



Energy for
generations

ESB Generation and Trading
Response to SEMC Consultation on
Options for the timings of upcoming
CRM auctions (SEM-26-003)

24/02/2026





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1. SUMMARY INFORMATION

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|---------------------------------------|----------------------------|
| Respondent's Name | ESB Generation and Trading |
| Type of Stakeholder | Generator |
| Contact name (for any queries) | Will Carr |
| Contact Email Address | William.carr3@esb.ie |
| Contact Telephone Number | +353 86 3081773 |
| Confidential Response | No |

2. INTRODUCTION

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to the SEM Committee (SEMC) consultation on Options for the timings of upcoming CRM auctions.

This is a positive intervention to facilitate the transition to a longer delivery timeline in the Capacity Market (CRM) in line with the recommendations set out in the *2022 EY Review of the Performance of the SEM CRM* and SEMC commitment to “allow a minimum of the full 4 years of lead time for new builds in subsequent T-4 auctions for the foreseeable future” (*SEM-23-036*). We note that a March 2026 date for the T-4 2029/30, leaves just 3.5 years between auction and the start of the Delivery Year (DY).

The SEMC consultation contains two substantive proposals with potential impacts on DY 2030/31 and DY 2031/32.

- **Option 1a:** brings forward the T-4 2031/32 auction to the first half of 2027 and uses two-year contracts for successful Existing Capacity in this auction to bridge the 2030/31 delivery year, allowing for an extended T-4 auction (54 months to delivery) from 2027.
- **Option 1b:** uses two-year contracts for successful Existing Capacity in the T-4 2030/31 auction expected in March 2027 to bridge the 2031/32 delivery year, allowing for an extended T-4 auction (54 months to delivery) from 2028 for the 2032/33 delivery year.

In both cases Early Delivery Incentives (EDI) would apply for New Capacity and Intermediate Length Contracts (ILCs) delivering before the relevant DY.

The SEMC also suggests that these short-term options may help to create a pathway for a move to a T-5 delivery timeframe in the longer term.

We understand that moving to a T-5 auction with a delivery period of greater than 54 months would require a Code change and is pending the outcome of the State Aid reapproval process ahead of the expiry of the current approval.

ESB GT has previously called for auctions to be held further in advance of the DY in order to reflect the real-world implementation timelines associated with major infrastructure projects. The transition to longer timelines will reduce the risk of contract termination and delays in the delivery of New Capacity, which continues to pose a significant threat to security of supply.

We would further expect the proposal to reduce the administrative burden associated with applications for extensions under Section J.5. of the Capacity Market Code (CMC) and drive down consumer cost.

Below is our full response to the questions set out in the consultation.

3. ESB GT RESPONSE

1. Do you have a preference between the two options presented in this section?

ESB GT is supportive of Option 1a, as it would facilitate a faster transition to a T-4.5 auction faster than Option 1b.

We note that the timing of the skipped DY is an important consideration when deciding which option to pursue to mitigate the risks associated with possible capacity adequacy shortfall.

Ahead of the detailed risk assessment carried out by the TSOs in the lead up to the auction itself, the TSOs' All-Island Resource Adequacy Assessment (AIRAA) provides the best indication as to when and where new capacity would deliver most benefit to the system. The SEMC has indicated that AIRAA 2026-35 is expected to show a similar adequacy position for the 2030-32 period compared with last year's publication.

The TSOs' 2025 assessment shows the LOLE to be highest in 2032 in both Northern Ireland (NI) and the Republic of Ireland (ROI). The LOLE is relatively stable in ROI across the three years but steps up significantly in NI from 2031, and again in 2032. This suggests that skipping DY 2030/31 (Option 1a) may be preferable to skipping a later DY.

There remains a risk that a shortfall may materialise earlier in the decade than previously expected (i.e. in 2030/31) as these results are sensitive to factors such as the non-delivery of new gas capacity, or any further delay in the delivery of the second north-south tie line, currently planned for Q3 2031.

Given this uncertainty, it is clear that skipping a DY may increase the significance of the corresponding T-1 auction. We provide further detail on this point in response to Q4.

2. Could the introduction of two-year contracts for Existing Capacity create any risks from a capacity availability perspective, that would result in less capacity being available than under the current approach of two one-year contracts?

