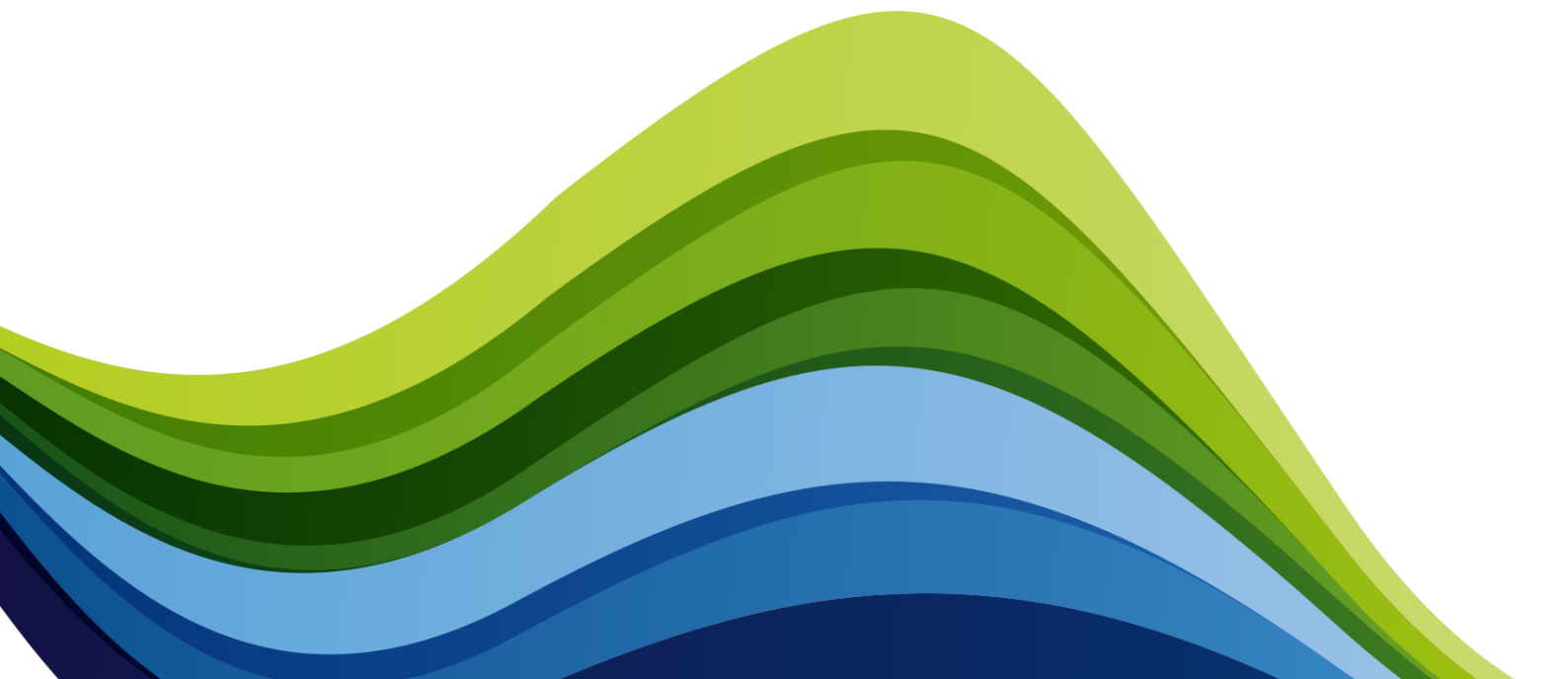

**Capacity Remuneration Mechanism (CRM)
Parameters for T-4 2022/23 Capacity Auction
Consultation**

SEM-18-028





Introduction

SSE welcomes the opportunity to comment on the SEM Committee's (SEMC) Consultation Paper, regarding the setting of certain T-4 auction parameters, for the forthcoming T-4 capacity auction 2022/23.

SSE has over 2,000MW of operational generation capacity and 750,000 retail customers across the island of Ireland. The priority for our generation business is to deliver flexible, sustainable, cost-effective energy, through a diverse portfolio of generation assets. We own and operate the newest and most efficient gas fired plant in the market. We are fully committed to investing further, and are currently progressing additional flexible generation, to ensure Ireland meets its energy needs.

