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Confidential Response	N

21st February 2024

RE: SEM-24-012 – Capacity Remuneration Mechanism T-3 2027/2028 Capacity Auction Parameters

Dear SEM Committee,

Kilshane Energy Limited (KEL) welcomes the opportunity to respond to consultation SEM-24-012. KEL was awarded a ten-year capacity contract for a 293MW Open Cycle Gas Turbine project (The Project) located within the Greater Dublin Locational Capacity Constraint area.

KEL Response to SEM-24-012

KEL will not be providing a response to all proposed auction parameters which form SEM-24-012, instead we will make comment on those that we feel require response to incentivise participation whilst ensuring deliverability. Any parameter we have not made comment on, it can be assumed we are in agreement with the proposed values as stated in SEM-24-012.

Auction Price Cap (APC)

The SEM Committee (SEMC) have proposed to increase the APC by applying a higher multiplier to Net CONE. KEL support this and provide the following rationale to set this multiplier at 2.18;

It is widely accepted that one of the primary reasons for the lack of qualified units to bid into the T-4 2027/28 CRM auction was down to the reduction in APC from the T-4 2026/27. Ever increasing capex costs caused by global inflation as a result of wars and local inflationary pressures due to a shortage of engineering and construction resource meant that the appropriate incentives were not put in place for developers when weighted against the risks.

The lack of any indexation to the CRM auction awards has meant that contract erosion due to higher levels of global inflation is a bigger risk now than it may have been five or six years ago.

KEL have an open and ongoing communication with OEMS and contractors. Our response is based on the latest information we have been provided from the market on capex and opex as well as assumptions on inflation and developer returns.

KEL propose that the auction price cap is set at €237,995/MW by applying a multiplier of 2.18 to Net CONE.

Increase Tolerance (INCTOL)

The SEMC is considering whether to set a non-zero INCTOL, and if so, what value to set INCTOL at. SEMC is also considering whether a non-zero INCTOL should apply to all capacity, New Capacity only, or only capacity which is less than a certain threshold of years old.

KEL propose that INCTOL should be set at a value greater than zero, it should apply to New Capacity only and should be set at a level representative of the levels of availability an OEM will guarantee.

KEL provides the rationale below for its response;

Setting a non-zero INCTOL

KEL agree with the arguments put forward in SEM-24-012 for setting the INCTOL above zero for the upcoming T-3. Namely, that it would reinforce the attractiveness of the market to investors. It would also more accurately reflect the availability a new unit can provide.

INCTOL to apply to New Capacity only

The current De Rating Factors (DRF) are decreasing due the lower availabilities of an ageing dispatchable generation fleet. It is illogical to apply the same DRF of a 40-year-old unit to that of a new unit. This has resulted in new units being penalised through the awarding of less derated MWs in recent CRM auctions. This disincentivises investors as their overall contract value will be substantially reduced. This is noted in SEM-24-012 and is the catalyst for the consultation on increasing the INCTOL.

It is equally illogical to allow the same ageing fleet with lower availabilities, who have caused the reduction in DRF to increase their RO award through allowing the INCTOL to apply to them. It would effectively be rewarding existing units for poor performance.

SEMC recognised there are complexities in setting a “one size fits all” INCTOL for the upcoming T-3. KEL agree with this and would make the following comment. KEL do not believe that INCTOL should be applied to new DSU capacity units. The DRF for DSU technology have decreased dramatically in recent years due to their poor performance. A new DSU capacity unit does not necessarily mean a new DSU site, it could be a combination of previously poor performing sites that have changed DSU provider. Without being able to confirm that the new DSU capacity unit is made up of new DSU sites, KEL believe the CRM auction could be rewarding DSU units that have previously performed poorly.

INCTOL level

KEL recognise the complexities of the “one size fits all” INCTOL as outlined in SEM-24-012. In particular the example given that a 10% INCTOL on a new 470MW CCGT would increase their DRF from 0.744 to 0.818, whilst a 10MW gas turbine with the same 10% INCTOL would result in an increase in their DRF from 0.89 to 0.979.

Any new gas turbine, regardless of the maximum output, would come with performance guarantees on the availability from the OEM. Even when accounting for degradation over a ten-year period, it would be expected to achieve 93%-95% availability.

KEL propose that the INCTOL % should be set at a level that increases the DRF up to a maximum of 0.94 (mid point). It can be expressed formulaically as below;

$$T-3 \text{ 2027/28 DRF} = \text{Max} (\text{Current DRF} * (1 + \text{INCTOL } \%), 0.94)$$

Where;

Current DRF – As per T-4 2027/28 Capacity Auction

INCTOL % – $[(0.94 - \text{Current DRF}) / \text{Current DRF}]$

Other Points

KEL wishes to make two further points regarding the upcoming T-3 2027/28 auction which do not directly link to the auction parameters but we would like to highlight to the SEMC when considering both the criteria for entry to the T-3 and the possible discrimination in the Greater Dublin Locational Capacity Constraint Area (LCCA).

