



## **Capacity Remuneration Mechanism (CRM)**

### **Proposal to Introduce Early Delivery Incentives into the CRM**

#### **Consultation Paper**

**SEM-24-024**

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## 1. Introduction

In an Information Note published on 4 March 2024 (SEM 24-017), the SEM Committee announced its intention to hold a 2028/29 T-4 auction, with incentives for the early delivery of capacity in 2027/28, to help address the shortfall in capacity procured in the 2027/28 T-4 auction. SEM-24-017 noted that the details of the early delivery incentives would be developed and communicated in the following weeks.

On 28 March 2024 the TSOs published the timetable for the 2028/29 T-4 auction, with a Qualification Application Date of 4 June 2024, and the capacity auction to be run on 28 November 2024.

This document consults on the SEM Committee's proposals for early delivery incentives, which the SEM Committee is minded to apply to all auctions, until further notice, not just the 2028/29 T-4.

The SEM Committee seeks feedback by **15 April 2024**, with a view to making a policy decision in late April and publishing the decision in late April/early May. Publishing the policy decision in late April/early May will provide investors with the confidence to enter the auction, knowing that they will be rewarded for early delivery incentives.

The SEM Committee will then work with the TSOs and the industry following the publication of the policy decision to make the necessary changes to the Capacity Market Code (CMC) and any necessary changes to the Trading & Settlement Code (T&SC).

## 2. Design of Early Delivery Incentives

### 2.1 Overview

A New Capacity Market Unit (CMU) which enters the 2028/29 T-4 auction will be able to receive capacity payments for early delivery, from the day on which it achieves completion.

It is anticipated that the capacity would be expected to achieve Substantial Completion to be paid, but the provisions of Mod CMC 13\_23 would apply, which as

per CMC J.6.1.4A allows a unit to get paid on Minimum Completion, if it did not expect to achieve Substantial Completion.

The CMU will receive payment at the price for its awarded capacity in the 2028/29 T-4 auction. The SEM Committee is minded to pay CMUs that deliver early at the same contract rate per day, for each day that the CMU is early, although the SEM Committee may consider the application of multipliers (see Section 2.4 below) for early delivery.

To limit gaming potential and interactions with earlier year auctions, the SEM Committee is minded to allow early delivery payments to start no more than a year before the start of the capacity delivery year for the auction in question. For instance, if a New CMU enters the 2028/29 T-4 auction, and achieves Minimum Completion on 1 January 2028 (9 months before the start of the 2028/29 capacity year), its payment will:

- Start: on the date it achieves completion, in this example 1 January 2028;
- End: on the date the contract was originally expected to end (i.e. 30 September 2038).

Therefore, in this example, the New Capacity CMU will be paid for 10.75 years of capacity as a result of delivering 0.75 years early.

Any payments to early delivering capacity are likely to be significantly lower cost to consumers than the alternatives such as lost load or emergency measures such as Retention of Existing Units (REU) or Temporary Emergency Generation (TEG). They are also likely to result in carbon savings, with early delivering CRM capacity likely to have lower average emissions than the units operating under REU or TEG contracts.

Any CMU being paid for early delivery would also be subject to the same Reliability Option Difference Payments and the same Stop-Loss limits as any other capacity operating in the CRM, from the date payments start.

## 2.2 Eligibility

The purpose of these arrangements is to incentivise investment with multi-year lead-times to build and deliver capacity as quickly as possible. Therefore, the SEM Committee is minded to limit early delivery payments to multi-year New Capacity.

The SEM Committee does not want to create the possibility for Existing Capacity or already contracted New Capacity to go into a T-4 auction (e.g. the 2028/29 T-4), obtain a higher price and then renege on already awarded contracts. Limiting eligibility for early delivery payments to multi-year New Capacity is expected to:

- Target incentive payments on projects which are making significant investments and have the most challenge delivery lead times; and
- Limit gaming potential.

### 2.3 Limits on early delivery and gaming incentives

To further limit gaming potential, the SEM Committee is also minded to allow early delivery payments to start no more than a year before the start of the capacity delivery year for the auction in question.

As discussed above, the SEM Committee is concerned that early delivery incentives could introduce opportunities for gaming, such as units/assets from previous auctions terminating their existing contracts and coming into the T-4 in the expectation of being paid higher prices for early delivery.

Additionally, early delivery incentives could have unintended consequences. For instance, units which think they could deliver, for example, for 2028/29 could decide to enter later auctions, knowing that they have a “free option” to get paid if they deliver early anyway. This will make it difficult for the TSOs and the SEM Committee to judge whether units intend to deliver early and the size of any capacity deficit once early delivery potential is taken into account.