Under the I-SEM, a stable, well-designed Capacity Remuneration Mechanism (CRM) should ensure that sufficient, efficient capacity is available to the market for security of supply purposes. It should also ensure that generators can obtain an equitable return on their investments. The T-4 auction, is the first capacity auction to realise economic entry, and long-term exit signals, for new generation on the system.

From a generator perspective, a well-designed CRM, ensures that market participants can expect a stable and equitable return on capital intensive assets. The T-4 auction is a significant milestone in the I-SEM, as it is the first test of whether effective entry signals will result in efficient and much needed new entry onto the system. As Ireland, and the EU, move towards less carbon intensive generation, it is imperative that the capacity market delivers on requirements to ensure no over-procurement of capacity, and design measures that ensure generation adequacy to meet security of supply.

At a time when numerous existing plant will be required to close due to factors such as environmental obligations, it is critical that entry signals are at a level that ensures efficient new entry is sufficiently rewarded for the risk undertaken, in relation to the large-scale capital expenditure.

This consultation has significant interaction with a parallel SEMC consultation proposing the new BNE for the first T-4 auction; SEM-18-025. SSE, alongside EAI, submitted a response to the BNE consultation in mid-June, with reference to the proposals in this T-4 parameters consultation. We reiterate our comments on the BNE, and reference this parallel consultation, where appropriate, within this response.

Executive Summary

This response broadly covers comments relating to the specific topics covered in the consultation. We have endeavoured to fully respond to the SEMC consultation questions, either indicated in the body of this response, or in the Appendix, table 2.

Specifically, we have the following comments in relation to the CRM consultation:

1. We recognise the necessity to manage entry and exit for the forthcoming T-4 auction. However, we question the prudence of a move to a pay-as-bid scenario to manage locational constraints, to the detriment of all other participants in the market. We are of the view that locational constraints are best addressed through network reinforcements, rather than the capacity market, and/or separate market based

solutions operating in the same way as ancillary services. This would ensure an equal basis for all licensees in the CRM, and remove the requirement for the secondary step removal of in-merit plant from the auction results.

2. A sensible approach to balance the uncertainty of the levels of DSU penetration at T-4, and allow for the increased volumes under T-1, is 7.5% on a minimum MW basis (i.e. not zonal). This is due to lack of historical data associated with DSUs.
3. We mirror concerns we have raised in our response to the BNE Net CONE consultation. We are surprised that both papers were published relatively close together, whilst setting out, what we consider are, divergent approaches. The BNE paper proposed significant changes to the calculation of the NET Cone, which in turn impacts the ECPC (existing plant) and APC (new plant). Both are important parameters in the CRM auction.
4. Whilst the BNE paper was developed in isolation, its outputs are not considered robustly by SEMC. Particularly, the calculation of the ECPC and its value of 0.5 may result in efficient plant being signalled to exit the market. This is not an ideal outcome. We also consider that SEMC has failed to take account of the time value money of money in both consultation papers.
5. Finally, we are of the view that the approach to making capacity and scarcity measures comparable to other Member States, and setting them in relation to each, (since they are interrelated), represents a logical approach to setting these metrics. Specifically, we agree for the LOLE to be tightened to 3 hours, whilst at the same time recommending that operating reserve and ASP be increased to levels that ensure this standard can realistically be met.

This consultation response

This response provides comments broadly under SEMC's consultation chapters.

In summary, we review the following:

1. The proposed solution to manage exit and entry **locational constraints**, namely multi-year-pay-as-bid Reliability Options; and the effect of such an approach to the auction.
2. The **auction format** proposed to change from Option B to Option C, where we believe this exacerbates the effect of the solution for locational constraints above, and otherwise our comments regarding the solution N.
3. Analysis of the proposed **demand curve**.
4. Our views on the effectiveness of changes and consistency of **Auction Price Caps** (i.e. ECPC, APC etc).
5. Our views on the proposals relating to capacity and scarcity, namely, withholding of capacity volumes to T-1 (**auction volumes**), proposed changes to the **capacity requirement**, and the level of **ASP** appropriate for T-4.
6. Comments relating to **de-rating factors** for interconnectors and **new capacity investment rate threshold** (including our understanding as it relates to the pay-as-bid RO proposal).

Please note that we have also fully responded to the SEMC consultation questions, either indicated in the body of this response, or in the Appendix, table 2. We have also provided comments, as per table 1 of the Appendix, relating to those parameters, not intended to be changed for T-4.

