

EP UK Investments Response to Consultation on Cross-Border Participation in the CRM

EP UK Investments (**'EPUKI'**) welcomes the opportunity to respond to this consultation paper. EPUKI has outlined its views on the various issues addressed within the paper.

Reliance of Interconnection on Security of Supply

EPUKI has concerns around the potential for interconnection to support Security of Supply on the island of Ireland in the same manner as local electricity generation. As such, this policy should be carefully considered in the context of future precedent in the event that future interconnection comes online, enabling a greater proportion of cross-border Capacity Market participation.

While interconnection can provide imported power during times of system scarcity, the availability of imports is dependent on external market conditions, which makes it inherently less reliable than local generation which can be directly instructed by a Transmission System Operator (**'TSO'**).

If the volume of cross-border capacity increases in the future, so too will the likelihood of local generation being displaced by interconnection and consequently exiting the market. This could result in the island of Ireland relying heavily on imported power, without having access to dispatchable generation which can be relied on during times of system stress. This creates a number of security concerns:

- **Infrastructure Risk:** If the Single Electricity Market (**'SEM'**) is over-reliant on imported power to meet demand, the impact of infrastructure damage is increased. It is noted that in recent years, there has been a number of instances of undersea cables incurring damage and disruption potentially arising as a result of sabotage. In the current climate of rising geopolitical tensions, it is critical that Ireland is not exposed to undue levels of risk which could threaten its Security of Supply.
- **Reliance on External Conditions:** As noted above, the availability of power imports on interconnectors cannot be instructed by TSOs in the same manner as generation and instead depends on external market conditions. This creates a risk that power will not be available for import at short notice in exceptional circumstances, such as a sudden loss-of-load, or a reduction in actual versus forecasted levels of wind generation. This risk would be exasperated if there is scarcity in foreign markets which result in very high electricity prices, making it difficult or impossible to reverse the flow of the interconnector.
- **Possibility for Interconnectors to Exasperate Scarcity:** There have been historical instances of SEM interconnectors exporting power from Ireland at times of system

stress. This is an inherent result of the interconnectors' bi-directional nature, which is not the case for generation. It is understood that more recently the TSO has curtailed flows on the interconnector during times of scarcity to avoid the potential for export. This is an acknowledgement of the fact that interconnection does not strictly represent a benefit for Security of Supply but can also deteriorate conditions when the system is already under stress.

- **Risk of Cascading Interconnector Failure:** Interconnectors have historically been prone to “domino effect” failure events, in which the failure of one interconnector leads to propagating failure of other interconnectors on the transmission network. In May 2024, cascading failure occurred on both the EWIC and Moyle interconnectors resulting in both tripping in a very short space of time. The interconnectors had been importing more than 900MW at the time, meeting approximately 25% of all-island demand. Levels of wind generation were notably low at this time, at approximately 600MW. This sudden loss resulted in a significant frequency drop which was restored within twenty minutes due to the availability of System Services.

In this instance the major impact of the sudden loss of two interconnectors was remedied through the availability of dispatchable conventional generation to provide both power and System Services. If local generation is displaced at scale in the Capacity Market by interconnection, the potential impact of cascading failures increases exponentially.

EPUKI acknowledges that cross-border participation in the SEM Capacity Market is a European requirement and thus cannot and should not be prohibited. Nonetheless, due to the risks outlined above, and Ireland's unique situation as an island in Europe, this policy must be introduced with due caution to avoid displacing local generation and jeopardising Security of Supply.

Maximum Entrance Capacity

Due to the above concerns, the accurate calculation and forecasting of Maximum Entrance Capacity (**‘MEC’**) is critical. The consultation paper asserts that setting the MEC too high “*would mean that SEM consumers would incur higher costs without benefitting from a corresponding enhancement to security of supply which may endanger resource adequacy*”. However, there is a longer-term risk that overestimation of the MEC, particularly if further interconnection comes online, will result in local generation being displaced from the Capacity Market. Accordingly, the MEC methodology should carefully consider the weighted value of dispatchable generation compared to interconnection which the TSO does not have direct control over.

