Energy for generations

Generation & Wholesale Markets

ESB GWM Response:

Capacity Remuneration Mechanism (CRM) Parameters for T-4 2022/23 Capacity Auction Consultation Paper (SEM-18-028)

26th June 2018

Contents

1. INTRODUCTION

ESB GWM welcomes the opportunity to respond to the CRM Parameters T-4 2022/23 Capacity Auction Consultation Paper (SEM-18-028). The purpose of the Consultation Paper is to (1) consult on specific areas of the CRM auction design in light of the CY 2019/20 auction parameter updates and (2) consult on specific parameters of the first T-4 capacity auction for capacity year 2022/23. This Consultation Paper sets out a complete set of T-4 capacity auction parameters for the capacity year 2022/23[1]. ESB GWM understands that the Decision from this Consultation Paper will inform the T-4 CY 2022/23 Initial Auction Information Pack. Thus, ESB GWM acknowledge the importance of the contribution made from respondents to this Consultation Paper as it will be based on the experience gained from the previous CY 2018/19 auction and foresights of rational investors looking to enter the T-4 auction.

ESB GWM's response is broken into three sections; the first is an executive summary of ESB GWM's response to the Consultation Paper, the second section describes the main issues ESB GWM has with some of the proposed changes and the third section lists ESB GWM's response to the questions in the Consultation Paper.

2. EXECUTIVE SUMMARY

The experiences gained by ESB GWM from the qualifications and results of the T-1 CY 2018/19 auction have been used to formulate this response to the CRM Parameters T-4 2022/23 Capacity Auction Consultation Paper (SEM-18-028). In light of a lack of a review of market participants experiences of the T-1 CY 2018/19 auction, ESB GWM hopes that its insights from the CY 2018/19 auction can assist the SEM Committee in further developing a long term capacity auction that will ensure system stability and provide participants with regulatory certainty.

ESB GWM believes the SEM Committee's proposal to include locational constraints in the CRM T-4 auction is not the most suitable approach for addressing the locational transmission constraints in I-SEM. As far as ESB GWM is aware, there are no other markets of similar size and market design that can be used to justified the addition of locational constraints in a non-zonal capacity market which subsequently creates the perverse outcome of unsuccessful in-merit winners. Rather than the current auction format ESB GWM is of the view that there are more suitable market based solutions for addressing the locational transmission constraints and that there is still time to develop a solution before the T-4 auction while remaining State Aid compliant.

ESB GWM is of the view that the ASP function should remain at the current level of €3,000/MWh until more experience of the Balancing Market pricing is gained. Once this is achieved it would be prudent to transition to the Full ASP of 100% VoLL that moves I-SEM closer to EU harmonisation.

ESB GWM wants to take this opportunity to restate its objection to the USPC approach that Unavoidable Future Investment (UFI) allowances cannot be recovered in just one year and must be recovered over a number of years. The SEM Committee's position requiring participants to recover the UFI over a number years without providing the participant with a multiple year contract places a significant risk upon participants as there is no certainty of future recovery of investment costs in successive auctions. It is inappropriate to expect market participants to attempt to recover maintenance costs over a number years considering the significant risk associated with clearing in what has been defined as an oversupplied capacity auction.

[1] The recent CRM T-4 BNE Net CONE Consultation Paper (SEM-18-025) will be a key driver in setting the Auction Price Cap, Existing Capacity Price Cap and New Capacity Investment Rate Threshold for the T-4 2022/23 Capacity Auction.

The inclusion of DS3 revenues in the Unit Specific Price Cap (USPC) process removes any incentive for participants to invest in DS3 products. ESB GWM believes the design of I-SEM (DS3, energy markets and CRM) must be done using a holistic approach and not in the current silo approach[2]. ESB GWM is of the view that the current procedures for the calculation of the USPC strips away the incentive to provide additional system services when the DS3 commercial advantage is removed from the potential capacity payment. The incentive to invest in system services no longer exists if the net sum position of a plant's "allowable" cost recovery, due to BMPCOP, NIV tagging in the Balancing Market and USPC less DS3 revenue calculation is zero.

ESB GWM considers the significant changes to the capacity requirement due to changing auction format and the need to ensure the security of supply at a prudent level requires the inclusion of both operating reserves and a tightening of the practical LOLE standard to 3 hours.