Giving effect to State aid undertakings

As part of the design of the CRM, the authorities were required to obtain State Aid approval from the European Commission. In the approval of State Aid, the authorities indicated certain commitments which would be actioned as part of the enduring auction design. In addition, as part of its approval, the European Commission required certain undertakings.

These, as we understand them are:

1. not to over-procure capacity from 2020, (which the Commission felt would be well managed through the setting of an LOLE metric and the proposed Administered Scarcity Pricing parameter set for the CRM¹). Currently, a critical locational plant may be awarded an offer on an out-of-merit basis, on top of in-merit plant who are meeting the demand volume. Therefore, the authorities have committed to a solution where out-of-merit locational plant will displace in-merit generation elsewhere.

The SEMC is proposing several changes to T-4 parameters to give effect to these undertakings. This includes changes to the auction format to Option C, and changes to auction design regarding the bidding of ROs.

2. to prepare for direct participation of foreign capacity to participate in the market, which will require additional time for cross-jurisdictional cooperation to be brokered. Until this is possible, the authorities have committed to moving to an interim position regarding de-rating factors for interconnectors.

The SEMC is proposing certain de-rating factors to take account of this undertaking, and an interim solution moving towards a hybrid led interconnector approach, in future.

Transmission constraints and pay-as-bid ROs

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

It is understood that the changes proposed, are an intended solution to State aid commitments made at the time of the CRM design. However, we consider the question of over-procurement, to be one that may be addressed through network upgrades and/or other measures, rather than capacity mechanisms (i.e. not through auction design or auction format). By other measures, we mean market based solutions (e.g. voltage support contracts that can be tendered for, by any plant capable of providing these services). This would negate the need to specify locational constraints under CRM and allow generators to provide these services separately, (in much the same way as ancillary services). Such services could be tendered for on a non-discriminatory basis, subject to whatever suitability parameters should be specified and which can be pre-defined.

The primary objective for T-4, as per the BNE, is to incentivise much needed new generation at sufficient levels, to support the high degree of intermittent wind, and exit of plant on the system, due to environmental requirements e.g. Industrial Emissions Directive.

The SEMC needs to be cognisant of the very real issue of new generation not having firm access to the grid. This dilutes the investment case, when new generation is not able to export

¹ See the State Aid decision document

to its maximum capacity. When limits on maximum export capacity are coupled with uncertain capacity market risk (e.g. tenure of contracts), this may prove too risky for new generators. We would urge SEMC and the TSOs to ensure firm grid capacity is addressed concurrently, as it is a critical factor for attracting new generation.

In principle, we consider that it is unfair to directly discriminate based on locational constraint in the capacity market. We think that the issue of locational constraints is not strictly a capacity market issue i.e. it is not a shortage of capacity problem. Rather, the issue is a networks issue which SEMC is attempting to solve through the CRM process. These issues should be addressed through network planning and delivery (e.g. North-South tie-line), not the capacity market. This would ensure that those entering the auction and deemed in-merit, would not be subject to a secondary adjustment, i.e. potential removal that aims to solve locational constraints. This would also remove the requirement for a re-adjustment to be made ex-post of the initial results that re-optimises to ensure no over-procurement of capacity. Finally, this would remove the need for a move to pay-as-bid pricing.

Q: 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?

The approach for pay-as-bid is not completely clear regarding several points:

- The treatment of new entrants into the market, who bid at or under the Net CONE. Should these plant to be treated as part of pay-as-bid, or does a 10-year RO secured due to meeting NCIRT, separate them from the pay-as-bid pricing.
- If new entrants are treated under pay-as-bid what happens to the existing multi-year RO, if it is knocked out by a 1-year RO, i.e. what happens should a multi-year RO “lose” a year, in being knocked out, in pay-as-bid.
- Can existing plant also request multi-year RO, and on what basis.
- The rationale for both the ECPC and a trigger point at Net CONE, for the differential between 1-year and 10-year ROs choices, for out-of-merit constrained plant.
- Why use Net CONE (a metric representing efficient best new entrant), to manage locational constraints, which is driven by network issues.
- Is the current practice of trading ROs, intended to be extinguished by this shift in pricing?
- Is this proposal intended to be an interim option on the basis that locational constraints will be resolved? Then what?

We would prefer that this option is not included for T-4, for the following reasons set out below. Should the pay-as-bid proposal only be intended for existing plant and specifically location constrained, we would welcome clarity on this and how it is intended to work, as currently it appears to apply to all generators.

