

MODIFICATION PROPOSAL FORM			
<b>Proposer</b> <i>(Company)</i>	<b>Date of receipt</b> <i>(assigned by System Operator)</i>	<b>Type of Proposal</b> <i>(delete as appropriate)</i>	<b>Modification Proposal ID</b> <i>(assigned by System Operator)</i>
EPUKI	4 May 2023	Standard	CMC_12_23
Contact Details for Modification Proposal Originator			
<b>Name</b>	<b>Telephone number</b>	<b>Email address</b>	
Harry Molloy		<a href="mailto:h.molloy@tynaghenenergy.ie">h.molloy@tynaghenenergy.ie</a>	
Modification Proposal Title			
Facilitation of Unit Specific Price Caps for Existing Capacity in Excess of the Auction Price Cap			
<b>Documents affected</b> <i>(delete as appropriate)</i>	<b>Section(s) Affected</b>	<b>Version number of CMC used in Drafting</b>	
Capacity Market Code	Section F		
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>EPUKI is proposing a modification which would enable Participants with Existing Capacity to apply for a Unit Specific Price Cap (USPC) in Capacity Auctions which exceeds the Auction Price Cap (APC). Currently, Participants can apply for a USPC which exceeds the Existing Capacity Price Cap (ECPC). However, it is not currently possible to apply for a USPC in excess of the Auction Price Cap.</p> <p>EPUKI recognises potential instances in which facilitating a greater value for USPC may be beneficial for Security of Supply and consumers. While such occurrences would be rare, we believe it would be pragmatic to have such an option available to the SEM Committee (SEMC).</p> <p>The USCP process requires Participants to submit their forecasted costs and revenue to the SEMC for assessment and approval. Therefore, any USPC applications can be fully assessed and considered prior to approval. This means that if this modification is approved, any USPCs in excess of the APC would need to be accepted and approved by the SEMC.</p> <p>EPUKI considers it may be necessary to apply measures to this modification to ensure that any instances of USPC exceeding the APC would be taken in exceptional circumstances only and would not result in market distortion.</p>			
Legal Drafting Change <i>(Clearly show proposed code change using <b>tracked</b> changes, if proposer fails to identify changes, please indicate best estimate of potential changes)</i>			
<p>EPUKI has considered several approaches to this modification. As set out above the primary objective of the legal drafting changes proposed are:</p> <ol style="list-style-type: none"> <li>1. To enable the submission and clearing of USPCs in excess of the APC.</li> <li>2. To ensure that such submissions are made only when doing so would be in the best interest of Security of Supply and the consumer.</li> <li>3. To ensure that the submission of such bids do not result in market distortion.</li> </ol> <p>While we have proposed these legal drafting changes, EPUKI remains open to engagement and constructive feedback on this drafting from the RAs, SEMO, and other market Participants to ensure a workable and efficient solution.</p> <p>Section E.5 of the Capacity Market Code outlines the arrangements for exception applications, including applications for a USPC. From our understanding of the Code, no changes would be required to this Section in order to apply, and be approved, for a USPC in excess of the APC. EPUKI have considered three possible approaches to implementing this modification.</p>			

**First Approach:** This would apply to the operation of the Capacity Auction by amending the definition of the Demand Curve as set out in F.3 of the Capacity Market Code. This approach would be implemented where an existing unit, may not be economic compared to the net CONE, and a Security of Supply risk may require the unit to remain operational.

F.3.1.5 [...]

(e) the highest priced point ( $i=1$ ) must have a price equal to the *greater of the Auction Price Cap, and the highest Unit Specific Price Cap*;

[...]

(i) for all quantities  $Q_x$  between 0 and  $Q_i$  for  $i=1$ ,  $P_x$  is the *greater of the Auction Price Cap, and the highest Unit Specific Price Cap*;

This would enable units to bid to their Unit Specific Price Cap, even where it exceeds the Auction Price Cap. This legal drafting will sit alongside Section E.8.7 Offer Price Caps and Curves which we propose remains unchanged, but have included below for context:

E.8.7.1 (a) the Offer Price Cap for New Capacity shall be the Auction Price Cap;

E.7.8.1 (c) the Offer Price Cap for other Existing Capacity shall be:

- (i) If the Regulatory Authorities have approved a Unit Specific Price Cap for all of the Existing Capacity associated with the Capacity Market unit, the approved Unit Specific Price Cap.

**Second Approach:** The second proposed approach may be more straightforward from a systems changes perspective and would involve recalculating the Auction Price Cap after the USCP process so that the price cap for the auction. EPUKI is confident that this approach could be applied under the current Capacity Market Code, based on changes to APCs in previous auctions. However, we consider it beneficial for transparency and regulatory stability for this to be codified.

This amendment can be applied to Section F.5 of the CMC which outlines the details provided within the Final Auction Information Pack:

F.5.1.3 [...]

(b) the final Auction Price Cap for the Capacity Auction, *which shall be equal to the greater of the Auction Price Cap included in the Initial Auction Information Pack and the highest Unit Specific Price Cap, (in Euro and Sterling)*;

As outlined above, the Auction Price Cap can currently be recalculated at the stage of Final Auction Information Pack. However, this proposed approach increases the transparency and clarity around this process.

**Third Approach:** EPUKI has considered a third approach whereby no changes would be made to the CMC, but confirmation would be sought from the RAs that the APC can be updated to reflect a USPC which is higher than the relevant APC for a given Capacity Auction.

