

Bord na Móna

SEMC T-3 2027 2028
Capacity Auction Parameters

SEM 24 012

Consultation Response

23 February 2024



Response

Bord na Móna (BnM) along with other market participants are keen to deliver new capacity for the Irish energy system by the end of this decade to ensure security of supply and value for money for Irish consumers. The mechanism that facilitates a developer to do so is the Capacity Remuneration Mechanism. The multi-year revenues guaranteed by a capacity contract are a key revenue stream for new projects as they are viewed by the banks as baseline revenue. This revenue stream is fundamentally different to those provided by the System Services and Energy market which are less predictable over the key first 10 years of a projects lifecycle. Lack of baseline revenue of sufficient scale is the core issue for developers at present. The prevailing conditions for recent capacity auction such as the T-4 27/28 auction did not deliver the necessary capacity required by the system due to project developers' inability to secure adequate levels of project finance attributable to an inadequate capacity revenue investment signal.

The Climate Action Plan states that the "Rapid delivery of flexible gas generation is needed at scale and in a timeframe to replace emissions from coal and oil generation as soon as possible to reduce impacts on the carbon budgets¹". To do this at scale we need CCGTs. Therefore, we see little merit in running a T-3 auction which is unlikely to deliver capacity due to the condensed delivery timeline. If the SEMC decides to proceed with this auction the unfortunate outcome is likely to be the award of capacity contracts to projects that are highly unlikely to deliver resulting in the removal of volumes from subsequent auctions that could have been awarded to projects that are more likely to be realised.

Bord na Móna reiterates the view submitted to previous consultations on the CRM that the implementation period for T-4 auctions need to be extended to at least 4 years. Further, a T-5 auction for 2029/30 should be given serious consideration. An auction with this delivery timeline and adjusted APC & INCTOL parameters is the best option for Ireland to meet its' 2030 obligations. To encourage capacity to deliver earlier in the decade an 'early delivery' incentive could be apply by allowing additional support years in the contract.

Again, noting that this consultation relates to the T-3 27_28 auction we welcome the proposed changes to key parameters which, if implemented, should provide clearer investment signals to the market. That said, it is our view that a T-3 auction will not deliver the types of technology that can deliver on Ireland's long term climate objective for net zero, namely CCGTs. The T-3 delivery timeline is likely only achievable for more carbon intensive technologies. With a view to 2030 and beyond the capacity remuneration mechanism needs to incentivise the right technologies.

While the scope of this consultation is limited to the T-3 27/28 auction. For the reasons outlined below we believe there is more value in applying these changes in the next T-4 to attract the volumes required to bridge the gap to 2030.

Pricing APC & INCTOL

It is acknowledged in the consultation paper that there have been decreases in capacity income compared to previous years due to reductions in the de-rating values applied in the CRM. The T-4 27/28 APC was considerably lower than that for the T-4 25/26 auction which further compounded the

¹ Climate Action Plan 2024, Pg.158. Available online ([70922dc5-1480-4c2e-830e-295afd0b5356.pdf](https://www.gov.ie/uploads/system/uploads/attachmentatachment/70922dc5-1480-4c2e-830e-295afd0b5356.pdf)).

reduction in calculated capacity revenues. In that context, BnM welcome the SEMC minded-to position to increase the APC and for the consideration being given to increasing the INCTOL value to a non-zero positive value, mainly to reflect the higher reliability of new capacity vs old. Our experience has been that the existing APC and De-rating factors for CCGTs are not sufficient to make a viable commercial business case. Making these changes should help to improve the outlook for investors.

That said, we only see merit in applying INCTOL to units classified as New Capacity. For clarity, 'New' units classification includes units that have been successful at auction but which have not yet been commissioned. It does not make sense for INCTOL to be applied to existing units in our view. As set out in the paper this would mean applying a plus factor to ageing less reliable plant that could be up to 40 years old. Therefore, the application of the INCTOL would be disingenuous as it would not be reflective of reliability. Existing APC and De-rating factors for a CCGT are not sufficient to make a viable commercial business case. In contrast, it is appropriate for new capacity to be de-rated at its marginal de-rating factor, rather than based on unrepresentative values, based on averaging old plant reliability.

The CMC already allows for the INCTOL provision to be Technology Specific. In this regard we believe there is merit in the utilisation of INCTOL to contribute to supporting a viable business case for the technologies required to deliver Net Zero – such as CCGTs, at a minimum, and potentially for all gas turbine technology.

To deliver clear technology specific signals, two issues need to be addressed. Firstly, there may be the need to differentiate between CCGTs and other Gas turbine units, as there is not as strong a system need for OCGTs as there is for CCGTs. Secondly, from the examples shown in the consultation paper there is a need for different INCTOL multipliers depending on the size of the Unit.