A pay-as-bid approach would significantly disadvantage new entrants and in fact may provide a disincentive for the level of new entry needed, to be built. Pay-as-bid furthermore, encourages less transparency in motivating bids as close as possible to the clearing price, and not setting bids reflective of a generator’s costs². Pay-as-bid also disadvantages those less efficient, but location critical plant, where in some instances, they are reliant either on network improvements, or the entry of plant, to assist in reducing their own criticality and reducing of over-procurement to meet locational constraints. The only issue pay-as-bid may

² <http://www.cramton.umd.edu/papers2005-2009/cramton-stoft-clearing-price-markets.pdf>

assist with, is in areas of over-supply, being incentivised to reduce over-procurement. But that is not a significant enough effect, we would suggest, to shift the pricing structure so drastically.

Treatment of new generation

Under the CRM consultation, locational constraints are an understandable issue which requires a remedy for T-4. Option 2 applies a pay-as-bid pricing structure to both multi-year and single year ROs, on the same basis, at or below NET CONE. This seems to be the favoured option. However, all options presented are on the basis of introducing pay-as-bid pricing, based on the experience of such a pricing structure in the T-1 2018/19 auction.

It is apparent that the SEMC is committed to facilitating 10-year fixed term ROs for new generation, where certain criteria are met. Specifically, the State Aid decision, CRM consultation and CRM Decision Paper 3, appear to suggest that new generation may secure 10-year ROs, once they satisfy the threshold of the NCIRT, (proposed to be set nominally at €300/kW for T-4, in this paper). The aim of the BNE Net CONE is also to encourage efficient new generation solutions to enter the market. In return, an efficient new investor requires certainty that it will recover its sunk costs over a reasonable timeframe. This has been determined as 10 years. Indeed, financing costs associated with the BNE are based on a 10-year debt tenure.

However, following Option 2, to its conclusion, SEMC runs the risk of no new generation being built for T-4. A new generator, making a substantial investment, with associated sunk costs, would expect to have the security of a 10-year RO, reflective of its 10-year debt commitment. The effect of Option 2 on a new generator with a multi-year RO, would appear to be that at any time, it can have its RO knocked out by a 1-year RO. Furthermore, if a new generator happens to be out-of-merit and is knocked out, the design suggests it would be forced to apply for an ex-post 1-year RO, (on top of its existing multi-year RO), in any given year. This effect has a direct impact on the investment value of a multi-year RO, and the rationale it can provide, for new generation investment.

The SEMC's proposals directly discriminate based on locational constraint and appear to undermine both ECPC (in setting another hurdle at Net CONE for pay-as-bid), and Net CONE, as specific metrics set for particular market decisions. The aim of the proposed BNE is to encourage investment of the level of a new baseload/mid-merit plant, with equally significant assurances as to the viability of such a project for T-4. It is confusing why Option 2 utilises the Net CONE signal for efficient new entry, to manage locational constraints, (which by their nature would involve out-of-merit critical locational plant, who would therefore not represent the most efficient bidder). We would welcome clarity on why this mechanism is being used as a signal to manage location specific exit and entry (when Net CONE is intended to represent the best new efficient entrant to the market).

Rationale for including pay-as-bid

We note that the SEMC has decided to introduce the pay-as-bid as an interim solution, given that it is impossible to complete a full review of locational signals (i.e. GTUoS and TLAFs) prior to T-4. They have indicated that some locational reforms however could be considered for T-4. SEMC also acknowledge that transmission system reinforcements along with locational signals, will go a long way to addressing locational constraints. Direct reform (even on a minimal basis), and delivered reinforcements, would represent the most appropriate solution to an issue that we consider lies outside the capacity market. It would also likely have the added benefit of providing clear signals to reduce over-procurement. Separate treatment of locational constraints would also ensure the pure entry signals intended for T-4, are preserved

(as set out in the BNE), to meet increasing customer demand and anticipated capacity squeeze.

The SEMC appears to provide the experience of T-1 auctions pay-as-bid provisions, as the basis upon which, pay-as-bid for T-4 might be a viable solution (see examples in the consultation). The capacity procured for the T-1 auction did not include Substantial Financial Investment, since the timeframe for T-1 auctions would not facilitate delivery of a project. T-4 auctions in contrast, are anticipated to include substantial financial investment, and therefore, this feature invalidates the conclusion that pay-as-bid, based on the experience of T-1, is suitable at T-4.