Under the current ruleset it is possible to set a USPC higher than APC, and the RAs have in the past made late changes to the APC prior to an auction taking place, so therefore this should be possible under the current ruleset.

With respect to each of the above approaches, EPUKI is cognisant of interaction with the confidentiality of the USPC process. Insofar as possible, this modification should not impede on this confidentiality.

**Modification Proposal Justification**

*(Clearly state the reason for the Modification)*

Currently the APC is based on the calculation of a Best New Entrant (BNE) Net Cost of New Entry (CONE). While it is practical to forecast New Capacity as being more costly to deliver than retaining Existing Capacity, there may be instances where the retention of Existing Capacity is more efficient and effective than seeking to deliver New Capacity. This is particularly the case if currently contracted New Capacity does not deliver as planned, worsening a forecasted capacity deficit.

To date, the SEMC has addressed deficits through the external procurement of temporary emergency generation. While this solution may work in the interim, it will not be realisable if the capacity deficit increases, or if planned New Capacity fails to deliver. If Security of Supply worsens, there is no guarantee that there will be suitable sites available to the TSO at which temporary emergency generation can be delivered. In such instances, it would be more practical (both economically and in Security of Supply terms) to retain existing, less efficient capacity. This was the original purpose of the USPC which was designed to facilitate Existing Capacity to bid above the ECPC if required to do so.

There are a number of drivers which may lead to an Existing Capacity unit requiring a USPC greater than the APC, these include:

- Increased maintenance costs as a Unit becomes older. If Units are required to remain active after their typical lifespan, associated costs of running would increase.
- If an Existing Unit is required to remain on the system after its typical lifespan it will need to recover any investment costs over a shorter time period. Currently a New or Existing Unit can assume cost recovery of Unavoidable Future Investment (UFI) costs over a 5 year period. It will not be possible to make such an assumption if investment is required in an older Existing Capacity Unit.
- Reduction in System Services revenue. Significant reduction is expected as the market transitions to a competitive approach. In addition, the increased focus of procurement of System Services from low-carbon sources means an important revenue stream for Existing conventional generation is removed.
- Reduction in efficiency resulting in little or no Inframarginal rent being earned by the unit and increased renewable penetration. With targets for 70% RES-E by 2030 and large scale offshore wind projects beginning to materialise, the revenue available to less efficient conventional units in the DAM and BM will be significantly reduced in the coming years.
- Reduction in MW availability of existing units. The gross capacity Existing Units can make available over time can decrease dramatically over time for various technical reasons. This reduced capacity will not result in a similar reduction on costs and so the cost per MW will increase substantially.

The above means that the 'missing money' for older, less efficient units is expected to spiral and the capacity payments required to keep these units active will increase substantially. EPUKI expects that these costs will still be lower than the costs of purchasing temporary emergency generation. In addition, Existing Capacity is more readily and more certainly available than additional emergency generation.

The delivery of New Capacity and continued efficient operation of Existing Capacity is likely to bridge any gap in Security of Supply. Nonetheless, we believe that this would be a pragmatic approach to ensuring against any system events, and an option which would be available to the RAs and TSOs should the need arise.

**Code Objectives Furthered**

*(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)*

A.1.2.1

[...]

(c) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;

(d) to promote competition in the provision of electricity capacity to the SEM;

(e) to provide transparency in the operation of the SEM;

[...]

(g) through the development of the Capacity Market to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the island of Ireland.

#### **Implication of not implementing the Modification Proposal**

*(State the possible outcomes should the Modification Proposal not be implemented)*

Failure to implement this modification may leave the SEM exposed to years where there is insufficient cover through either New Capacity or Emergency Generation. In such instances, it may be practical or cost efficient to pay more to retain older Existing Capacity. This may be a more cost effective option than Emergency Generation, and a more certain option than relying on New Capacity to deliver when expected or at all.

EPUKI understands that in theory, setting a USPC higher than the APC is possible under the current ruleset. However, we believe there would be value in confirming the process around such instances, which improves regulatory certainty and transparency around how Security of Supply issues will be addressed.

#### **Impacts**

*(Indicate the impacts on systems, resources, processes and/or procedures)*

The impacts of this modification will vary depending on which approach is chosen to implement. However, EPUKI considers both Approaches 2 & 3 as being straightforward to implement.

**Please return this form to the System Operators by email to [CapacityModifications@sem-o.com](mailto:CapacityModifications@sem-o.com)**

### Notes on completing Modification Proposal Form:

1. If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.
2. Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Regulatory Authorities.
3. Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.
4. For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:

CMC / Code:	means the Capacity Market Code for the Single Electricity Market
Modification Proposal:	means the proposal to modify the Code as set out in the attached form
Derivative Work:	means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal

The terms "System Operators" and "Regulatory Authorities" shall have the meanings assigned to those terms in the Code.

In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section B.12 of the Code, which I have read and understand, I agree as follows:

1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:
  - 1.1 to the System Operators and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;
  - 1.2 to the Regulatory Authorities to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;
  - 1.3 to the System Operators and the Regulatory Authorities to incorporate the Modification Proposal into the Code;
  - 1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.
2. The licences set out in clause 1 shall equally apply to any Derivative Works.
3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.
4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.
5. I hereby acknowledge that the Modification Proposal may be rejected by the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.