

Response to SEM-23-082

Capacity Market Code Modifications
Workshop 33 Consultation
(CMC_19_23)

17th November 2023



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1. Introduction

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland. System Operator for Northern Ireland (SONI Ltd) is the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is a contractual joint venture between SONI and EirGrid and operates the Single Electricity Market on the island of Ireland.

EirGrid and SONI have been certified by the European Commission as independent TSOs. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

EirGrid and SONI have duties under licence to advise the CRU and UR respectively on matters relating to the current and expected future reliability of the electricity supply. We have also been allocated responsibility for administering the Capacity Market Code through our TSO licences. This response is on behalf of EirGrid and SONI in their roles as TSOs for Ireland and Northern Ireland.

2. EirGrid and SONI View on the Consultation Topic

EirGrid and SONI, the System Operators, welcome this opportunity to respond to the SEM Committee's consultation paper ([SEM-23-082](#), 6th October 2023) in relation to the Capacity Market Code Modification Proposal:

- [CMC 19_23](#) Modification to Implement the SEMC Decision set out in SEM-23-038 and SEM-23-045 on Indexation of Capacity Payments

As this Modification Proposal follows a SEM Committee consultation and policy decision including detailed design of the indexation mechanism, the focus of this response is on the effectiveness of the implementation and proposed legal drafting.

2.1. Potential Ambiguity

The following points are suggested to remove the risk of ambiguity in the text as proposed:

Restructuring proposed section M.13.2 to explicitly state which date applies to which cohort may be beneficial e.g. *'The Capacity Payment Price Indexation Start Date shall be [date] for the 2024/25 T-3 Capacity Auction and [date] for the 2025/26 T-4 Capacity Auction...'*.

As drafted, it appears that the new section M.13.6 introduces a circular reference or one parameter (Capacity Payment Price) which now may have two values for a cohort of capacity: *'the Capacity Payment Price shall be the Capacity Payment Pricemultiplied by the Capacity Payment Price Indexation Factor'*. Similarly, the revised definition for Capacity Payment Price now describes two points of references for a single parameter: *'Capacity Payment Price (PCP Ω n) in respect of Awarded Capacity, means the Capacity Payment Price determined in accordance with section F.9.1 and M.13'*.

As Chapter M prevails over other Chapters of the Code, the legal drafting could include a specific reference to sections prevailed over. An example being section M.4.12 which states *'Where the Interim Auction Solution applies in the case of a Capacity Auction....paragraphs M.4.1.3 to M.4.1.5 have effect in relation*

to that Capacity Auction in place of paragraph F.8.3.4'. In the case of CMC_16_23 it is section F.9.1.1(a)(ii) which states 'the Capacity Payment Price, which shall be equal to: (A) if the price of the price-quantity pair is less than or equal to the Auction Clearing Price, then the Auction Clearing Price; or (B) otherwise, the price of the price-quantity pair...' over which the new section in Chapter M prevails.

Among the proposed changes is a deletion of section F.9.1.2 which has provided clarity in relation to indexation to date. The System Operators believe that this paragraph should be retained and only amended at this time to accommodate interim indexation arrangements until a decision is made in relation to an enduring indexation policy or mechanism.

2.2. Calculation of Capacity Payment Price Indexation Factor

Whilst the wholesale price indices to be used for the calculation are identified, on inspection of these sources, there is potential for ambiguity in relation to the specific value to use. Further clarity on this would be important to ensure that unique values apply.

The System Operators would have concerns in relation to the availability of the reference indices in the context of settlement timeframes. The indices which are to be applied would not be available within settlement timeframes meaning the implementation would require resettlement. Meeting settlement timeframes may require an 'indexation gap', where the most recent available indices are used. E.g., if the value of the index for Sept is published at the end of Oct and the indexation factor requires this value then the indexation factor cannot be calculated until end of Oct. This would mean that the first month of the Capacity Year would have the incorrect price applied.

The calculation of the Capacity Payment Price Expected Inflation would benefit from further definition. Firstly, it is stated as "being 1", which would imply that it is 1, which we understand is not intended. It is understood that the value of 1 is to be inflated at a rate equivalent to 2 per cent per year over the relevant period; however, it is not clear if the value is to be inflated at 2%/365 days/year daily or whether the value is to be inflated at a rate x% daily such that the effective annual rate is 2%.

The legal drafting would benefit from explicitly stating who 'shall' be responsible for calculating the Capacity Payment Price Indexation Factor.

If the System Operators are to undertake the calculation, a clear methodology or procedure will be required to ensure consistency and that the correct inputs are sourced to ensure the SEMC's decision in this regard is implemented correctly.

2.3. Certainty

The System Operators recognise the need to change the rules from time to time in order to address issues that arise. Nevertheless, the period between when a change is first raised and when a decision is issued can result in a degree of uncertainty that can impact on investment propensity.

In relation to the SEM Committee's stated intention in SEM-23-045 to 'consider whether to prioritise a workstream on an enduring indexation mechanism for capacity contracts in ...2023/24', the System Operators consider clarity on this matter is important to provide certainty for future auction processes.