We would also consider that, as per the EU Commission decision, certain mechanisms that exist in the CRM design (i.e. LOLE and ASP, and additionally the auction price caps), provide efficient checks against over-procurement, if set sensibly. Since they are meant to manage security of supply, they set clear parameters which help to define and mitigate over-procurement. The Commission also underlined the importance of implementing reforms in the ancillary services market, to move away from the locational value of plant. We would respectfully consider that in total, this would be a better approach, than the proposed move to pay-as-bid pricing.

Shape of the Demand curve and auction volumes

We have provided comments regarding some of these questions, in table 2 of the Appendix.

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

Option 1: Procure the full minimum MW requirement in the T-4 auction, is our preferred option, i.e. the proposed 7.5%, which appears to be the average of % minimum requirements, across zones (see table 2 in Chapter 6).

We acknowledge that the SEMC has a concern that Option 1 may result in expensive capacity for constrained areas. However, we consider there is a lack of substantial historical data and there is uncertainty regarding what DSUs will do for T-4. Option 1 provides for a reasonable average MW provision of withheld capacity, based on limited experience at T-1. Furthermore, it strikes the right balance between this higher participation of DSU at T-1, and providing for any potential for DSU participation at T-4, (at unknown levels in the absence of historic trends).

We would not suggest a zonal minimum based on the experience of T-1. Nor would we suggest that a zonal minimum could be forecast accurately, given the limited historical data of DSU penetration levels available, and given the uncertainty of how DSUs will respond to the T-4 auctions.

Auction Format

Q: 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?

We understand that Option C provides a second step which seeks to manage the requirement not to over-procure. This is intended to be an interim solution before a combinatorial approach

to auction format is possible, as the long-term solution. We agree that a change may assist with over-procurement. However, we have a concern about the use of DSU as a “quick win” to shed excess capacity (i.e. Clean). This flexibility does not effectively deal with the primary issue of over-procurement due to locational constraints. Over-procurement due to locational constraints is a challenge of the Irish capacity market, (and the principle that the authorities undertook to address in capacity auctions, as per State aid). Furthermore, given the lack of historical data relating to DSUs penetration and capacity levels, it is not certain that shedding excess DSUs will provide a significant remedy for over-procurement.

Pay-as-bid provisions (for locational constraints)

SSE understands that the change to auction format i.e. Option C also intends to apply the pay-as-bid pricing approach. For the reasons outlined above (under locational constraints), we are not in agreement with this additional step for the auction format.

With reference to figure 3 illustrating the option C heuristic in a simplistic manner, the following appears to be clear:

- 1) Those out-of-merit plant above the Net CONE value, if still critical, would get offered a 1-year RO, rather than a 10-year RO and in-merit plant would be displaced. This is intended to reflect the temporary nature of the constraint. The 1 Year RO option is intended to limit the possibility of a stranded 10-year RO, where a constraint may have been resolved.
- 2) Those existing out-of-merit plant in location constrained areas, that bid below the Net CONE, would appear have the option of a 10-year RO and be included along with in-merit plant.

In principle, we consider that it is unfair to directly discriminate on the basis of locational constraint in the capacity market. Every generator can provide capacity on a relatively equal basis, and should be allowed to participate in the capacity market on this basis alone. Locational constraints indicate network issues. These issues should be addressed through network planning and delivery (e.g. North-South tie-line), not the capacity market.

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

See our comments above regarding auction format.

The proposed change to N, i.e. two values to take account of those above and below the base solution, allows for the potential to prioritise those inflexible offers set at below the base solution. This is a sensible approach and fairer than the alternative, which would provide a highly complex and risky scenario where the likelihood of being displaced by other offers, is less certain. Inflexible offers, whilst difficult for the auction solution, represent a realistic market outcome due to the fact that certain plant may not be capable of offering flexible bids.

Auction Price Caps

We have provided responses to the other three questions, see table 2 of the Appendix.

Q: 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 on any way contingent upon the final value of BNE Net CONE for CY 2022/23?

The T-4 auction has been set with sufficient lead-time³, to allow for the possibility of new generation to be built, and to enter a capacity auction. The BNE (being separately considered for T-4), currently proposes that the best new entrant is a baseload/mid-merit CCGT, which represents a change from the previous year's BNE.