ESB GWM requests the SEM Committee to review the decision on the "compensation for unsuccessful winners" if the SEM Committee decide to implement locational transmission constraints in the T-4 auction. The inclusion of locational transmission constraints is resulting in a perverse auction outcome where an in-merit winner is unsuccessful in obtaining a capacity contract and receives no compensation without any acceptable justification. The no compensation for the unsuccessful winners SEM Committee decision is a move away from a market solution and price equilibrium that must be considered a market failure by those who are not rewarded for being the most efficient. ESB GWM believes the SEM Committee should review its minded to position of including locational transmission constraints in the CRM auctions.

3. MAIN COMMENTS

This section details ESB GWM's main concerns with the SEM Committee's proposals for (1) including locational constraints in the T-4 auction, (2) increasing the Administered Scarcity Pricing to VoLL, (3) methodology for determining Net Going Forward Costs (NGFC) in the Unit Specific Price Cap (USPC), (4) the determination of the security standard used for the capacity requirement calculations and (5) compensation for unsuccessful in-merit winners.

3.1 Locational Constraints in the T-4 Auction

As per ESB GWM's response to the Locational Issues Consultation Paper (SEM-16-052), ESB GWM does not agree with the inclusion of locational transmission constraints in the T-4 auction. As far as ESB GWM is aware, there are no other markets of similar size and market design that can be used to justified the addition of locational constraints in a non-zonal capacity market which subsequently creates the perverse outcome of unsuccessful in-merit winners. For example, during the development of the capacity market in GB, our nearest power trading neighbour, a review of whether the inclusion of locational transmission constraints warranted a zonal auction for the capacity auction was performed. At the time it was decided that an impact assessment showed that the transmission constraints would be abated following the implementation of plans for transmission capacity expansion between England and Scotland. This dynamic and forward looking outcome based approach identified that developing a complex market to accommodate future conditions, that would change, would not be warranted. ESB GWM is concerned that the inclusion of the locational constraints places an unwarranted focus on designing a market for preferential exit rather than a market that is based on a sustainable design that ensures the most efficient plants are retained and new investors are encourage to enter.

ESB GWM believes the State Aid decision highlighted a fundamental flaw in the CRM design in that the locational issues should be solved outside of the capacity auction. However, ESB GWM wouldn't agree with

[2] this echoes ESB GWM's response to the recent BNE consultation (SEM-18-025).

the State Aid comments to solve the locational issues through the ancillary services market. ESB GWM believes the ancillary services market should remain solely for the delivering of system services that are required to achieve the high levels of renewable penetration and not be used as a means to subsidise security of supply. The CRM and DS3 markets are very different and any intervention can impact on rational investors in either market as they are not necessarily the same type of player.

ESB GWM is of the view that there are more suitable market based solutions for addressing the locational transmission constraints than the current auction format and that there is still time to develop a solution before the T-4 auction while remaining compliant with the State Aid decision. ESB GWM suggests the following market based alternative methods for addressing the locational issues in I-SEM:

1. Sharpening TLAFs and GTUoS

   ESB GWM agrees with the SEM Committee's minded to position that it would be appropriate to review locational signals (GTUoS and TLAFs). ESB GWM considers a strengthened TLAF would provide greater clarity on the most suitable location for a project (North or South Dublin, Belfast or Derry in Northern Ireland) than the current method for including generic locational constraints in the CRM auction (Dublin or Northern Ireland). An appropriate TLAF would allow a rational investor to develop an investment plan that could recover more of the investment through the energy markets thus making the investment project more attractive in the capacity auctions.

2. Allowing unrestricted bidding in the Balancing Market (providing an expectation of higher revenues and an incentive to keep capacity open)

   The Balancing Market (BM) Imbalance Pricing methodology is developed to flag non-energy actions which will not factor into setting the imbalance price. These actions are subsequently settled on a pay as bid basis. ESB GWM recognises the SEM Committee's concern with market power in the Balancing Market and the resultant decision to apply a Balance Market Bidding Code of Practise (BMPCOP) to the complex offers. I-SEM was designed to be a dynamic market that would allow participants to adjust their positions to accommodate the ever increasing renewable generation. The interaction of DS3 and the energy markets through the Temporal Scarcity Scalar (SNSP) will result in dynamic pricing by participants which will be extremely difficult to monitor on an ex-ante basis. ESB GWM considers a more value regulation approach more suitable where abuse of suspicion of abuse can be policed with justification at a later stage with penalties to reflect the market behaviour. ESB GWM consider the removal of the BMPCOP will:

