



Single Electricity Market

(SEM)

Capacity Market Code Workshop 31

Decision Paper

**CMC_12_23: Facilitation of Unit Specific Price Caps for Existing
Capacity in Excess of the Auction Price Cap**

SEM-23-096

11 December 2023

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decision relating to a proposed modification to the Capacity Market Code (CMC). This was discussed at Workshop 31, held on 18 May 2023.

The decision within this paper follows on from the associated consultation ([SEM-23-044](#)) which closed on 21 July 2023.

This paper considers the proposed modification presented at Workshop 31 relating to:

➤ **CMC_12_23: Facilitation of Unit Specific Price Caps for Existing Capacity in Excess of the Auction Price Cap**

This modification proposes to allow Unit Specific Price Caps for Existing Capacity in excess of the Auction Price Cap.

Eleven responses were received to the Capacity Market Code Workshop 31 Modification Consultation Paper (SEM-23-044). One was marked as partially confidential.

Summary of Key Decisions

Following consideration of the proposals and the responses received to the consultation, the SEM Committee have decided:

Modification	Decision	Implementation Date
CMC_12_23: Facilitation of Unit Specific Price Caps for Existing Capacity in Excess of the Auction Price Cap	Not Make a Modification	N/A

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1. OVERVIEW

1.1. BACKGROUND

1.1.1. The SEM CRM detailed design and auction process has been developed through a series of consultation and decision papers, all of which are available on the SEM Committee's (SEMC) website. These decisions were translated into legal drafting of the market rules via an extensive consultative process leading to the publication of the Trading and Settlement Code (TSC) and the Capacity Market Code (CMC). Updated versions of the CMC and the TSC are published on the SEMO website.

Process for modification of the CMC

1.1.2. Section B.12 of the CMC outlines the process used to modify the code. It sets out the processes for proposing, consideration, consultation and implementation or rejection of modifications to the CMC.

1.1.3. The purpose of the modification process is to allow for modifications to the CMC to be proposed, considered and, if appropriate, implemented with a view to better facilitating code objectives as set out in Section A.1.2 of the CMC. (B.12.1.2).

1.1.4. Modifications to the CMC can be proposed and submitted by any person, (B.12.4.1), at any time. Unless the modification is urgent modifications are subsequently discussed at a Working Group held on a bi-monthly basis. Each workshop represents an opportunity for a modification proposer to present their proposal(s) and for this to be discussed by the workshop attendees.

1.1.5. For discussion at a Working Group, Modification Proposals must be submitted to the System Operators at least 10 working days before a workshop meeting is due to take place. If a proposal is received less than 10 working days before a workshop and is not marked as urgent it is deferred for discussion to the next Working Group.

1.1.6. Following each workshop, and as per section B.12.5.6 of the CMC, the RAs are required to publish a timetable for the consideration, consultation and decision relating to the modification(s) proposed during a workshop.

1.1.7. If a proposal is received and deemed contrary to the Capacity Market Code Objectives or does not further any of those objectives, the Regulatory Authorities (RAs) will reject the proposal on the grounds of being spurious, as set out in section B.12.6 of the CMC.

1.1.8. If a proposed modification is deemed urgent by the RAs, CMC Section B.12.9.5 will become active and the RAs will determine the procedure and timetable to be followed in the assessment of the Modification Proposal. The CMC states that the procedure and timetable may vary from the normal processes set out in the code, allowing for the modification to be fast-tracked.

Process and Timeline for this Modification

- 1.1.9. On the 4 May 2023, the EPUKI submitted the Modification Proposal CMC_12_23 under the terms of B.12.4 of the CMC. This was marked as Standard.
- 1.1.10. The RAs reviewed the Modification Proposal and determined that it was not spurious.
- 1.1.11. The RAs determined the procedure to apply to the Modification Proposal. An overview of the timetable is as follows:
- i. The System Operators convened Workshop 31 on 18 May 2023 where the Modification Proposal was considered.
 - ii. The System Operators, as set out in B.12.7.1 (j) of the CMC, were to prepare a report of the discussions which took place at the workshop, provide the report to the RAs and publish it on the Modifications website promptly after the workshop.
 - iii. The RAs would then consult on the Modification Proposal with a response time of no less than 20 Working Days (as defined in the CMC) from the date of publication of the Consultation.
 - iv. As per B.12.11 the RAs would make their decision as soon as reasonably practicable following conclusion of the consultation and would publish a report in respect of these. The purpose of the decision paper is to set out the decision relating to the Modification Proposal discussed during Workshop 31 to:
 - a) Make a Modification;
 - b) Not make a Modification; or
 - c) Undertake further consideration in relation to the matters raised in the Modification Proposals.
- 1.1.12. This decision paper provides a summary of the consultation proposal and sets out the SEM Committee's decision.

