



## **Single Electricity Market**

**(SEM)**

### **Capacity Market Code**

### **Workshop 36 Decision Paper**

- CMC\_03\_24:** Enduring Mechanism for Indexation based on GB Model
- CMC\_05\_24:** Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108

**SEM-24-062**

**01 October 2024**

## EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to two Proposed Modifications to the Capacity Market Code (CMC). These Modifications were discussed at workshop 36, held on the 21 March 2024.

- **CMC\_03\_24:** Enduring mechanism for indexation based on GB model
- **CMC\_05\_24:** Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108

The decisions within this paper follow on from the associated consultation ([SEM-24-027](#)), which closed on 20 May 2024.

A consultation period followed where 8 responses were submitted, none of which were confidential. These responses are published along with this decision paper.

### Summary of Key Decisions

Following consideration of the proposals and the responses received to the consultation, the SEM Committee have decided:

Modification	Decision	Implementation Date
<b>CMC_03_24:</b> Enduring Mechanism for Indexation Based on GB Model	Not make a Modification	N/a
<b>CMC_05_24:</b> Amendment to J.6.1.6 to Recognise Extensions Granted Under SEM-23-101 and SEM-23-108	Make a Modification	N/a

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## Appendix A Responses

# 1. OVERVIEW

## 1.1. BACKGROUND

1.1.1. The SEM CRM detailed design and auction process has been developed through a series of consultation and decision papers, all of which are available on the SEM Committee's (SEMC) website. These decisions were translated into legal drafting of the market rules via an extensive consultative process leading to the publication of the Trading and Settlement Code (TSC) and the Capacity Market Code (CMC). Current versions of the CMC and the TSC are published on the SEMO website.

### **Process and Timeline for this Modification**

1.1.2. On the 07 March 2024, SSE submitted one Modification Proposal (CMC\_03\_24), and the Regulatory Authorities (RAs) submitted one proposal (CMC\_05\_24) under the terms of B.12.4 of the CMC. These Modification Proposals were marked as Standard.

1.1.3. The RAs reviewed all Modification Proposals and determined that none were spurious.

1.1.4. On the 14 March 2024, the RAs determined the procedure to apply to the Modification Proposal. An overview of the timetable is as follows:

- i. The System Operators convened Workshop 36 where the Modification Proposals were considered on 21 March 2024.
- ii. The System Operators, as set out in B.12.7.1 (j) of the CMC, prepared a report<sup>1</sup> of the discussions which took place at the workshop, provided the report to the RAs, and published it on the Modifications website promptly after the workshop.
- iii. The RAs then consulted on the Modification Proposal from the date of publication of the Consultation until the closing date of Monday 20 May 2024.
- iv. As set out in B.12.11, the RAs shall make their decision as soon as reasonably practicable following conclusion of the consultation and publish a report in respect of their decision. The purpose of the decision paper is to set out the decision relating to the Standard Modification Proposal discussed during Workshop 34 to:
  - a) Make a Modification;
  - b) Not make a Modification; or
  - c) Undertake further consideration in relation to the matters raised in the Modification Proposal.

1.1.5. This decision paper provides a summary of the consultation proposals and sets out the SEM Committee's decision.

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<sup>1</sup> [Capacity-Modifications-Workshop-36-Report-V1.0.pdf \(sem-o.com\)](#)

## 1.2. RESPONSES RECEIVED TO CONSULTATION

1.2.1. This paper includes a summary of the responses made to Capacity Market Code Workshop 36 Consultation Paper ([SEM-24-027](#)) which was published on 19 April 2024 and closed on 20 May 2024.

1.2.2. A total of eight responses were received to consultation SEM-23-109 with none marked as confidential. The responses are from:

- Energia
- ESB Generation and Trading (ESB GT)
- SSE
- Bord Gáis Energy (BGE)
- EP UK Investments (EPUKI)
- DRAI
- Eirgrid and Soni (TSOs)
- Bord na Mona (BnM)

## 2. ENDURING MECHANISM FOR INDEXATION BASED ON GB MODEL

### 2.1. CONSULTATION SUMMARY AS PRESENTED BY SSE

- 2.1.1. This Modification Proposal seeks to index capacity contracts against inflation to hedge against a potential inflationary impact on the cost base of procurement and delivery of New Capacity in respect of the Capacity Year 2026/27 onwards. It also seeks to prevent uneconomical exits from existing units due to an inflationary impact on their cost base.
- 2.1.2. The proposal would seek to introduce an indexation mechanism like the approach taken in GB. Currently, SSE argues the price signals in the CRM are defined by the Best New Entrant (BNE) and thus only set every five years.
- 2.1.3. The proposal would seek to keep in step with the pace of inflation between auctions. Inflation would be based on the indexation base year, which would be the average monthly CPI figures for the seven months prior to the publication of the Initial Auction Information Pack (IAIP) for the relevant auction. The proposer states that this value would be known ahead of auction, allowing stakeholders to assess Opt-out decisions or requirements for specific prices. The Capacity Payment Price would be indexed at the start of each Capacity Year based on the average monthly CPI figures for the winter before the relevant Capacity Year (October-April inclusive) divided by the base year inflation. This would be recalculated for each delivery year. SSE stated that the benefit of using a simple average across seven months to calculation indexation helps avoid any spikes in CPI. The CPI indices proposed would be those of the Central Statistics Office in Ireland and the Office for National Statistics in Northern Ireland.
- 2.1.4. Payments would not be exposed to deflation (i.e. could not be reduced due to indexation) due to the addition of a 'max' term in the formula, as also proposed in Energinor's proposed modification. The indexation model proposed would not apply to T-1 Capacity Auctions.
- 2.1.5. According to the SSE, these proposed changes as it contends, would be beneficial to security of supply and preventing against inefficient exits and project termination due to unforeseen inflation.