   - allow participants to recover the missing money through the energy markets rather than distorting the capacity auction[3],
   - helps the SEM Committee and TSOs identify the true costs of the transmission constraints,
   - incentivises the TSO to reduce deviations from the unconstrained ex-ante schedules as to do so impacts on the TSOs objectives to reduce DBCs,
   - removes the need for side contracts for out-of-merit auction losers,
   - removes the need for constraints in the capacity auction and subsequent pay as bid locational constraints units, and

[3] Subject to EU MAR and REMIT requirements.

- removes locational constrained units' market power in the capacity auctions.

3. Side contracts between TSOs and generators

ESB GWM questions if the contracts being developed for the unsuccessful T-1 CY 2018/19 participants that have had their derogation applications rejected are fit for purpose and have no unintended consequences for the T-4 auction. In the interest of transparency, further information on the potential side contracts for the T-1 auction CY 2018/19 should be provided to ensure the consumer receives the full benefits of T-1 CRM and there are no unintended T-1 auction consequences for market participants participating in the T-4 auctions.

3.2 Administered Scarcity Pricing Parameters

ESB GWM acknowledges the SEM Committee's decision (SEM-17-046) that "*the ASP function will apply throughout the transition period, after which it will be based on VoLL*", however, ESB GWM is concerned that market participants, at this moment in time, have gained limited experience of CRM auctions and no experience of the BM pricing and potential Capacity payments/charges. ESB GWM believes to limit the risk to market participants an extension to the transition period, covering the T-4 CY 2022/23 Auction, would allow market participants further learning of how to manage potential partial and full ASP events. In addition, ESB GWM considers it may be prudent to re-address the stop loss limits if the SEM Committee decide to increase the ASP function.

ESB GWM fully agrees that the BM price should move to a more EU level harmonised price that reflects scarcity and VoLL. As noted in the Consultation Paper, the ASP function is a price floor for ASP events and in the DAM and IDA markets there is nothing to prevent participants from pricing scarcity into their bids. Whereas in the BM, ESB GWM considers the BMPCOP and tagging of complex offers as a greater obstacle to achieving EU objective of a harmonised market price that reflects scarcity value more than the setting of the ASP.

Thus, ESB GWM is of the view that the ASP function should remain at the current level of €3,000/MWh until more experience is gained. Once this is achieved it would be prudent to transition to the Full ASP that moves I-SEM closer to EU harmonisation.

3.3 Methodology and Process for Calculating NGFC and USPC

Unavoidable Future Investment

ESB GWM wants to take this opportunity to restate its objection to the USPC approach that Unavoidable Future Investment (UFI) allowances cannot be recovered in just one year and must be recovered over a number of years. The SEM Committee's position requiring participants to recover the UFI over a number years without providing the participant with a multiple year contract places a significant risk upon participants as there is no certainty of future recovery of investment costs in successive auctions. It is inappropriate to expect market participants to attempt to recover maintenance costs over a number years considering the significant risk associated with clearing in what has been described as an oversupplied capacity auction.

Following the results of the T-1 auction and subsequent unsuccessful derogation applications, ESB GWM believes the SEM Committee must allow market participants to submit offers, that include UFI costs

according to the risk appetite of the participant, into the capacity auction and allow the auction to freely determine a clearing price for capacity that provides transparent entry and exit signals.

ESB GWM disagrees with the SEM Committee's proposal "*that recovery should be spread over 5 years, even though the market participant omitted to include the UFI in its CY 2022/23 USPC T-4 submission back in 2018*".The SEM Committee recognises, point 7.3.11 of the Consultation Paper, that there is significant uncertainty about the likely running regimes for individual units between now and 2022/23, and the resulting impact on investment and running regimes. However, the SEM Committee appears to disregard these significant concerns with this proposal and the potential impact on market participants.