INCTOL, LCCAs and possible auction discrimination

KEL believe there is a risk that the upcoming T-3 auction could discriminate against those in the Greater Dublin (or North and South Dublin if split out) Locational Capacity Constraint Area (LCCA) if the INCTOL value is set above 0.

It is well documented, from Eirgrid, that there are short circuit current limit issues in the Dublin area. Short circuit current limit issues are linked to, amongst other things, the contracted Maximum Export Capacity (MEC) of generation units in the area. It is important to note, it is not linked to the derated MWs that a generation unit has been awarded in a CRM auction. Eirgrid, in section 2.4.1 of the T-4 2027/28 FAIP informed industry that;

“Based on studies conducted by the System Operators on the operation of all the existing and awarded new capacity Generator Units in the Greater Dublin Locational Capacity Constraint Area at their rated capacities, the operation of additional capacity in Greater Dublin during these periods would be likely to exceed the Short Circuit Current Limits for a number of transmission stations. As

the System Operators are required to operate the system in a manner that conforms to the Operational Security Standards, it would not be possible to operate this additional capacity during these periods.”

In order to facilitate this in a capacity auction, there is close to 0MW made available in the Greater Dublin (or North/South) LCCA. This is to eliminate the risk that new capacity could be awarded and result in the breaking the Operational Security Standards.

Under the assumption that the INCTOL value is set above 0 in the upcoming T-3 auction and there are 0MW made available to be awarded in the Greater Dublin (or North/South) LCCA, KEL believe there is a risk that capacity (New and/or Existing), who have a signed connection agreement with Eirgrid, enter their INCTOL MWs into the auction and will not be able to clear regardless of their price. These INCTOL MWs will only increase the derated MWs awarded to these units and WILL NOT increase their MEC. Thus, any awarded INCTOL MWs will not impact on short circuit current limits in the area. If this result was to materialise, units in the LCCA could be discriminated against at no fault of their own.

Entry Criteria into the T-3 2027/28 auction

KEL believe that only projects with a final planning grant should be successfully qualified into the upcoming T-3 2027/28 auction.

KEL attended the T-3 Senior Stakeholder Forum on 26th January hosted by SEMC. KEL agrees with the conclusions of this forum as published in SEM-24-011. The areas of concern focused mainly on how to incentivise more participation in the T-3 and risks to delivery of new capacity within a T-3 timeframe. Whilst the decisions of this auction parameters consultation paper may help incentivise more participation in the auction, it does not deal with delivery risk. There have been several terminations of awarded capacity contracts recently (in both NI and ROI). This highlights the real delivery risks to projects across the island of Ireland. Most of these terminated projects were awarded contracts with a T-4 timeframe. The upcoming T-3 auction is for delivery in October 2027, with an auction result date of 5th November 2024, as per recent published timetable, it is less than three years for delivery.

Any new awarded capacity has two fundamental milestones that need to be met to avoid termination of their contract. The first is Substantial Financial Completion (SFC). SFC is achieved when all the criteria under J.2.1.1(a) of the Capacity Market Code (CMC) have been met. SFC also needs to be achieved within the SFC Period (J.6.1.2(a)(i) of CMC) which is set at 18 months from the Capacity Auction Results Date. As per the recently published T-3 Capacity Auction Timetable, the Capacity Auction Results Date is 5th November 2024. This will mean that any awarded new capacity in the upcoming T-3 auction will need to achieve SFC by 5th May 2026 (18 months post 5th November 2024).

J.2.1.1(a) of the CMC states, inter alia;

“Substantial Financial Completion: this milestone is achieved when:

(v) all necessary consents, licences, authorisations and permits in respect of the construction, commissioning, repowering or refurbishment works for each new or refurbished Generator Unit or Interconnector providing the Awarded New Capacity (including any necessary planning consents, licences, authorisations and permits) have been obtained.”

Several of the necessary consents and licenses are linked to the awarding of a final planning grant. The CRU/UREGNI/EPA/NIEA licenses and consents cannot be issued without a final planning grant. In one instance, KEL have been informed that an application will not start being processed until a final planning grant is awarded and it will take on average, two years, for the license to be issued post a final planning grant. Thus, only projects who have a final planning grant by May 2024 can be reasonably expected to achieve SFC by May 2026.

KEL welcomes the delay modifications that have been recently published by the SEMC, however, there is a risk that developers see these as a safety net and enter more speculative projects. To expect any project without a final planning grant to firstly achieve SFC by May 2026 and then deliver the required MWs on time is nonsensical. To allow projects without a final planning grant to qualify for the T-3 auction would be accepting delays which ultimately does not help deliver the required MWs in time for capacity year 2027/28.

We are open to further discussion and engagement on this matter.

Regards,

Brian McMullan – Project Lead