To address these issues, we propose the revised INCTOL multiplier level is:

- i) Applicable to all gas turbine units and;
- ii) the INCTOL Multiplier used (again for New Capacity only) is reflective of the de-rating factor that could be shown to be typical of a New Gas turbine unit².

In the case of the example provided in the consultation of a 470MW CCGT, with a de-rating factor of 0.744 for the T-4 27/28 auction, we propose that the INCTOL value should be the value required to bring the unit, say by way of example, to an objective de-rating of c. 0.92³, i.e., 0.236.

A change in the INCTOL alone does not deliver sufficient uplift when considering the cost of delivering a CCGT. Based on our analysis an increased APC multiplier of 1.5 is also needed.

Volume

The paper refers to paragraph F.3.1.4 of the CMC which gives the SOs the discretion to adjust Capacity Requirement Volumes. We note that several projects that had secured an RO at auction have terminated, which highlights that additional contingent volumes are required to account for natural attrition while also securing sufficient volumes of new capacity. We also note that the more important lever in securing locationally targeted investment is within the provisions of F.4 Determination of Locational Capacity Constraints for a Capacity Auction and C.2 Locational Capacity Constraints. It is vital that provision is made for the 'lumpy' capacity units (like CCGTs) which are critical to achieving Net Zero. Not carving out this volume will result in smaller, even more expensive projects, which are

² Such references are available: the GB Capacity Market applies a c. 92% capacity de-rating to a New CCGT

³ Where this INCTOL value would be $(0.92/0.744) - 1 = 0.236$

less likely to deliver, being awarded capacity contracts. This happened in the T-4 2026/27 where insufficient volume was available for CCGTs.

Administered Scarcity Pricing

We do not believe that any changes should be made to the parameters of the ASP function to encourage availability at times when system margins are tight. We have outlined full rationale for this in our recent submission to SEMC’s Consultation on Administered Scarcity Pricing Review⁴.

Performance Security

We note that the initial Performance security rate is at €20,000 per MW derated. While this is a welcome reduction from the €30,000 per MW derated for the T-1 24_25 auction we believe that the €20,000 rate is still too high for larger units. We believe that the performance security levels applied in the 2026/27 T-4 auction are appropriate and that those applied for 2027/28 are excessive. The impact of these securities on a 500MW CCGT project are detailed in the Table. We believe that an initial exposure of c €4m, rising to €16m is sufficient and that higher level of exposure of €8m, rising to €20m is a significant deterrent to the investors and would not be acceptable to banks providing project finance.

Table

	T-4 2026_27	T-4 2027_28
Performance Security		
€/MW derated	10,000 to 40,000	20,000-50,000
Stage 1	€ Millions	€ Millions
500 MW CCGT	4.1	8.2
Stage 4		
500 MW CCGT	16.3	20.4

We believe that the provisions set out in SEMC Decision Paper SEM-23-069 CMC 15_23 Amendments to Performance Securities for Extended Projects of September 2023 which apply to planning related extensions under CMC 15_22 should be extended to projects under SEM-23-101 Decision on Supplementary Consultation Paper on modified and combined Modifications to Facilitate Delivery of Capacity (30th November 2023) where these relate to the broader suite of eligible delays beyond planning, including grid and gas connection, supply chain, etc .

Indexation of Capacity Payments

Although the indexation of capacity payments is outside the scope of D.3 Initial Auction Information pack parameter listing within the CMC, BnM believes that the Indexation of Capacity Payment provisions captured under SEM 23 038 and SEM 23 045 should be extended to auctions after the T-3 2024_25 and T-4 2025_26, to better balance investor risk regarding inflation cost exposure on Capex. Furthermore, we have represented in our response to the consultation on CMC_22_23 that such risk exposure also needs to be balanced with regard to Opex cost inflation.

⁴ SEMC’s Consultation on Administered Scarcity Pricing Review SEM 23 047 July 2023

Auction solving at the Constrained Price

We note that for this auction, the SEM Committee remains open to allowing the constrained element auction to solve using multi-year new capacity. While this measure would likely increase the commercial attractiveness of the auction (and increase participation), it may also increase the riskiness overall due to the delivery timelines. As set out above the successful units in this auction will face extremely challenging procurement and construction timeframes. Therefore, the capacity awarded is likely to be subject to high rates of attrition which will result in a failure to meet the electricity requirement on the system. This approach, of constrained price application, is better suited to a T-4 or T-5 auction.

Summary

Bord na Móna supports the consideration being given to changing the INCTOL and de-rating factor to deliver a stronger investment signal to the market. We strongly suggest that a T-5 auction is necessary to provide clarity for the latter half of the decade. Extending the delivery timelines, in conjunction with changes to the parameters noted above, is far more likely to attract projects that can provide much needed capacity.