Limiting early delivery payments to one year is expected to limit the potential for gaming and unintended consequences.

### 2.4 Payment multipliers

The SEM Committee is minded to pay capacity for early delivery at the same rate as the price for the awarded capacity. Hence, if a unit wins a contract at €100,000/MW<sub>d</sub> in the 2028/29 T-4, and delivers on 1 January 2028, it would be paid 1/365<sup>th</sup> of

€100,000/MW<sub>d</sub> per day, between 1 January and 30 September, i.e. the same rate it would expect to get paid during the multi-year contract.

However, the SEM Committee seeks feedback on whether it may be appropriate to apply multipliers to payments during the early delivery period. The key reasons why it may be appropriate to apply multipliers during the early delivery period are:

- To provide extra incentive to deliver early by having multipliers greater than 1, with any extra costs to consumers in terms of extra CRM payments being more than offset by savings in terms of reduced lost load costs or reduced cost of emergency measures. Early delivery may also deliver benefits in terms of carbon savings.
- To reflect the differing values of capacity to consumers at different times of the year. The increased penetration of intermittent wind means that the historically observed relationship between seasons and the loss of load probability is probably less pronounced than in earlier years. However, it is anticipated that the value of capacity to consumers in summer is still less than the value of capacity in winter. Hence there may be a case for applying a multiplier of greater than 1 to capacity that delivers early in the previous winter but less than 1 for capacity that delivers early, but only in the previous summer, when such capacity is less valuable.

However, the SEM Committee is concerned not to introduce the potential for gaming opportunities, and not to introduce undue complexity and would need to consider the materiality of any systems changes. For instance, if multipliers for early delivery are excessive, there may be an incentive for market participants which have won in previous auction to terminate their existing contracts, and enter the 2028/29 T-4 to obtain higher contract prices, with multipliers for “early delivery”- i.e. for delivery in periods which they are currently contracted for in previous auctions.

Whilst it is anticipated that changes to settlement systems can be made at a later date (any date up to when payments become due), the SEM Committee would want

to have reasonable assurance that early delivery incentives can be settled appropriately before making commitments.

## 2.5 Qualification processes

We do not see any need for any changes to Qualification or Exception Application processes, including Implementation Plans. An applicant for the 2028/29 T-4 does not need to declare whether the CMU can deliver early or not as part of its Qualification or Exception Application.

## 2.6 Applicable auctions

The SEM Committee is minded to apply early delivery incentives to all auctions until further notice (including T-1 auctions).

The SEM Committee will review this position once it is confident that sufficient capacity has been secured to meet the target reliability standard without the need for early delivery years incentives- at which point the cost of early delivery payments to consumers may exceed the savings in terms of incremental reduction in the value of lost load.

## 3. Consultation questions

The SEM Committee is seeking feedback on the following:

- The overall design of the early delivery options (as set out in Section 2.1);
- The minded to position to restrict eligibility for early delivery payments to multi-year New Capacity (see Section 2.2);
- The minded to position to allow early delivery payments to start no more than a year before the start of the capacity delivery year for the auction in question (see Section 2.3);
- The minded to position to not employ payment multipliers for early delivery (as per the options set out in Section 2.4);

- Whether there are any changes required to Qualification and Exception Application rules or processes (see discussion in Section 2.5);
- The minded to position to apply early delivery incentives to all auctions until further notice (see Section 2.6);
- Any other incentives that may be appropriate to promote early delivery of capacity.

#### 4. Next Steps

The SEM Committee are seeking views from industry on the proposals set out in this document.

Responses to the consultation paper must be sent to both the CRU and UR CRM Submissions inboxes by **no later than 17:00 on April 15<sup>th</sup>, 2024**.

[CRMsubmissions@uregni.gov.uk](mailto:CRMsubmissions@uregni.gov.uk)

[CRMsubmissions@cru.ie](mailto:CRMsubmissions@cru.ie)

Please note that late submissions will not be accepted.

Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.

The RAs propose to issue a decision on this consultation in late April/early May 2024. The SEM Committee expects to publish its decision at around the same time as the TSOs publish the IAIP for the 2028/29 T-4, planned for 2 May 2024.

The policy decision will provide investors with the confidence to enter the auction, knowing that they will be appropriately rewarded for early delivery incentives.

The SEM Committee will then work with the TSOs and the industry following the publication of the policy decision to make the necessary changes to the Capacity Market Code (CMC) and any necessary changes to the Trading & Settlement Code (T&SC).