risk of rewarding older, out of merit units with a high historical average availability due to their low-capacity factors, regardless of their actual performance. It advocated linking the INCTOL for Existing Capacity to performance when dispatched as opposed to availability.

KEL also argued that there was a risk that a non-zero INCTOL could discriminate against units in the Greater Dublin area. Under the assumption that 0MW would be made available in the Greater Dublin Locational Capacity Constraint Area in order to reduce the risk of new capacity being awarded and resulting in the breaking of Operational Security Standards, KEL believed that there was a risk that capacity (New and/or Existing) that enter their INCTOL MWs into the auction, would not be able to clear regardless of their price.

Demand Curve

SSE, EAI and BGE all suggested that the proposed Demand Curve should seek to increase the volumes to be procured in the T-4 by maximising the APC line across to 100% of the Adjusted Capacity Requirements (and not beginning the slope down at 92.5% as proposed in the Consultation Paper).

Administered Scarcity Price (ASP)

Of those that responded to the proposed ASP, the majority did not believe that any changes should be made at times when system margins were tight. DRAI supported a review, particularly if linked to changes in INCTOL, and stressed that any changes must be introduced with a four-year lead time so to enable market participants to consider the change in market signal when taking on binding commitments in a T-4 Capacity Auction. Given the complexities of the ASP mechanism, this, it noted, should be undertaken through a dedicated consultation process outside of the standard Capacity Auction parameters consultation.

Capacity Requirement & Locational Capacity Constraint Area (LCCA) Adjustments

ESB GT highlighted the importance that SEMC's reasoning for adjustments to TSO recommendations in respect of the Capacity Requirement is made clear to all market participants, with the criteria to be applied being transparent and consistent for each auction. Referring to the T-4 CY2026/27 Auction Volumes Information Note published by the SEMC in November 2023, ESB GT pointed out that it was important that such analysis and justification of forecast volume procurement be conducted in advance of all future auctions. A similar view was raised by SSE who stated that auction participants required as much clarity as possible on the Capacity Requirements for an auction as soon as the information was available. This should include indicative values for the LCC requirements as well as the overall Capacity Requirement. Should any updates to these occur prior to the Final Auction Information pack, these should be promptly published with the rationale for any differences included. BnM voiced a comparable opinion, welcoming any increased transparency in the determination of the Capacity Requirement in auctions and suggesting that it would be helpful to understand the rationale for the Demand Curve for each auction.

Performance Security and Termination Charges

A number of responses addressed the proposed Performance Security and Termination Charges. DRAI voiced concern around the application of the same Performance Security rates to one-year Awarded New Capacity and greater than one-year Awarded New Capacity. It argued that this resulted in a disproportionately high Performance Security requirement as a percentage of total Capacity Payment earned over the duration of a contract for one-year

Awarded New Capacity when compared to greater than one-year Awarded New Capacity. BnM also believed the level of security required was too high and that a lower rate should apply for larger units. It asked that if a project is delayed, the increasing liability approach be paused.

Referring to increases in the T-4 CY2027/28, SSE queried why this increase was needed and if there was a justification for this.

Other Comments

SSE stated that they were concerned with the frequency of exceptional adjustments to APC and thought this implied that the Best New Entrant wasn't suitable for setting an appropriate level of APC.

ESB GT also referred to the frequency of changes to parameters and methodologies, noting that this only served to introduce regulatory uncertainty and with it, additional risks and related costs for project developers. ESB GT stated that they were supporting the proposals for INCTOL and APC on the basis they were enduring changes.

ESBGT and BnM both advocated the use of a T-5 auction and, in the case of ESB GT, also a T-6 auction.

Both BnM and SSE raised concerns that, to date, no CRM measures have been proposed to consider the emission targets of the system, even though we are close to a 2030 auction. SSE believed measures to incentivise decarbonisation should be addressed at this stage while BnM urged the SEMC to consider adjusting the CRM to account for the carbon intensity of different technologies.

5. SEM COMMITTEE RESPONSE

Action Price Cap (APC)

The SEM Committee welcomes the views received to the proposal to use a higher multiplier to set the APC.

Given the need to ensure that enough capacity is contracted to meet the requirement in the T-4 CY2028/29 auction and, given stakeholder comments with regard to BNE and Net CONE, the SEM Committee has decided to set the APC at €230,000 / de-rated MW / year.

Existing Capacity Price Cap (ECPC)

While ECPC will continue to be set at 0.5 x Net CONE, the SEM Committee would like to remind industry that Net CONE will be inflated by 2%. Based on the increased Net CONE value of €111,355 / de-rated MW, ECPC will also increase to €55,678 / de-rated MW / year.

Indexation

The SEM Committee notes the comments made in relation to the indexation of capacity payments and an enduring indexation mechanism. The Committee does not, at this time, intend to comment on an enduring indexation process for capacity payments.

Non-Zero INCTOL

Mindful of the comments received on the proposed introduction of a non-zero INCTOL, including feedback provided by the TSOs separately, and, having undertaken further analysis on such an implementation, the SEM Committee has decided not to proceed with the proposal, at this time.

With fundamental concerns having been expressed as to the operational aspects of the proposed mechanism, the Committee has determined that in the absence of achieving an

appropriate solution in time for the T-4 CY2028/29 capacity auction, a non-zero INCTOL will not be progressed until further consideration has been given.

Demand Curve

Noting the responses suggesting that a T-1 Demand Curve be used instead of a T-4 Demand Curve in order to maximise the volumes procured in the auction, the SEM Committee believes that the T-4 Demand Curve remains the most appropriate for this auction.

Administered Scarcity Price (ASP)

The SEM Committee welcomes the feedback provided to its request for views on whether changes could be made to the parameters of the ASP function to encourage availability at times when system margins are tight.

Taking on board the majority of comments received in the consultation, the SEM Committee has decided not to alter the parameters of the ASP function at this time. The SEM Committee notes that a decision on an ASP review, following the consultation published last year (SEM-23-047), is included on the SEM Forward Work Plan.

Capacity Requirement & Locational Capacity Constraint Area (LCCA) Adjustments

The SEM Committee acknowledges the comments made in relation to the Capacity Requirement and LCCA adjustments. At this time, no changes are proposed to the values.

Performance Security and Termination Charges

In the T-4 CY2027/28 Capacity Auction, the SEM Committee felt it appropriate to raise the Securities and Bonds within the auction. This decision was based on comments observed within the EY Review of the CRM and aimed to incentivise delivery of projects and their meeting of financial milestones.

The view of the SEM Committee remains unchanged and it will retain the Performance Securities and Termination Charges consulted on.

6. SEM COMMITTEE DECISION – CY2028/29 CRM PARAMETERS

The table below summarises the decisions taken by the SEM Committee in light of the responses above. The following parameters will apply for the 2028/29 T-4 Capacity Auction.

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