1.2. RESPONSES RECEIVED TO CONSULTATION

- 1.2.1. This paper includes a summary of the responses made to Capacity Market Code Modifications Consultation Paper [SEM-23-044](#) which was published on the 16 June 2023.
- 1.2.2. A total of eleven responses were received to consultation SEM-23-044 with one being marked as partially confidential. The respondents are listed below.
- Bord Gáis Energy (BGE)
 - Bord na Móna (BnM)

- DRAI
- EirGrid / SONI (System Operators (SOs))
- Electricity Association of Ireland (EAI)
- Energia
- EPUKI
- ESB GT
- Gas Networks Ireland (GNI)
- Mutual Energy
- SSE

2. CMC_12_23 – FACILITATION OF UNIT SPECIFIC PRICE CAPS FOR EXISTING CAPACITY IN EXCESS OF THE AUCTION PRICE CAP

2.1. CONSULTATION SUMMARY AS PRESENTED BY THE EPUKI

- 2.1.1. This modification proposes to enable participants with Existing Capacity to apply for a Unit Specific Price Cap (USPC) in capacity auctions which exceeds the Auction Price Cap (APC).
- 2.1.2. APC is currently based on the calculation of Best New Entrant (BNE) Net Cost of New Entry (CONE).
- 2.1.3. The modification argues that although New Capacity may be 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.
- 2.1.4. EPUKI believe that 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; an Existing Unit required to remain on the system needing to recover investment costs over a shorter period; a reduction in System Services revenue; a reduction in efficiency resulting in little or no inframarginal rent; and a reduction in MW availability of existing units.
- 2.1.5. Failure to implement the modification may leave the Single Electricity Market exposed 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.

2.2. RESPONSES

- 2.2.1. Responses to CMC_12_23 were largely split with slightly more being in favour of the proposal. At least one response didn't comment directly on the proposed modification but made more general comments.
- 2.2.2. Referring to the fact APC is derived from BNE which estimates the most economic way to provide new capacity to the market based on a ten-year capacity contract, ESB GT did not think BNE addressed the situation where aging plant, which had already covered its initial costs, needed extensive maintenance works. They argued that allowing for the costs of this maintenance to be recovered until new capacity is delivered, would result in lower costs than alternatives such as emergency generation and, as the USPCs were approved by the RAs on a case-by-case basis, there was little to no potential for costs to be artificially inflated.
- 2.2.3. ESB GT also argued that the inability to recover these costs would risk an inefficient exit which could distort market signals.
- 2.2.4. SSE did not agree with the use of USPC in this manner, believing that there were other areas where the retention of existing capacity and security of supply could be addressed. For example,

revenues earned by System Services providers should be increased and the lower load factors of existing conventional generators be addressed.

- 2.2.5. In terms of price caps, SSE favoured these by exception and pointed out that they are not used in Great Britain (with the exception of outliers where it is considered that reasonable costs of capacity have not been used) and yet clearing prices in Great Britain remain lower than those experienced in the SEM CRM.
- 2.2.6. Energia supported the proposed modification arguing that the USPC process must allow existing capacity to recover its full costs in a single year. They stated that an existing generator's Net Going Forward Costs will often include substantial capital and refurbishment works in the form of Unavoidable Future Investment. Given that existing capacity is only eligible to bid for single year contracts and cannot rely on receiving CRM contracts in the future, a unit must bid its total capital costs in a single USPC application. On that basis, it may be the case that a USPC application will be in excess of APC.
- 2.2.7. Energia pointed out that the CRM must sufficiently facilitate existing capacity to invest in refurbishment and if the RAs were not minded to allow for USPC bids above APC, an alternative would be to allow existing capacity to apply for multi-year contracts.
- 2.2.8. While BnM did comment directly on the modification, they remarked that the auction process needed to allow units such as new CCGTs (to facilitate the pathway to zero carbon) and other existing and new units (needed for security of supply) to properly compete in relation to Auction Price Cap (which was ostensibly too low) as well as unit lumpiness which made it difficult for the units to be successful.
- 2.2.9. EirGrid/SONI weren't clear that it was appropriate to address the issues cited as justification for the proposal through the Capacity Market. They reiterated that the maximum price allowed is defined as the Auction Price Cap and thought it likely that, following an impact assessment, the proposal would require a system change.
- 2.2.10. BGE were not supportive of the proposed changes to the current rules around the APC. A key concern expressed was that moving the USPC above the APC might undermine the role of competition and getting optimum value for the consumer if effectively non-transparent "pay as bid" outcomes above APC became prevalent. This, in turn, would undermine investment signals. However, BGE noted that increasing levels of renewable generation would likely increasingly see existing units having to bid using a USPC at a level much above the ECPC.
- 2.2.11. Noting that the modification was put forward with three separate approaches, EPUKI, the modification's proposer, stated that it was disappointing that the SEM Committee were 'minded-to' reject the modification without commenting on the various options presented. Citing SEM-23-009, the response stated how the SEM Committee had the ability to amend the APC at any point prior to a Capacity Auction to a point which was independent of the BNE. This, where the SEM Committee approve a USPC which exceeds the APC, the APC could be updated to reflect this without any modification to the CMC.

