

# Response to SEM-24-027

## Capacity Market Code Modifications Workshop 36 Consultation

CMC\_02\_24; CMC\_03\_24; CMC\_04\_24; CMC\_05\_24

20<sup>th</sup> May 2024



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# 1. Introduction

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland. System Operator for Northern Ireland (SONI Ltd) is the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is a contractual joint venture between SONI and EirGrid and operates the Single Electricity Market on the island of Ireland.

EirGrid and SONI have been certified by the European Commission as independent TSOs. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

EirGrid and SONI have duties under licence to advise the CRU and UR respectively on matters relating to the current and expected future reliability of the electricity supply. We have also been allocated responsibility for administering the Capacity Market Code through our TSO licences. This response is on behalf of EirGrid and SONI in their roles as TSOs for Ireland and Northern Ireland.

## 2. EirGrid and SONI View on the Consultation Topic

EirGrid and SONI, the System Operators, welcome this opportunity to respond to the SEM Committee's consultation paper ([SEM-24-027](#), dated 19<sup>th</sup> April 2024) on the Capacity Market Code Modification Proposals:

- [CMC\\_02\\_24](#): Modification to the Performance Security Requirement;
- [CMC\\_03\\_24](#): Enduring Mechanism for Indexation based on GB model;
- [CMC\\_04\\_24](#): Recovery of Net Present Value Lost as a Result of No-Fault Delays to New Capacity Projects;
- [CMC\\_05\\_24](#): Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108.

The System Operators' views are tabulated in Section 2.1.

## 2.1. EirGrid and SONI Response

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_02_24: Modification to the Performance Security Requirement	<p>As the modification proposal seeks to amend existing policy through the Code modification process the proposal is potentially contrary to objective (g):</p> <p>(g) <i>through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.</i></p>	<p>CRM Detailed Design Decision Paper 2 (<a href="#">SEM-16-022</a>) describes the introduction of performance securities and termination fees on a per MW basis without reference to duration of contract or scale of project.</p> <p>The policy decision states that the termination fee (and performance security) should be set based on estimates of 'the cost to consumers of undelivered capacity' as a means for "compensating consumers for the costs incurred by the failure to deliver capacity".</p> <p>Should a scaling be introduced a consultation and re-evaluation of performance securities and termination fees should be undertaken to ensure the revised basis is robust and equitable for market participants and consumers.</p>	<p>As proposed, it is not clear that codification is required to implement this change of policy and approach to the calculation of termination fee rates.</p> <p>The SEM Committee's consultations on auction parameters may be a mechanism to progress the matter.</p>

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_03_24: Enduring Mechanism for Indexation based on GB Model	<p>The System Operators support the SEM Committee's intention to reject this proposal.</p> <p>As the modification proposal seeks to amend existing policy through the Code modification process the proposal is potentially contrary to objective (g):</p> <ul style="list-style-type: none"> <li><i>through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.</i></li> </ul>	<p>The System Operators acknowledge the efforts of the proposer in seeking to bring forward a considered proposal with precedence in other markets. However, the System Operators note the SEM Committee's 2023 policy decision (SEM-23-045) which excluded enduring indexation and a subsequent decision not 'to prioritise a workstream on an enduring indexation mechanism for capacity contracts' in the SEM Committee's forward work programme for 2023/24.</p> <p>The System Operators note the SEM Committee's comments in this consultation on potentially progressing work in relation to indexation.</p> <p>The System Operators consider clarity on this matter is important to provide certainty for future auction processes. The System Operators will welcome clarity on enduring indexation through the policy development process.</p>	<p>The System Operators will welcome engagement on the detail of implementation following a policy decision and subsequent modification. The application of indexation needs to be transparent and efficient from an RA/SO perspective.</p> <p>An impact assessment would be required. We do expect that should this Modification be approved, there would be an operational impact to both systems and processes that would need to be quantified.</p>

ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_04_24: Recovery of Net Present Value Lost as a Result of No-Fault Delays to New Capacity Projects	<p>The System Operators support the SEM Committee's intention to reject this proposal.</p> <p>As the modification proposal seeks to introduce a burdensome, subjective assessment of 'no fault' the proposal is potentially contrary to the objective '<i>to provide transparency in the operation of the SEM</i>'.</p>	<p>The proposal introduces a new 'no fault' concept which is not clear. Its introduction would appear to place a significant burden on the Regulatory Authorities and increase the potential for legal challenge.</p> <p>Following the introduction of a more permissive approach to delays, this proposal potentially further undermines the commitment of market participants entering the auction process.</p> <p>In a similar fashion to delay remedial actions, the proposal would move the financial risk of delays from the party most able to manage the risk to the consumer.</p> <p>The path to delivery for capacity which is successful at auction has become more complex with multiple remedial actions and different stages of delivery. Tracking capacity will become more complex and the risk and uncertainty associated with accounting for future delivery will increase.</p>	<p>Should such a calculation be introduced it may be better to be an automatic outcome of the Remedial Action process i.e. should the Regulatory Authorities approve a delay, the approval includes an NPV adjustment.</p> <p>An impact assessment will be required. We do expect that should this Modification be approved, there would be an operational impact to both systems and processes that would need to be quantified.</p>
CMC_05_24: Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108	N/A	N/A	<p>The text appears to adequately correct the previous omission. One minor point to note is that the added new references are for sections rather than individual paragraphs so the correct wording should be '<i>....under paragraph J.5.5.2, or sections J.5.7 and J.5.8....</i>'</p>