Following the first T-1 auction, only 75% of plant appeared to be covered under the current ECPC cap (0.5 x BNE Net CONE). ECPC at 0.5 capturing 75% of plant, suggests that a large proportion, (rather than an exception), of installed capacity is inefficient. This could result in an unintended exit signal to existing useful capacity. This proportion could increase as a new CCGT displaces existing capacity. This suggests that the ECPC at the current level, is inappropriate, for T-4.

We also note that the ECPC, being a multiplier of the new Net CONE, provides a value of €43,000 per MW/de-rated capacity for CY2022-23. We understand that the proposed BNE Net CONE is being set in real terms. We have raised concerns (separately⁴), over the fact that it is unclear whether the time value of money has been incorporated. When ECPC of €43,000 is deflated to take account of the time value of money, the value in 2022-23, will be no higher than the current *clearing price* at T-1 2018/19: which is €41,800. This seems to suggest that existing plant must somehow have become more efficient in the future. When combined with the calculation of the overall BNE Net CONE, this underlines the concern of ECPC being set at 0.5.

Capacity Requirement and ASP

Q: 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?**

We note that the SEMC is considering tightening the LOLE standard in line with other Member States, i.e. 3 hours standard and/or including some or all of operating reserve. The shifting of these mechanisms appears to be intended to manage over-procurement/excess capacity. It is our view that these mechanisms exist to address security of supply, rather than to manage excess capacity. If over-procurement is addressed, it is an aside benefit, rather than the direct intent.

Tightening the LOLE in line with other countries appears reasonable. We would recommend that should the tighter LOLE standard be decided upon, (i.e. representing the number of hours per annum that statistically supply will not meet demand), then operating reserve should be maximised at the same time. As LOLE tightens, we consider that the need for operating reserve, increases. Increasing operating reserve will allow for excess capacity available at times of scarcity, thus ensuring that the tighter LOLE standard is still met. Given that these parameters are being set for a future timeframe with inherent uncertainty regarding actual exit and entry, levels of demand (of high volumes i.e. data centres), and indeed capacity requirements, it also makes sense to maximise operating reserve.

³ Please note our comments in the BNE, and the choice of the reference technology

⁴ See our comments to the BNE paper.

The tightening of the LOLE, also has an inverse impact on the ASP. The SEMC is proposing any of ASP at 25%, 50% or 100% of VoLL. If the LOLE is being tightened, we would suggest the ASP is increased. A tighter LOLE means higher levels of readiness are needed to ensure that this standard is met; therefore, the need for a higher ASP. 50% ASP also represents an acknowledgement of the risks associated with setting this for a future date, predicated on certain factors that are intended to meet security of supply. At the same time, 50% ASP acknowledges the reality that capacity for new generation will still likely be limited for T-4. We suggest consistency between this interrelated metrics, would represent a logical approach to deciding the level that these metrics should be set, in relation to each other.

Interconnectors de-rating factors

We have responded to the other questions posed in this section, in the Appendix.

NCIRT

Referencing the State aid decision document and the CRM consultation, the NCIRT is the minimum threshold that new generation must demonstrate, in order to be considered for a 10-year Reliability Option. This is set as a percentage of gross investment costs in BNE. The SEMC has decided to keep NCIRT at the same level as in transitional auctions, in nominal terms, i.e. €300/kW. This appears reasonable given the reasons the SEMC has set out, however, it may be useful to consider the real figure, deflated to reflect the lost value of money, over time.

Appendix

Table 1: parameters remaining unchanged

SSE has responded to confirm that we are comfortable with the fact that these parameters are remaining unchanged. This response table is adapted from the Parameters Summary, provided in chapter 10 of the consultation.

Parameter	Proposal	SSE Comments
Strike price parameter: DSU floor price	€500/MW	SSE is comfortable with these parameters remaining consistent for the T-4 auction
Strike price parameter: other	Fuel/carbon/transport adders to be updated for T-4. TSOs to provide updated values for SEMC approval	
Annual capacity payment exchange rate	TSO to propose indicative rate for IAIP, and final rate for FAIP, based on market quotes for CY2022/23 forward period	
Awarded capacity	0	
Annual stop-loss limit	1.5	
Billing period stop-loss limit factor	0.5	
Performance securities	Same as for CY2018/19	
Termination charges	Same as for CY2018/19	
De-rating curves by tech class (excl interconnectors)	TSOs to update estimates for SEMC approval and incl in IAIP with potential minor changes to reflect input assumption changes	
Tolerance bands	No change from CY2018/19 proposed	

Table 2: Summary of consultation questions

SSE has responded directly to the questions posed by the SEMC, as below.