ESB GWM acknowledges the SEM Committee's concern with potential market power issues (SEM-17-022) and the inclusion of UFI costs for bidders in constrained zones who face limited competition. However, ESB GWM believes rather than placing extra regulatory burden on capacity market units looking to recover UFI costs in an acceptable risk mitigation strategy (through one year), the locational issues should be addressed outside of the capacity auctions. ESB GWM would like to point to its position that locational constraints should not be included in the CRM auction thus removing the excessive regulation created to address potential market power concerns due to constrained zones. The efficiency of intervention when evidence or suspicion is raised should be sufficient.

DS3 Incentives

The inclusion of DS3 revenues in the USPC process removes any incentive for participants to invest in DS3 products. The cost based regulation approach applied to I-SEM, DS3 and CRM means any DS3 investment decisions results in a zero sum game as any impact on revenues from a DS3 investment is offset in the CRM IMR bid determination. ESB GWM believes the design of I-SEM (DS3, energy markets and CRM) must be done in a holistic approach and not in the current silo approach. ESB GWM is of the view that the current procedures for the calculation of the USPC strips away the incentive to provide additional system services when the DS3 commercial advantage is removed from the potential capacity payment this is further magnified for plant that are being processed to get a USPC. The incentive to invest in system services no longer exists if the net sum position of a plant's "allowable" cost recovery, due to BMPCOP, NIV tagging in the BM and USPC less DS3 revenue calculation is zero.

ESB GWM suggests that DS3 revenues from upgrades that provide additional DS3 system services should not be factored into the USPC applications for five years. It is important to recognise that even with this 5 year exemption there is still a significant risk to an investor from reduced the certainty of ancillary services through uncertainty of EU regulation, DS3 contracts with one year termination clauses, unpredictable scarcity scalar and potential for a three month review of regulated tariffs.

3.4 Capacity Requirement

ESB GWM considers the significant changes to the capacity requirement due to changing auction format and the need to ensure the security of supply at a prudent level requires the inclusion of both operating reserves and a tightening of the practical LOLE standard to 3 hours.

The original decision to remove the operating reserves from the capacity requirement was based on the SEM Committee's view that the additional capacity procured for locational constraints through auction format B would negate the need for operating reserves. Considering the SEM Committee are now proposing to

change the auction format from option B to option C, there is now a clear need to reinstate the operating reserves in the capacity requirement calculations. ESB GWM considers the most prudent approach is to ensure the operating reserve requirement for the largest infeed generator is secured in the capacity market.

ESB GWM stated their preference and the rationale for having a LOLE standard closer to our neighbours in its responses to the CRM 1 Consultation Paper (SEM-15-044). ESB GWM believes the tightening of the practical LOLE standard to 3 hours is an important parameter change that moves I-SEM closer to the equivalent standard of our neighbouring countries and ensures the security of supply in a prudent manner.

3.5 Unsuccessful in-merit winner compensation

Following the experience gained from the T-1 auction, ESB GWM would like to take this opportunity to respond to the SEM Committee's rationale for determining "no compensation" for the administratively deemed unsuccessful in-merit winner (SEM-16-081). ESB GWM requests the SEM Committee to review the decision on the "compensation for unsuccessful winners" if the SEM Committee decide to implement locational transmission constraints in the T-4 auction. The inclusion of locational transmission constraints is resulting in a perverse auction outcome where an in-merit winner is unsuccessful in obtaining a capacity contract and receives no compensation without any acceptable market justification.

4. RESPONSE TO CONSULTATION QUESTIONS

In this section ESB GWM has listed its response to the questions from the Consultation Paper. ESB GWM would like to take this opportunity to say that there was considerable overlap between some questions that has resulted in ESB GWM answering questions by referring to previous questions.

4.1 Treatment of Constraints in T-4 Auction

Q. 1) Do you agree with the SEM Committee's proposal to reflect transmission constraints in the T-4 auction? Please explain your rationale.

As described in greater detail in section 3.1, ESB GWM does not agree the SEM Committee's proposal to reflect transmission constraints in the T-4 Auction. The proposed methodology will result in a flawed market that is not a market based solution and will end up failing to provide efficient entry and exit signal. ESB GWM would like to reiterate its position from the Locational Issues Consultation Paper (SEM-16-052), the locational issues in I-SEM could be addressed via alternative solutions such as:

1. Sharpening TLAFs and GTUoS, or
2. Allowing unrestricted bidding in the Balancing Market (providing an expectation of higher revenues and an incentive to keep capacity open), or
3. Side contracts between TSOs and generators.

