

Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Commission for Regulation of Utilities
The Exchange
Belgard Square North
Tallaght
Dublin 24

CRMSubmissions@uregni.gov.uk

CRMsubmissions@cru.ie

23rd February 2024

RE: SEM-24-012 – Consultation on the Capacity Remuneration Mechanism T-3 2027/2028 Capacity Auction Parameters (the “Consultation”)

Dear CRM Submissions team,

Bord Gáis Energy (**BGE**) welcomes this opportunity to respond to the Consultation on the Capacity Remuneration Mechanism T-3 2027/28 Capacity Auction Parameters.

BGE does not share the view of the necessity to procure additional capacity for the 2027/28 Capacity Year through a T-3 Capacity Auction. Our analysis of the forward capacity market suggests an adequate balance in capacity for the SEM, and not the critical supply levels that would require this further procurement. In our view, progressing with this T-3 capacity auction will result in a rushed procurement of additional volumes from capacity units not best aligned to the future operations of, and national decarbonisation targets for, the SEM power system. Overall, we see the outcomes from this auction as adding to the cost burden for the consumer directly by paying more than is necessary for any additional capacity delivered, and indirectly by undermining the delivery of the decarbonisation targets under the Climate Action Plan resulting in fines that will have to be met by the consumer. BGE is happy to share our analysis with the Regulatory Authorities. We also ask the RAs and EirGrid to hold a workshop with industry participants to verify the quantitative need for this auction ahead of the publication of the Initial Auction Information Pack in early March.

Should the position of the SEM Committee remain that a T-3 capacity auction for 2027/28 is required then we ask that pro-active measures are taken to maximise competition in the auction to achieve the best value outcome for the consumer. Participation in the auction would be enhanced by governmental and regulatory supports to remove planning delays for viable projects and increased delivery focus of timely connections to new projects¹. Another route we propose to maximise participation levels in auctions would be to make ready-serviced sites², held under state or semi-state ownership, available to participants whose auction bid would then reflect their capabilities to build, operate, and maintain new generation units on those sites.

Notwithstanding our views and requests as set out above and being supportive of actions by the SEM Committee to maintain security of supply for the SEM, we offer below our positions on the parameters of note from the consultation:

[Increase Tolerance and Decrease Tolerance by Tolerance Class:](#)

The proposed use of a non-zero value for the Increase Tolerance (INCTOL) should secure generation volume to close out any projected capacity gap for the 2027/28 capacity year but care is needed that its level and application do not impact the requirements for capacity auctions in future years. We believe that **INCTOL should apply to both existing and new (including “contracted but yet-to-commission”) units to a maximum of**

¹ To note, the planning timelines for BGE’s units under development for the 2024/25 capacity year have been significantly greater than the 16 week turnaround for strategic projects. One project is with ABP for over 37 weeks, still without a decision, even though there were no material comments to the consultation held.

² For example, these would be sites with full (or near full) planning for the construction of a generation unit and have existing utility, fuel, and grid connections ready for use by a new generation unit.

10%³, and only for one-year contracts⁴. This in our view will offer meaningful increases in capacity volumes as is the purpose of the INCTOL value and deliver value for the consumer for the 2027/28 Capacity Year while mitigating the risk of on-going impacts to the Capacity Market for future auctions.

Auction Price Cap (APC):

In our view the aim of a higher Auction Price Cap is to encourage increasing investment from participants and so it must reflect the realities of the market costs faced by generation in construction **and** in operation. Cost inflations in the market impact the investments in both new units through construction costs and existing units through operational and improvement costs. The changes to the APC proposed in the consultation of pushing up the multiplier to the Net CONE value fails to reflect the variability of the commercial pressures in the market on the costs to provide all capacity. As a result, it does not provide feasible investment signals to participants in our view. We believe therefore that it is the value of Net CONE (derived from changes to the Best New Entrant (BNE) parameters to reflect market updates) which needs to be increased.

We recognise however, that time is of the essence for this proposed auction and acknowledge that an update to the BNE decision and values is not feasible. We ask then that any change to the APC multiplier is mirrored in changes to the multiplier for the Existing Capacity Price Cap (ECPC) to maintain likeness on the market pressures being seen by both new and existing units.

With respect to the level of the multiplier, we note that no suggestion has been made in the consultation. In considering the multiplier (in the absence of a review of the full BNE), the Regulatory Authorities must rerun its market models to better reflect the reality of the markets for investors. Based on publicly available information, our modelling suggests very limited energy and system services revenues for any new unit in the market. Therefore, the multipliers must reflect this as well as cost inflation pressures.

Remaining parameters:

We support the proposals for the remaining parameters from the consultation paper which are not commented on above, these being:

- New Capacity Investment Rate Threshold at €300k/de-rated MW/year
- Annual Stop Loss Limit Factor of 1.5
- Billing Period Stop Loss Factor of 0.5
- Indicative Annual Capacity Exchange Rate when determined by the SOs for the Initial Auction Information Pack
- Performance Security Posting Dates / Events,
- Termination Charges,
- Full Administered Scarcity Price and Reserve Scarcity Price Curve, and
- Parameters applied in the calculation of the Strike Price.

Finally, we ask that focus is given to provide as many detailed auction parameters in the Initial Auction Information Pack as possible to give best support for the development of viable business cases and auction bids. The short timescale for delivery of capacity procured in the auction (less than 3 years to the start of the capacity year from the publication of the auction results) establishes the need for investors to have the best possible information to inform their qualification level for the auction. Specifically, we ask that the auction demand curve and locational constraints are published to allow participants understand the quantum and location of the capacity needed. We understand there are current procedures within the TSO that may influence the timelines for publication of the

³ We propose this indicative level given the tight timelines before the publication of the Initial Auction Information Pack for the 2027/28 T-3 Auction. We consider this timescale to be insufficient to get full agreement for an enduring mechanism to establish the level of INCTOL for the auction, both in applicability (would it be applied based on de-rating factors, or age of plant?) and definition (is it the most recent de-rating factor or one from a previous year?; is the age of the plant based on construction date or the date of the most recent large overhaul?).

⁴ This would mean that the additional volume available under INCTOL be offered one-year contracts only and not multi-year contracts under an Exceptions Application to the RAs.

demand curve. We ask the RAs to influence the timelines for this process so that the participants of the market can compete effectively.

I hope our suggestions and comments are clear and helpful. Please do not hesitate to contact me should you need to follow-up on any related issues to the above.

Yours sincerely,

Ian Mullins
Regulatory Affairs – Commercial
Bord Gáis Energy
{By email}