Energy for generations

ESB Generation and Trading Response to SEMC Consultation Paper on Capacity Market Code Modifications (Workshop 45)

SEM-25-057

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1. SUMMARY INFORMATION

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2. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to SEMC Workshop 45 Consultation Paper on the following Capacity Market Code (CMC) modification proposals:

- **CMC_16_25:** CRM De-Rating Factors for DSU
- **CMC_17_25:** Drawdown of Performance Security
- **CMC_18_25:** Introduction of Modular Generator Unit Types and De-Rating Methodology

3. ESB GT RESPONSE

3.1 CMC_16_25: CRM De-Rating Factors for DSU

3.1.1 Proposed Modification and its Consistency with the Code Objectives

DSUs may consist of several Individual Demand Sites (IDSs) with different load profiles, response capabilities and other characteristics. There may also be significant churn in a DSU portfolio. Under the Grid Code, a DSU must have at least 4 MW of capacity to be registered, and thus eligible to participate in the Capacity Market.

This proposal seeks to introduce a fundamental change in the derating of DSUs in the Capacity Market, which would allow units to select their own derating factor based on their projected availability ahead of the Delivery Year, alongside a new Generator Performance Incentive (GPI) to provide DSUs with a penalty incentive to achieve their projected availability.

Under current arrangements, average derating factors for each technology class are published by the TSO based on historic availability, performance and duration, even where an individual unit may be able to demonstrate consistently higher levels of performance.

We note that derating factors for several technology types have experienced a significant decline in recent years, with associated impacts on Capacity Market revenue for higher performing units, mostly offset by substantial increases in the Capacity Payment Price.

ESB GT has previously expressed its concern with regard to the asymmetric treatment of DSUs versus other technology types within the CRM, as well as the ability of demand response currently in the market to make a clear and consistent contribution to security of supply (see ESB GT's response to *SEM-19-010 Capacity Remuneration Mechanism DSU Compliance with State Aid*).

We understand that this proposal aims to address longstanding concerns with the performance of demand response and associated challenges around operational metering which are well understood by market participants and the TSOs. We also recognise that DSUs are limited in their ability to earn revenue in the energy market, pending the introduction of the solution presented in *SEM-24-046 Demand Side Units: A Revised Phase 1 Solution for Energy Payments and Other Issues Consultation Paper,* requiring developers to recover their costs in other markets.

While we welcome any measures to increase the performance and delivery of demand response in the SEM, this cannot be at the expense of other technology types for which exposure to the energy price provides a strong incentive to ensure availability during times of system tightness.

ESB GT does not support the modification proposal on the basis that it would reflect the inequitable treatment of technology types within the Capacity Market. We would further urge the RAs to advance the program of work to allow DSU participation in the energy markets and full balance responsibility to create incentives for DSUs to maximise availability at times when demand response could be of most value to the system. This is particularly important where an individual DSU made up of onsite dispatchable generation which shares similar characteristics to Generator Units or Aggregated Generator Units.

The SEM Committee has previously noted that DSUs are not consistently declaring an availability of 4 MW or above on a regular basis, as required by the Grid Code, presumably due to churn in their portfolio. Where a DSU consistently declares low availability, there is clear reason to doubt the unit's ability to contribute to security of supply.

The GPI proposed in the modification proposal would measure the availability of a DSU for the purposes of calculating the proposed GPI over 1 month "to match the existing processes via which the TSOs administer Other System Charges and GPIs."

It is not clear that the period or timing of this test would provide sufficient assurance that the DSU is able to meet its declared availability for the full duration of its contract and thus provide a consistent incentive to maintain availability.

As set out in our response to *SEM-24-046,* ESB GT believes that further investigation into the data currently provided to TSOs as per Grid Code requirements (Best Correlated Profile, Energy profile, etc.) is needed to determine whether this data can

be used for the baselining and performance monitoring of demand response. Such analysis could form the basis for a performance benchmark or GPI of the nature proposed in this modification proposal to bring performance in line with the expected standard.

We continue to support the introduction of an INCTOL provision and unit-based derating factors in the CRM, as set out in our response to *SEM-24-012 T-3 2027/28 Capacity Auction Parameters Consultation Paper* and more recently, in response to *CMC_02_25: Separate De-Rating Factor for New Vs. Existing Capacity*.