- 2.2.12. Commenting on the current project-by-project USPC process, EPUKI could see no reason why the modification should not be approved given that the SEM Committee would have the ultimate power to determine whether or not to approve a USPC above APC.
- 2.2.13. As renewable penetration increases, EPUKI argued that market clearing and running for conventional generators would reduce. This, along with a reduction in both System Services and energy market revenue for conventional units as well as increased maintenance and operational costs created a material possibility that Capacity Payments would need to contribute greater proportions of conventional units' revenue streams in order for the units to remain operational.

2.3. SEM COMMITTEE DECISION

- 2.3.1. The SEM Committee welcomes the feedback provided by participants both as part of the Workshop and through the Consultation process.
- 2.3.2. The SEM Committee notes the three approaches put forward by EPUKI. These include amending the Demand Curve as detailed in the CMC; updating the APC as detailed in the CMC to reflect either the APC value provided in the Initial Auction Information Pack (IAIP) or the USPC; or the RAs updating the APC at a later stage.
- 2.3.3. The Auction Price Cap (APC), as defined in the CMC, means "*the maximum price allowed in a Capacity Auction*" with this being determined by the Regulatory Authorities and provided to the System Operators under paragraph D.3.1.3. This Modification Proposal seeks to allow USPCs above the APC and, as such, would be in breach of the current rules.
- 2.3.4. The SEM Committee notes the comments from several respondents that there may be a requirement to help facilitate existing units which find it difficult to recover their costs due to specific circumstances such as refurbishment but, at the same time, are needed for security of supply reasons. It should be noted that as per [SEM-23-083](#) of 17 October 2023, the SEM Committee has since asked the RAs to develop a policy that will implement an intermediate length contract refurbishment category within the Capacity Auction Exception Application process.
- 2.3.5. Due to the diverse nature of activities which may fall under the category of 'refurbishment' (often depending on technology type) and the potential magnitude of any associated costs, the SEM Committee are of the opinion that any process setting out to assess these should be different to that used for current USPC applications.
- 2.3.6. Any new process would need to be tightly defined and caution exercised when determining those costs permitted. For example, Modification Proposal CMC_12_23 includes a wide range of factors underpinning an application to bid above APC with these comprising lower System Service revenues, lower Infra-Marginal Rent and increased maintenance as the reliability of older plant declines. However, it is not clear that these should be addressed through the Capacity Market and the SEM Committee are of the view that their assessment may form a policy change rather than a Code change.

- 2.3.7. The current Modification Proposal also facilitates the possibility that a USPC value which reflects a unit bidding in excess of the APC could subsequently set the auction clearing price. As the majority of USPC Exception Applications are normally submitted at the T-4 Capacity Auction stage where the largest volume of capacity is procured, should the clearing price be set by such a USPC it would have a significant impact on the cost of the auction. This would not necessarily be in the interest of the SEM consumer. To ensure that this would not happen may require system changes for the TSOs.
- 2.3.8. For the reasons outlined above, the SEM Committee is rejecting CMC_12_23 and will not make a modification.

3. NEXT STEPS

- 3.1.1. Given that the SEM Committee have decided to reject the proposed modification CMC_12_23, there are no actions required of the System Operators with regards to its implementation.
- 3.1.2. All SEM Committee decisions are published on the SEM Committee website: www.semcommittee.com.