It is unclear whether the proposal to introduce two-year contracts for Existing Capacity as a bridging mechanism to cover the skipped auction could create new risks from a capacity availability perspective.

We note that Existing Capacity which is obligated to participate in the auction may carry additional risk / penalties where a Closure Notice is issued by the market participant during the earlier year of the two-year contract period.

We would expect the RAs to account for this additional risk, and any other impacts for the corresponding T-1 auction, in their decision.

3. Are there any solutions, other than two-year contracts for Existing Capacity, which should be considered by the SEM Committee to provide clarity to industry under Options 1a/1b?

No comment.

4. Do any of the options outlined above create risks or benefits not covered in this consultation?

Yes, we set out additional risks below.

Impact on T-1 auction

If a larger shortfall than expected emerges in the skipped DY, the impact on the capacity requirement for the T-1 auction could be significant. This should be accounted for in TSO modelling. We suggest the use of a worst-case scenario demand curve may be appropriate to mitigate this risk as far as possible.

An unexpected shortfall at T-1 stage also increases the risk of an RO event, with wider impacts for market participants, including the TSO.

Unit Specific Price Cap process

We would welcome a clarification from the SEMC as to whether Existing Capacity applying through the Exceptions process for a Unit Specific Price Cap (USPC) would need to submit an application for both years of a two-year contract, and more generally, how the process will be managed under Options 1a and 1b.

USPCs are set based on Net Going Forward Costs (NGFCs) ie. (annualised) avoidable future costs a unit must cover minus expected infra-marginal rent.

As we have stated in previous engagements, the design of the Exceptions process already places a significant burden on market participants. We would expect an additional burden for market participants if USPC applications were expected to cover a two-year period for award at the T-4 stage. This includes additional risks and challenges associated with predicting NGFCs for plants further in advance of the contracted period. To account for the additional risk, we would urge the SEMC to consider increasing the 10% tolerance currently applied to NGFCs (*SEM-17-022*).

The additional burden would have a disproportionate impact on market participants, such as ESB GT, which operate a large number of generation units participating in the CRM on an annual basis.

Accurately forecasting costs is important to avoid the risk of value leakage and poor long-term performance. Setting the USPC at an appropriate level is therefore important to avoid premature market exit and negative outcomes for security of supply.

5. Which option, out of Options 1a, 1b, and a “do nothing” do you consider to be best? If your response is dependent on the Decision taken for the longer-term, please state this and explain why.

We believe that both Option 1a and 1b provide benefits compared to a “do nothing” scenario and may provide a smoother runway to a T-5 at a later date.

In the consultation, the SEMC states that the current State Aid approval for the CRM is due to expire in May 2028 and was granted for auctions with a delivery lead time of a maximum of 54 months, as Codified in section (D.2.1.5 (d) of the CMC). This effectively rules out the option of holding concurrent or sequential auctions in 2027 / early 2028.

We would appreciate a clarification from the RAs on the timing of State Aid expiry, as we understand that the current CRM was approved by the European Commission in November 2017 for a period of ten years. We would therefore have expected the current approval to expire in November 2027.

6. Would moving to T-5 auctions be preferable to the current approach of T-4 auctions? Would some alternative auction schedule be preferred to T-5?

ESB GT is supportive of the proposal to transition to a T-5 auction at a later date. A five-year runway is a realistic timeframe for the delivery of a new open cycle gas turbine or aeroderivative, which may be required to ensure security of supply into the 2030s.

Industry has long expressed concerns in relation to the misalignment between auction timing and the delivery of new gas and grid connections. Associated delays are likely to continue to pose a significant risk to project and connection timelines due to factors beyond the control of the developer, impacting qualification as well as construction phase.

This is in part due to an increase in lead times for gas turbine transformers and other electrical equipment, which is only likely to get worse amid the rapid expansion of global demand for gas turbines. And the problem may be amplified as an increasing number of projects look to connect to the system in the coming years, including complex or first-of-a-kind projects which may become more common as market participants look to decarbonise their gas fleet.

ESB GT has also consistently highlighted the need for the timely delivery of much-needed grid reinforcements on the wider network, with knock-on impacts for the connections process and CRM.