The consultation paper states that the TSOs will develop a methodology for calculating MEC by the end of 2026, and that the methodology will be subject to SEM Committee ('SEMC') approval. EPUKI would welcome further consultation and industry engagement on the inputs and assumptions to be applied to this methodology. EPUKI notes that EirGrid owns and operates EWIC and will also own the Celtic Interconnector. This creates a conflict of interest whereby EirGrid, in its role as TSO, will also share responsibility for developing an MEC methodology which assesses the usefulness of interconnectors to the island of Ireland from a Security of Supply perspective.

The methodology to be developed to determine MEC should reflect historical performance of interconnection, particularly during scarcity events. This methodology should also consider possible market conditions in France and how prices might trend in the event of scarcity in one or both regions.

Given the risks outlined above, EPUKI considers it prudent to take a conservative approach when estimating MEC. Assuming a similar MEC methodology is applied to any future interconnection which facilitates cross-border participation, a conservative approach to calculating MEC will ensure that cross-border participation does not undermine Security of Supply in the SEM.

Application of Auction Price Cap

EPUKI supports the SEMC's minded-to position to apply the Auction Price Cap ('APC') for foreign capacity, pending an assessment of likely competitive pressures in the relevant jurisdiction. While the consultation paper suggests that the level of competition in the French market will put downwards pressure on prices in the Capacity Auction, EPUKI notes that this may not be the case in other jurisdictions which may be relevant based on potential future interconnection. It would be pragmatic for the SEMC to indicate what level of competition warrants use of the Existing Capacity Price Cap, compared to the application of the APC.

Contract Length

EPUKI supports the SEMC's minded-to position to limit foreign capacity to single-year contracts only. This option is consistent with the treatment of local capacity in the SEM (with the availability of multi-year contracts being an exception under Section E.5 of the Capacity Market Code). Additionally, it is unclear how multi-year contracts would work alongside the MEC. For example, if the MEC is reduced from one year to another it is not sure how this would work alongside the awarded capacity.

Market Reference Price

EPUKI supports the SEMC's minded-to position to adopt the SEM price as the Market Reference Price. This option appears more appropriate than adopting the home country price.

If a French unit is available but cannot deliver because of issues related to the interconnector, it should not be exposed to a Difference Charge. If both the unit and the interconnector are unavailable, then a Difference Charge seems reasonable to impose since the capacity would not have been provided even if the interconnector wasn't blocked.

Secondary Trading

EPUKI believes that secondary trading should be fully allowed between domestic and foreign capacity units up to the MEC. Allowing trades between domestic and foreign capacity is fair in that it ensures equal treatment across the Capacity Market. Restricting trade between domestic and foreign capacity would undermine the concept of procuring cross-border capacity, as it implies that this capacity does not provide the same value to the system as domestic capacity. Restricting secondary traded volume to the MEC appears reasonable given that the MEC is a forecast of the contribution of interconnectors to Security of Supply during periods of system stress.

De-Rating of Foreign Capacity

EPUKI considers it necessary to carefully consider how foreign capacity should be treated from the perspective of de-rating. For example, under the proposed design foreign capacity is permitted to participate in Capacity Remuneration Mechanisms ('CRM') in both the SEM and in France. This will naturally weaken the incentive for a unit to make its generation available during times of system stress in the SEM. An additional de-rating factor, in addition to the technology de-rating factor should be applied to foreign capacity to account for domestic obligations which foreign capacity may be subjected to.

Treatment of Constraints

It is EPUKI's view that foreign capacity should be permitted to participate in the unconstrained Capacity Auction only. It would be inappropriate for foreign capacity to benefit from potentially higher prices and longer contract durations associated with the need to meet local capacity requirements. Furthermore, it is noted that the inclusion of locational constraints in the CRM was originally a transitional measure only and was intended to be removed from the Capacity Market. It is unclear how or why foreign capacity would be included in a locational constraint area, however it would be welcome for the SEMC to provide confirmation of this decision at this time to avoid potential unintended outcomes in the future.