



CRM Senior Stakeholder Forum

Information Note

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On Friday, 26th January 2024, the SEM Committee hosted a Senior Stakeholder Forum to provide an opportunity for industry participants to engage with us to raise any issues that could be addressed within the timeframe of the T-3 auction to promote investment. We would like to thank those industry participants, who attended the forum with us, for their participation and engagement at the event. It was instructive for us to hear from a wide number of industry participants, who expressed a range of views on the key issues under discussion.

Discussion centred on auction timings, capacity delivery, auction parameters and provided space for participants to raise any other proposals. The following paragraphs summarise key points raised by participants during the feedback session.

Regarding auction timings, one area raised by participants was the time needed by projects at present to deliver, with some suggesting that going forward, consideration should be given to holding auctions five years in advance of delivery. Participants expressed mixed views on the feasibility of delivering New Capacity in three years, in some cases depending on the technology involved and the current status of a potential site. A number of participants stated that they would have time to put bids together in time to meet planned deadlines for the T-3 auction.

Several participants raised concerns over third-party timelines in relation to:

- planning;
- consents; and
- grid connection (gas and electricity).

In addition, some participants requested more visibility of the timelines from the relevant bodies. Some participants welcomed the delay modifications that we recently published and noted that information on the outcome of requests under these modifications would be useful. Participants expressed concerns about the possible impact of the T-3 auction on timelines for the next T-4 auction, and raised a question about whether incentives for early delivery could be offered in the latter.

A variety of auction parameters were highlighted by us and discussed by attendees. These included price-related parameters, namely the Auction Price Cap (APC), Derating Factors, Increase Tolerance (INCTOL) and the results of the Best New Entrant (BNE) study, which help set the APC, and policy measures, including indexation.

We note that there is a limited set of issues that can be addressed in time for the T-3 2027/28 auction, given the objective is to issue the Initial Auction Information Pack in early March, to hold the auction in September 2024. However, for the T-3 auction, we:

- Intend to increase the Auction Price Cap, by applying a higher multiplier to Net CONE. The Regulatory Authorities (RAs) are publishing a T-3 parameters paper which will seek feedback on setting this parameter, particularly detailed feedback (which can be provided confidentially) to substantiate an appropriate value; and
- Will consider allowing New Capacity, and possibly Existing Capacity, to take on larger capacity obligations (Reliability Option) by setting INCTOL greater than zero. Setting INCTOL greater than zero would allow units to bid for a greater volume of Reliability Option for a given nameplate capacity and allow a unit to earn greater capacity payments for a given nameplate capacity. INCTOL could be applied to New Capacity which has won in recent auctions, allowing them to bid for a larger Reliability Option, without an increase in nameplate capacity, potentially improving project returns. Derating factors are based on historical availabilities of SEM units of that technology and have declined due to factors including deteriorating performance of an aging fleet, and low availabilities of DSUs. However, it is anticipated that new units would have better availabilities; therefore, it may be argued that new units should not have their derating factors reduced based on the performance of units which may be up to 40 years old.

Participants provided significant feedback regarding the Auction Price Cap and the impact of generally declining derating factors on the financial viability of projects, and there will be an opportunity for respondents to submit more detailed evidence in response to the parameter consultation paper for the T-3 auction, which is also being

published today. We encourage respondents to provide as much supporting analysis as possible to submissions on the financial incentives in the auction. Commercially sensitive submissions, or appendices to submissions containing commercially sensitive information, will be kept confidential if noted as such.

Additional measures noted above will be examined and, where appropriate, prioritised for future capacity auctions. For instance, the RAs will engage with the TSOs on the calculation of derating factors for future auctions.

The RAs are currently liaising with the TSOs to finalise the timetable for the auction, as well as for the T-4 2028/29 auction. Depending on the timing of the T-4 2028/29 auction, the SEM Committee may be in a position to consider other feedback in time for that auction.

The SEM Committee recently consulted on implementing Intermediate Length Contracts (ILCs), primarily aimed at refurbishing existing capacity (SEM-23-093). In that paper, we signalled that if a decision were taken to proceed with this policy change, the intention would be to implement any necessary CMC modification(s) prior to the issue of the relevant operational process documents for the 2028/29 T-4 auction. This intention remains as stated.