Q. 2) Do you have any comment on the possible inclusion of multi-year pay-as-bid Reliability Options to meet the minimum Locational Capacity Constraint requirement?

As stated before, ESB GWM does not agree with the addition of locational constraints in the T-4 auction.

Q. 3) Do you have a preference between the options set out above in relation to pay-as-bid offers? Please explain your rationale.

Section 6.2.49 of SEM-17-022 states "[t]*he SEM Committee believes that the multiple of 1.5 x Net CONE is appropriate for the first transitional auction. A 1.5 multiple is adequate to cover uncertainty over certain assumptions that go into the calculation of Gross and Net CONE. These include the WACC, the number of hours of full and partial ASP, and the potential uncertainty around ancillary service revenue.*" ESB GWM's response to the BNE Net CONE for the CY 2022/23 highlighted a number of concerns on assumptions that could significantly impact revenue for the T-4 BNE. Considering the APC was set to accommodate the potential forecasting errors for the BNE, ESB GWM is of the view that the multi-year pay-as-bid reliability options should be at any price up to the Auction Price Cap (Option 3).

As stated before, ESB GWM does not agree with the addition of locational constraints in the T-4 auction. ESB GWM is of the view that the current approach for addressing the locational constraints is not a market based approach. Instead the SEM Committee have created a market that produces a regulated price via the ECPC and USPC methodologies. ESB GWM considers the application of option B (up to BNE) is excessive regulation by the SEM Committee considering the APC is meant to address BNE's market power.

The APC was set to 1.5 times the Net CONE in order to limit the exercise of new entrant's market power (SEM-17-022). ESB GWM does not believe the Consultation Paper has provided any evidence for changing this parameter. As per ESB GWM's response to the BNE Consultation Paper (SEM-18-025), the APC should be increased rather than decreased considering the increased risk from moving from T-1 forecasts to T-4 forecasts. Consequently, ESB GWM prefer Option C (Up to the APC).

4.2 Auction Format

Q. 1) Do you have any comments on the SEM Committee's proposal to move to an auction format based on Auction Format C for the CY2022/23 T-4 auction, following the State aid decision?

Please see section 3.1 for a more detailed response on the inclusion of locational constraints in the T-4 auctions. Furthermore, ESB GWM believes the State Aid decision highlighted a fundamental flaw in the CRM design in that the locational issues should be solved outside of the capacity auction. However, ESB GWM wouldn't agree with the State Aid comments to solve the locational issues through the ancillary services market. ESB GWM believes the ancillary services market should remain solely for the delivering of system services that are required to achieve the high levels of renewable penetration.

ESB GWM agrees with section 2.1.7 of the Consultation Paper where it identifies transmission system reinforcement and locational signals as tools for managing the transmission constraints. ESB GWM would urge the SEM Committee to perform the full and comprehensive review of locational signals prior to the T-4 auction. A T-4 CRM auction without the negative impacts from including locational transmission constraints will provide market participants with an auction that is free of inefficient exit/entry signals, produces an equitable clearing price for all participants, is free of locational market power and reduces the possibility of locking in a costly long term out-of-merit capacity contract.

Q. 2) Do you have any comments on the TSOs proposed AASM for implementing the new auction format, as set out in Appendix A, or the RAs' proposed change to the N parameter?

Please see ESB GWM's response to Question 1 and comments on the compensation of unsuccessful winners in section 3.5. ESB GWM does not agree with the inclusion of locational transmission constraints in the CRM auctions.

Q. 3) Do you have any comment on the proposed change to the format to accommodate multi-year pay-as-bid Reliability Options?

Please see section 4.1 Q3 for ESB GWM's comments on the accommodation of multi-year pay-as-bid CRM contracts.

4.3 Capacity Requirement

Q. 1) What are your views on the potential changes proposed to the CR methodology i.e:

- *Incorporate some measure of operating reserves in the CR? What MW value?*
- *Whether the 8-hours LOLE standard should be tightened (reducing the LOLE target). What level do you consider to be appropriate and why?*

Please refer to section 3.4 for a more detailed response to this question. ESB GWM is of the view that:

1. operating reserves reflective of the largest infeed generator (option 5) should be included in the capacity requirement if the auction format is changing from Option B to Option C, and
2. the I-SEM reliability standard should be set at practical 3 hours LOLE, considering the move toward EU harmonisation.