We believe that the upcoming State Aid approval for the Capacity Market provides an important opportunity for the RAs to carry out a fundamental review of de-rating to ensure that the Capacity Market is fit for purpose, avoids over procurement and does not incentivise speculative applications.

We note that the European Commission (EC) Clean Industrial State Aid Framework (CISAF) published earlier this year is intended to serve as a target model for Capacity Mechanisms in Europe. The CISAF provides that market participants may deviate from the default derating factor ascribed to the relevant unit by up to 15%.

We would welcome an update from the RAs on their proposed work plan in relation to DSUs in the near future.

3.1.2 Impacts Not Identified in the Modification Proposal Form

None.

3.1.3 Detailed CMC Drafting Proposed to Deliver the Modification

No additional drafting proposed.

3.2 CMC_17_25: Drawdown of Performance Security

3.2.1 Proposed Modification and its Consistency with the Code Objectives

This modification proposal would introduce an option for defaulting parties to authorise the TSOs to draw down on cash performance securities without waiting for the invoice period to lapse, as an additional, optional avenue for the payment of Termination Charges.

We understand that the proposal is designed to reduce the administrative burden on the TSOs and ensure that Termination Charges are satisfied in a timely manner.

ESB GT supports the proposed modification proposal, which we believe is unlikely to have any significant impact on the wider market.

3.2.2 Impacts Not Identified in the Modification Proposal Form

None.

3.2.3 Detailed CMC Drafting Proposed to Deliver the Modification

No additional drafting proposed.

3.3 CMC_18_25: Introduction of Modular Generator Unit Types and De-Rating Methodology

3.3.1 Proposed Modification and its Consistency with the Code Objectives

This modification proposal seeks to introduce a new, Modular Generator Unit (MGU) type and associated de-rating methodology in the Capacity Market, which would allow for the separate treatment and derating of 'modular' generator components which can

be dispatched individually. For example, a Combined Cycle Gas Turbine (CCGT) with a by-pass stack which allows it to operate in either Open Cyle or Closed Cycle mode. Each component would be subject to separate derating which is then summed to arrive at the derating for the combined capacity of the unit (where the derating for the Closed Cycle 'incremental' capacity remains consistent with the current derating of non-modular CCGTs).

This is distinct from the existing concept of Aggregated Generator Unit (AGU), in that the Closed Cycle component cannot function as an independent generator (as required by the definition of AGU in the Code).

The proposal suggests that standalone Open Cycle components of a larger unit are de-rated too heavily by the TSOs which does not accurately reflect their contribution to system security, where the added volume of the Closed Cycle component means that they incur heavier derating overall.

ESB GT is not supportive of this modification proposal as we believe there is potential for it to introduce an additional complexity in the Capacity Market without clear benefit.

We note the discussion at the Workshop 45 Modifications Committee Meeting which focussed on site-specific configurations and potential for a 'single points of failure' at some sites, which calls into question the validity of the claim that the proposed modification would better reflect the reliability contributions of Open and Closed Cycle components.

In the absence of detailed technical analysis, we would therefore urge the RAs to consider whether MGU components (as proposed), can truly be considered as independent.

The modification proposal cites the potential for increased investment in modular CCGTs if it were to be approved. ESB GT is not convinced that a marginally more favourable derating factor would provide a significant incentive for increased investment in this technology type, nor of the need for additional modular capacity.

This is particularly true in light of the introduction of Intermediate Length Contracts (ILCs) from and including the T-4 2028/29 Capacity Auction, which provide an additional pathway to refurbishment for existing units to supplement the Unit-Specific Price Cap (USPC) regime, and allow refurbished capacity to compete with new capacity in the Auction.

We would like to reiterate our call for a fundamental review of de-rating to ensure that the Capacity Market is fit for purpose, avoids over procurement, and deters speculative applications.

3.3.2 Impacts Not Identified in the Modification Proposal Form

None.

3.3.3 Detailed CMC Drafting Proposed to Deliver the Modification

No additional drafting proposed.

5. CAPACITY MARKET CODE OBJECTIVES

A.1.2.1 *This Code is designed to facilitate achievement of the following objectives (the "**Capacity Market Code Objectives**"):*

a) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;
b) to promote competition in the provision of electricity capacity to the SEM;
c) to provide transparency in the operation of the SEM;
d) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and
e) 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.
f) become parties to the Capacity Market Code; and
g) 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.