Chapter/topic reference	SEMC consultation questions	SSE response
Locational constraints	Do you agree with the SEM Committee's proposal to reflect transmission constraints in the T-4 auction? Please explain your rationale	See comments in the body of the response
	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?	We recommend no change to the current pricing regime. See comments in the body of the response
	Do you have a preference between the options set out above in relation to pay-as-bid offers? Please explain your rationale	See comments in the body of the response
Auction Format	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?	See comments in the body of the response
	Do you have any comments on the TSOs proposed AASM for implementing the new auction format, as set out in Appendix A, or the RA's proposed change to the N parameter?	See comments in the body of the response
	Do you have any comments on the proposed change to the format to accommodate multi-year pay-as-bid Reliability Options?	Please see our comments in the body of the response, relating to the overall proposal to introduce pay-as-bid ROs for T-4.
Auction volumes and demand curve	Should the proportion of the CR the SEM Committee hold back from T-4 CY2022/23 auction for the T-1 CY2022/23 be increased from 5% to 7.5%, and why?	See comments in the body of the response
	should the minimum MW in each constrained area be adjusted for volumes withheld from the T-4 auction to the T-1 auction for the CY2022/23? Which of Options 1, 2 and 3, do you prefer, and why?	See comments in the body of the response
	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?	Option B on the basis of the SEMC's view on the value of this linear approach. Option B is also sensible, given the compressed timeline of T-4, regarding volumes of new entry.
Auction price caps	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	APC provides an indication of "headroom" which can provide encouragement for new entry. On this basis, we

	explain. Is your response in any contingent upon the final value of BNE Net CONE for CY2022/23?	consider it is set at a reasonable level, to provide such a signal.
	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 on any way contingent upon the final value of BNE Net CONE for CY 2022/23?	See comments in the body of the response
	USPC setting: Do you agree with the proposed approach for UFI submissions?	yes
	USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY2022/23?	<p>2% p.a. inflation is a standard approach. However, we find it confusing that this appears to be being applied only to USPC (and not to other metrics within the consultation).</p> <p>Please refer our comments as part of our BNE consultation response and above, relating to the time value of money and expressing of metrics/inputs in real or nominal terms inconsistently.</p>
Interconnector de-rating factors	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?	We are comfortable with the proposed de-rating factors for T-4.
	Do you expect to be applying to qualify a new interconnector between the I-SEM and an external market other than GB?	No
	Do you have any feedback on the issues around transitioning from the interim to the hybrid solution for the cross-border trading of capacity?	We appreciate that this will be a complex undertaking, requiring significant cooperation cross-border. The market codes, currently would not make provision for a hybrid solution insofar as cooperation and participation of foreign capacity. Generator licences would be the likely route, though these are separately awarded via country-specific authorities. There would need to be an understanding regarding the boundaries of licensing, minimum standards and market participation requirements that cross-border capacity would have to abide by, and how the market would treat them in terms of capacity market design. Separately, it is important to note that operating reserve

		levels for the capacity auction, will be affected by the volumes of interconnector participation.
Capacity requirement	The SEM Committee seeks consultation feedback on the evidence and options presented in this Section, and in particular: 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?	See comments in the body of the response
	- whether the 8-hours LOLE standard should be tightened (reducing the LOLE target). What level do you consider to be appropriate and why?	See comments in the body of the response
Administering scarcity	Which of the options for the value of Full ASP do you consider most appropriate for the first T-4 capacity auction, and why?	See comments in the body of the response.
	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?	This appears reasonable, to ensure that there is a single VoLL within any given capacity year.
Auction Price Caps	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 contingent upon the final value of BNE Net CONE for CY2022/23?	See comments in the body of the response
	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 on any way contingent upon the final value of BNE Net CONE for CY 2022/23?	No, see comments in the body of our response
	USPC setting: Do you agree with the proposed approach for UFI submissions?	See comments in the body of our response
	USPC setting: Do you agree with the proposal to apply 2% p.a. inflation projection for estimating costs for CY2022/23?	See comments in the body of our response
New Capacity Investment Threshold	Do you have any comments on any of the parameters summarised in Table 6, which are not already covered in your responses to other consultation questions?	No – See comments in the body of our response