ESB GWM believes the tightening of the practical LOLE standard to 3 hours is an important parameter change that moves I-SEM closer to the equivalent standard of our neighbouring countries and ensures the security of supply in a prudent manner.

4.4 Administered Scarcity Pricing Parameters

Q. 1) Which of the options for the value of Full ASP do you consider most appropriate for the first T-4 capacity auction, and why?

ESB GWM believes the most prudent approach, considering the delay to I-SEM, is to retain the value of the Full ASP at €3,000/MWh until the enduring auction (2024/25) is implemented. This approach would reduce the commercial risk placed upon market participants until market participants have greater experience to manage this risk.

Q. 2) Should we move to setting VoLL on an October to September year, rather than the current Calendar Year basis, so that a single value of VoLL pertains within a Capacity Year?

ESB GWM agrees with moving the setting of VoLL to an October to September year.

4.5 Auction Volumes and Demand Curve

Q. 1) Should the proportion of the CR the SEM Committee hold back from the T-4 CY2022/23 auction for the T-1 CY2022/23 be increased from 5% to 7.5%, and why?

ESB GWM believes the auction should be technology neutral and DSUs should not be getting favourable treatment. An auction that withholds capacity for a specific type of technology is biased and creates inequitable treatment for participants. Also, any increases in demand over forecast allied with holding back of capacity would leave the market at serious risk of the T-1 being incapable of fulfilling the capacity requirement. It could also lead to unintended outcomes and auction results that could be less efficient. Withholding capacity for DSUs places the security standard for the capacity year at risk of short term failure to procure the remaining capacity. ESB GWM favour option 1 considering experience from GB shows DSUs participating in the T-4 auctions and secondary trading provides all market participants with the same capabilities to trade out of CRM contracts.

The T-1 auctions should only be used for addressing changes in demand forecasts and potential withdrawals of T-4 cleared offers. If the SEM Committee are of the view that a percentage of the capacity requirement should be withheld from the T-4 CY 2022/23 auction, the percentage should be adjusted downwards from the previously suggest 5% considering DSUs participation in the T-4 auction and the new reduced de-rating factors for DSUs. ESB GWM considers it is more prudent to ensure the full CY capacity requirement is procured in the CRM auctions until more experience of DSUs participation in the T-4 auctions is acquired rather than withholding capacity for DSUs.

Q. 2) Should the minimum MW in each constrained area be adjusted for volumes withheld from the T-4 auction to the T-1 auction for CY2022/23? Which of Options 1, 2 and 3 do you prefer, and why?

ESB favour option 1. Please see Q.1 above for more details.

Q. 3) Which of the demand curve options, Options A or B, in your view is the most appropriate for the first T-4 capacity auction, and why?

ESB GWM does not agree with the justification provided by the SEM Committee to change the demand curve. The proposed Option B is not a prudent approach for ensuring the security of supply is achieved. The purpose of the T-1 auction should be to procure any additional capacity requirements due to changes in demand forecast and any remaining capacity that didn't clear in the T-4 auction, not as an additional auction that can be used to artificially lower the capacity requirements in the T-4 auction.

The capacity requirement has been calculated using a detailed methodology that incorporates a Least Regret Cost of excess Expected Unserved Energy and Least Regret Cost of Excess Capacity. The impacts from Option B are not factored into the capacity requirement calculation. ESB GWM does not believe Option B and the current capacity requirement calculations are compatible.

Considering all of the above, ESB GWM favours Option A for the T-4 auction demand curve.

4.6 T-4 Auction Price Caps for CY 2022/23

Q. 1) Do you agree with the proposal to keep the Auction Price Cap (APC) at 1.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

Section 6.2.49 of SEM-17-022 states "[t]*he SEM Committee believes that the multiple of 1.5 x Net CONE is appropriate for the first transitional auction. A 1.5 multiple is adequate to cover uncertainty over certain assumptions that go into the calculation of Gross and Net CONE. These include the WACC, the number of hours of full and partial ASP, and the potential uncertainty around ancillary service revenue.*" ESB GWM is concerned that the assumptions used in the proposed BNE Net CONE methodology may lead to a failure in attracting new investment as the 50% margin could be too tight to deliver a new entrant. The assumptions used in the T-4 auctions have greater chance for error than the T-1 auctions. Thus, ESB GWM is of the view that the APC should be set higher than 1.5 x Net CONE.