### 2.2. CMC\_03\_24 RESPONSES

- 2.2.1. Consultation responses were largely in favour of introducing an enduring indexation mechanism and argued that it was needed as soon as possible. Numerous respondents outlined that indexation mechanisms are incorporated into other energy schemes operating in the SEM. Many respondents shared a view that the introduction of an indexation mechanism is important to ensure the delivery of new capacity.
- 2.2.2. However, the TSOs in their response outlined that they were not in favour of introducing the Modification. The TSOs also noted that if this Modification were to be accepted, an impact assessment of operational systems and processes would be required.

- 2.2.3. ESB GT welcomed other changes to the auction process such as the introduction of Intermediate Length Contracts and the raising of the Auction Price Cap. However, these measures, in its opinion, do not address the issue of estimating uncertain costs like inflation. It believed that an indexation mechanism is the only way to deliver true value for the consumer by encouraging cost-reflective bid submissions.
- 2.2.4. BnM supported the Modification Proposal in principle and considered it complementary to the inflation mechanism approved by the SEM Committee but opined that the proposal at hand only addressed operational expenses inflation (Opex) and did not consider Capital Expenditure (Capex) inflation. It also proposed additional text amendments to include a 'Risk Burden Sharing Factor' and for the mechanism to apply as detailed in SEM-23-045.
- 2.2.5. BGE also supported the principle of introducing inflationary risk protection to the CRM where they noted that such a protection exists in other energy schemes like RESS and ORESS. It also expressed disappointment with the initial minded to reject position of the SEM Committee. Further, it stated that that 'average inflation approach' taken in this modification was a preferred option to prevent against an oversized impact month to month.
- 2.2.6. Energia supported the Modification Proposal in principle but considered its proposal (CMC\_22\_23) to be more suitable in addressing inflation. It outlined that while its proposal explicitly applies to auctions yet to take place and was not retrospective, SSE's proposal applies from T-4 2026/2027 auction. Energia argued that this could lead to a situation where contract winners in all auctions since T-4 2026/2027 could benefit from 'baked-in inflation' paired with an indexation mechanism.
- 2.2.7. EPUKI strongly supported this Modification Proposal and noted disappointment with the SEM Committee's initial minded to reject position. It highlighted that other energy schemes operating in Ireland like RESS and O-RESS contain an indexation mechanism in some form and such mechanisms are widely accepted across numerous energy markets. It also stated that it believed that this Modification Proposal should be implemented ahead of the T-4 2028/2029 auction, arguing that the lack of an indexation mechanism contributed to the results of the T-4 2027/2028 auction.

### 2.3. CMC\_03\_24 -SEM COMMITTEE DECISION

- 2.3.1. The SEM Committee welcomes feedback from participants from both the initial workshop and the subsequent consultation period.
- 2.3.2. The SEM Committee acknowledges the widespread industry support for the introduction of an indexation mechanism and the proposer's efforts to bring forward a proposal.
- 2.3.3. However, the SEM Committee considers that the introduction of an enduring indexation mechanism would be a significant change to the design of the CRM and would require detailed analysis and development. The SEM Committee will consider consulting upon such a policy change in the next significant update to the CRM, which is expected to be ahead of the next State aid application.

- 2.3.4. In relation to this proposal, the SEM Committee is concerned about the possible duplication of indexation risk being accounted for. The SEM Committee expects that investors will have factored an inflation risk premium into their bid submission before this modification was proposed. If this proposal were to be accepted, it would mean market participants could benefit from a bid price accounting for the risk of inflation, paired with an indexation mechanism.
- 2.3.5. The SEM Committee would also like to highlight that the previous indexation mechanism, as detailed in SEM-23-038 and SEM-23-045, was in response to unanticipated inflation during the build period of new projects which had won in the T-3 2024/25 and the T-4 2025/26, primarily as a consequence of the war in Ukraine. Therefore, the decision to index these payments following the auctions in question was made whilst considering specific, unanticipated circumstances.
- 2.3.6. Based on these reasons, the SEM Committee will not, at present, make a Modification.

## 3. CMC\_05\_24- AMENDMENT OF J.6.1.6 TO RECOGNISE EXTENSIONS GRANTED UNDER SEM-23-101 AND SEM-23-108

### 3.1. CONSULTATION SUMMARY AS PROPOSED BY RAS

This Modification Proposal seeks to amend J.6.1.6 of the Capacity Market Code to recognise extensions granted under J.5.7 and J.5.8, which were introduced as a result of SEM-23-101 (decision paper) and SEM-23-108 (approved legal drafting). This was introduced as a ‘housekeeping’ modification.

### 3.2.CMC\_05\_24 RESPONSES TO MODIFICATION PROPOSAL

SSE, ESB GT and BGE were all supportive of the change.

### 3.3.CMC\_05\_24 SEM COMMITTEE DECISION

The SEM Committee has decided to make a Modification. The SEM Committee believes that this change will reflect the true intent of SEM-23-101 and is line with CMC objectives.

## 4. NEXT STEPS

- 4.1.1. The SEM Committee will make the proposed modification of CMC\_05\_24 using the draft legal text accompanying this Decision Paper. The SEM Committee will also consider consulting upon an indexation policy in the next significant update to the CRM.
- 4.1.2. All SEM Committee decisions are published on the SEM Committee website: [www.semcommittee.com](http://www.semcommittee.com).