



**Response by Energia to SEM-24-012**

***CRM T-3 2027/28 Capacity Auction Parameters***

**23 February 2024**

## **1 Introduction**

Energia welcomes the opportunity to respond to SEM-24-012 on the CRM 2027/28 T-3 Capacity Auction Parameters. Energia has been an active participant in the CRM since its inception with its Huntstown CCGTs that are critical for security of supply in Dublin. Energia attended and actively contributed to the Senior Stakeholder Forum in Dundalk on the 26<sup>th</sup> of January. Energia would welcome the opportunity to elaborate on any part of its response bilaterally with the RAs.

## **2 Negative Impacts of Holding T-3 Auctions**

Energia does not understand SEMC's rationale for holding a T-3 auction, particularly to the detriment of the next T-4 auction. Energia is fully aligned with EAI's consensus view that running a T-3 auction is likely to do more harm than good. This view was clearly communicated by participants at the Senior Stakeholder Forum.

A key recommendation of the 2022 EY Review, that was accepted by SEMC and overwhelmingly supported by industry, was to increase auction lead times "to at least 4 years" because lead times of less than four years for the delivery of New Capacity were unrealistic. EY's expected benefit of this recommendation was "very high".

Only a small fraction of the 1.25GW of New Capacity procured at the last T-3 auction that has not already terminated is scheduled to deliver on time (if at all), and there is no reason to believe a further T-3 auction will perform any better. By pushing the auction timetable back for the T-4 28/29 auction to accommodate the T-3, it increases the risk that additional capacity procured at the next T-4 auction will also be unable to deliver to the reduced lead times.

The likelihood of capacity being delivered on time has been further reduced by the modifications approved by SEMC since the last T-3 that allow developers to delay their delivery of capacity without reducing the value of their contracts. Therefore, the probability that New Capacity will deliver to these T-3 timelines is very low, which brings into question the value of holding it in the first instance. New Capacity procured at a T-3 may appear to be reducing the capacity gap but will more likely paper over the cracks of a capacity shortfall that will still need to be filled.

Furthermore, it is of significant concern that by trying to procure New Capacity through a T-3 auction, it effectively removes that capacity from the next T-4 auction and prevents new entrants from setting the clearing price for the wider market. This is totally at odds with the purported working of the CRM at the market design phase and allowing existing investors to recover their costs through getting a clearing price that has been set by a new entrant. Existing investors are otherwise capped at ECPC (held at 0.5 x Net Cone) and denied recovery of "sunk costs" through USPC applications.

By proceeding to hold a T-3 auction against the accepted and widely supported recommendation of the EY Review and contrary to the lessons from previous experience, SEMC is increasing the perception of regulatory risk in the CRM. This has the potential to further damage the reputation and credibility of the CRM to new and existing investors. It would be far better for SEMC to carefully consider the reforms and modifications required to facilitate investment and competition, such as introduction of Intermediate-Length Contracts, and hold the next T-4 auction with a full four-year lead time as originally planned.

## **3 Proposed Auction Parameters - INCTOL**

The introduction of a non-zero Increase Tolerance percentage for a specific technology class would be a significant change from any previously run capacity auction. It is imperative that any such proposed change be carefully analysed to avoid unintended consequences. Energia is concerned that the proposal to apply a non-zero INCTOL for this T-3 would be done in an attempt to encourage bids from New Capacity without proper consideration of the wider implications of this change.

INCTOLs are designed to acknowledge that technology class de-rating factors may underestimate the availability of individual plants. It is important therefore that specific proposals relating to what value the INCTOL would be set at, and which technology classes it would apply to, should be evidence based.