We note that the 2017 European Commission (EC) State Aid Decision on the Capacity Mechanism (*State aid No. SA.44464 (2017/N) – Ireland Irish Capacity Mechanism*) addressed the issue of the inclusion of a locational element in the CRM auction design. At the time of publication, it was envisaged that locational constraints resulting from network congestion would be “gradually resolved to a large extent by the end of the

transitional period, i.e. 2024.” We understand that State Aid approval was granted on this basis.

We would like to reiterate the need for robust incentives for TSOs to deliver the required network upgrades to minimise the market distortions associated with Locational Capacity Constraint Areas (LCCA).

Extending the delivery period to 4.5 years will ease but not eliminate these concerns. We would therefore urge the RAs to consider at a minimum the high-level principle of aligning auction timelines with the time it takes to deliver gas and grid connections. We would also expect the upcoming State Aid approval process to adequately address the issue of locational distortions within the CRM.

It may also be appropriate to consider whether adequate binding, legal and financial incentives exist to encourage the gas and electricity TSOs to deliver connections within agreed timelines, both under the Enduring Connection Policy (ECP) process or alternative routes to achieve connection.

The lack of certainty surrounding the timing of grid and gas connection means that market participants are often forced to make important financial commitment decisions without certainty as to when they will be able to deliver.

From contract execution date, market participants typically look to sign EPC contracts within 12 months to meet the Substantial Financial Completion (SFC) milestone at 18 months. It typically takes up to 48 months to achieve a grid connection offer depending on technology type, complexity and the extent of the TSO backlog, with a further 6 months required at a minimum for commissioning.

We note that the Department of Climate, Energy and the Environment (DCEE) has proposed to extend the relief period for projects facing grid-related delays from 2 years to 3 years, as set out in its consultation on the changes to the terms and conditions for

the sixth round of the renewable energy support scheme (RESS 6). We would welcome a similar intervention in the CRM.

Until the fundamental issue of delays in the delivery of gas and grid connections has been resolved, extensions to key contract milestones due to third party delay (as under Section J.5. of the CMC) may continue to be required.

We would also welcome confirmation from the RAs on the timeframe for the phase out of the CRU Directions¹ regarding grid connection for projects successful at auction given the impact any phase out would likely have on project plans. Our understanding is that the intention is for the CRU to stop issuing such Directions from and including the T-4 2031/32 auction as set out in *CRU/2024101*, and as such, that a valid Connection Offer or Connection Agreement would become a requirement for Qualification.

The benefits associated with the phase out of the CRU Directions should be weighed up against any impacts to auction liquidity.

7. If moving towards T-5 auctions, how should the SEM Committee transition to this longer lead time? Responses could refer to proposals outlined in Options 1a/1b or other suggestions.

We believe that the proposal contained within Options 1a and 1b could be replicated to achieve the transition to a T-5 delivery timeframe, or alternatively, that two sequential auctions could be held to facilitate the transition to even longer delivery timelines.

We acknowledge RA concerns regarding the impact of holding auctions in quick succession, both from a resourcing point of view and with regard to potential negative impacts on auction liquidity.

¹ CRU Direction to EirGrid (*D/25/9470*) regarding grid connections for projects successful in the L1-2: Ireland Locational Capacity Constraint Area (LCCA) in the T-4 2029/30 Auction.

We would therefore expect further consultation with industry prior to the implementation of any plans for a T-5 auction.

8. Are there any wider considerations or market trends which would indicate that moving to a T-5 schedule is unnecessary or inappropriate in the longer-term?

No, for the reasons set out in response to previous questions we believe that a T-5 delivery timeline would mitigate some of the risks associated with the delivery of new gas capacity which are outside the control of the developer.

In the longer-term, if a T-5 is no longer required, we would suggest further consultation with industry.

9. What impacts, if any, could moving to a T-5 auction have on clearing prices in the CRM, and therefore on consumer costs?

We may expect the move to a T-5 auction to exert downward pressure on clearing prices in the CRM where longer delivery timelines may invite a larger number of applications from new market entrants, including new gas capacity. The challenges associated with delivering new gas capacity has deterred investment in the CRM for a number of years and was accompanied by a general upward trend in clearing prices. This was in addition to the introduction of costly emergency measures to guarantee security of supply.

Contract terminations have been a persistent feature in the SEM, in part due to construction and grid connection delays and escalating supply chain costs. These risks may be positively impacted by a move to longer delivery timelines.

We expect the CRM to remain an important route to market for all types of generation in the foreseeable future.