Q. 2) Do you agree with the proposal to keep ECPC at 0.5 x Net CONE for the T-4 auctions? If not, please explain. Is your response in any way contingent upon the final value of BNE Net CONE for CY2022/23?

The SEM Committee's rationale for setting the ECPC at 0.5xNet CONE was "*we would anticipate that in the current market, with significant capacity in excess of the Capacity Requirement, in the absence of market power we would expect the auction to clear well below Net CONE, and not far from 0.5xNet CONE*". The CY 2019/20 T-1 Auction Parameters Consultation Paper stated "*The SEM Committee remains of the view, that the CY2018/19 auction ECPC was set at about the right level:*

- *The level of ECPC was important in controlling market power, given the clearing price was only just above ECPC- if the ECPC had been any higher, market participants with market power could have increased clearing prices via financial withholding;*
- *All units which qualified with a USPC and those which were awarded out-of-merit Reliability Options in the auction were subject to regulatory scrutiny of their USPC applications;*
- *The workload on the RAs and the market participants resulting from the number of USPC applications, whilst challenging, was manageable."*

ESB GWM would have expected an efficient T-1 auction that provided sufficient exit signals should have resulted in a reduction of excess capacity that would have at least prompted a review of the ECPC multiplier. The approach to setting the ECPC at 0.5xNet CONE and the USPC calculation, that results in a plant remaining indifferent to opening or closing and not recovering any contribution to its sunk capacity costs, have created a regulated price rather than a market driven price.

The SEM Committee have stated that one of the reasons for setting the ECPC at 0.5xNet CONE is it would not impose an unnecessary administrative burden on both the RAs and bidders. ESB GWM in its response to the CY 2019/20 T-1 Auction Parameters Consultation Paper (SEM-18-009) requested a review of market participants as it would be beneficial in identifying market participant's perspective of the workload due to the ECPC being set at 0.5 x Net Cone. In setting the ECPC for the T-4 auction in this Consultation Paper,

the SEM Committee has provided no evidence that the administration work load was not an unnecessary burden for market participants.

Q. 3) USPC setting: Do you agree with the proposed approach for UFI submissions?

ESB does not agree with the proposed approach that an UFI cannot be recovered in just one year and potential for the SEM Committee to inforce the participant to spread the costs over five years. ESB GWM believes the SEM Committee must allow market participants to submit offers, that include UFI costs according to the risk appetite of the participant, into the capacity auction and allow the auction to freely determine a clearing price of capacity that provides unambiguous entry and exit signals.

Q. 4) USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY 2022/23?

ESB GWM agrees with the proposal to apply 2% p.a. inflation projection for estimating costs for CY 2022/23.

4.7 DeRating Factors

Q. 1) Do you have any views on the proposal of EMDF value of 60% subject to review and update of the analysis for the decision paper?

ESB GWM believes the de-rating factors of interconnectors, similar to other technologies, should be continuously reviewed especially in light of changes to methodologies applied in other relevant capacity markets.

Q. 2) Do you expect to be applying to qualify a new interconnector between the I-SEM and an external market other than GB?

No.

Q. 3) Do you have any feedback on the issues around transitioning from the interim to the hybrid solution for cross-border trading of capacity?

ESB GWM considers regulatory certainty and consistency of signals to market participants as key to the success of the CRM auctions. ESB GWM thinks the same interconnector de-rating methodology should be applied to all the capacity auctions (T-4 and T-1) for the same Capacity Year (2022/23).

ESB GWM is concerned that there is a possibility that new interconnectors may participate in the T-4 auctions CY 2022/23 and 2023/24 and clear a long term contract under the interconnector led approach. Has the SEM Committee considered the potential impact of such a scenario?

4.8 New Capacity Investment Rate Threshold

Q. 1) Do you agree with keeping NCIRT at €300/kW, in the light of new evidence on BNE gross investment costs? Does your view depend on the choice of BNE reference plant resulting from the Best New Entrant consultation (SEM-18-025)?

ESB GWM agrees with keeping the NCIRT at €300/kW.