The application of INCTOL may give the appearance of a reduced capacity deficit without having genuinely reduced the Loss of Load Expectation. It may lead to capacity requirements needing to be adjusted to reflect this reality. The paper itself acknowledges “complexities” in setting INCTOL, including adopting a one-size-fits-all approach for units of different sizes and technologies. It is therefore not an appropriate method through which SEMC attempts to solve a specific issue relating to a lack of bids from New Capacity for CY 27/28 and an increase in capacity deficits due to terminations. It comes with very significant risks of unintended consequences, including sending inefficient and premature exit signals to units that are crucial to security of supply. For example, increasing the deemed contribution of capacity through INCTOL could artificially create an increased surplus in a Locational Capacity Constrained area and inefficiently displace Existing Capacity.

The proposal that INCTOL could be applied to New Capacity only, or only capacity which is less than a certain threshold number of years old, is clearly discriminatory and without valid justification. If an individual plant is to be allowed to apply an INCTOL to its de-rating factor, this should be based on transparent and objective criteria to determine that a plant’s actual availability for that capacity year is likely to be above the proposed de-rating factor.

Whether that capacity qualifies as new, or whether it is under a certain number of years old, is not necessarily an accurate indicator of how reliable that plant is likely to be for a given capacity year. Particularly in the early stage of its life, the availability / reliability of New Capacity is often reduced due to unforeseen technical issues (or the New Capacity may not deliver, a risk particularly acute for a T-3 auction, making it even less prudent to apply a specific INCTOL). Furthermore, it is not the case that because a plant is older it will necessarily be less reliable than the average plant within the technology class, which is the relevant test when it comes to INCTOL (for example, a major determinant of the reliability of a plant is the proactive maintenance and investment in a plant, not simply its age). It would be patently unfair therefore for SEMC to restrict INCTOL to certain plants within a technology class without clear evidence that this reflects availability.

In addition, this discrimination within a technology class is not permissible under the Capacity Market Code. As currently drafted, the CMC only allows the Regulatory Authorities to apply Increase Tolerances in respect of Tolerance Classes. A Tolerance Class is defined as “a class, based on technology and either emission limits or technical limits on running hours, used for determining the Increase Tolerance and Decrease Tolerance applicable to a Generator, Generator Unit or Interconnectors” and does not provide for a distinction between New Capacity and Existing Capacity. As such, it would not be open to the Regulatory Authorities to arbitrarily apply different INCTOLs to new units within a technology class without any evidenced analysis of emission technical limits on running hours applicable to existing units. Therefore, a modification would be required to apply different INCTOLs to units within the same technology class.

As per the EAI response, If SEMC decides that it needs to increase the value of CRM contracts to attract bids from New Capacity, increasing the Auction Price Cap is more transparent, easier to implement, and has fewer potential unintended consequences than making changes to INCTOL.

## **4 Conclusion**

At the Senior Stakeholder Forum on the 26<sup>th</sup> of January SEMC made clear that their rationale for the proposed T-3 auction was that insufficient qualified capacity had offered in at the T-4 27/28 auction. This T-3 auction is therefore being designed specifically to encourage New Capacity to enter the market.

Energia's view is that holding a T-3 auction is misguided and explicitly contrary to the recommendations of the EY Review for longer auction lead times and to the lessons from the experience of holding previous T-3 auctions. Furthermore, it risks distorting the forthcoming T-4 auction for 2028/29 to the detriment of security of supply. Given these risks, it would be far better for the SEMC to focus on getting the next T-4 right for both New and Existing Capacity, with a sufficient lead time, sensible auction parameters, prudent MW requirements, and a well-designed refurbishment category to secure proven contributors of capacity for future years and avoid inefficient exit.

If SEMC still intends on holding a T-3 auction, it is imperative that it reduces the likelihood of unintended consequences that will cause damage to the CRM. Applying INCTOL without due consideration could have negative consequences for future capacity auctions by inefficiently displacing Existing Capacity. In addition, applying INCTOL to New Capacity only in order to encourage bids would be discriminatory. Changes to INCTOL are not an appropriate short-term solution, and it would be better for SEMC to use the Auction Price Cap to attract additional New Capacity.