ESB Generation & Trading's response to

SEMC Cross-Border Participation in the CRM Consultation Paper SEM-25-071

06/02/2026

1. EXECUTIVE SUMMARY

ESB GT acknowledges the requirement to implement explicit cross-border participation following SEM reintegration into the European Internal Market, subsequent to the Celtic Interconnector becoming operational. We have considered the options presented in the consultation and have indicated where we think that one approach appears preferable to another in satisfying participants and maintaining the integrity of the requirement to implement explicit cross-border participation.

ESB GT would like to call for clarity on the SEM Committee's interpretation of Article 26(5) of EU Regulation 2019/943, particularly regarding whether the same MWs from a single CMU may be counted towards multiple capacity commitments across different markets, or whether distinct MWs must be allocated to each commitment. This distinction is important for participants seeking to understand their obligations and the potential for overlapping responsibilities. If it is permissible for the same MW to fulfil multiple capacity commitments, ESB GT queries how this would align with State Aid rules, which stipulate that a project should only benefit from one State Aid instrument at any given time. ESB GT would like to see further guidance on this matter to help ensure compliance and provide market participants with the certainty needed for effective participation.

Across the auction design choices, Option 2, the foreign unit auction as a selection mechanism, is, in our view, the more workable of the two high-level structures, as it retains a single main CRM auction where domestic and pre-selected foreign units compete on consistent terms. However, when considering the two variants of Option 2 (a and b), ESB GT believe that further clarification is needed on the SEM Committee's interpretation of Article 26 before we could express a preference. In particular, there is a need for further clarity on how the SEM Committee thinks that units would be pre-selected to participate in the SEM Capacity Market auction, and whether this would be based on the lowest-priced offers or competitively allocating the available MEC, i.e. pre-select the units who are willing to pay the highest price to access the SEM Capacity Market.

Regarding the parameters for foreign participation, our preferences generally align with the more cautious minded-to positions outlined in the consultation. In particular, limiting foreign units to single-year contracts, applying the SEM price as the Market Reference Price, excluding foreign units from ECPC and USPC, and only running foreign auctions where MEC exceeds a minimum threshold all appear proportionate and lower-risk approaches during early stages of the reintegration.

Overall, ESB GT favours options that are pragmatic and minimise the risk of distortions to the functioning of the CRM itself or unintended consequences as the CRM evolves to incorporate explicit cross-border participation. Our response sets out where one option appears more workable than another, while recognising the need to meet compliance obligations without undermining the effectiveness or efficiency of the CRM.

In broad terms, ESB GT has concerns regarding the ability, or lack thereof, of foreign capacity to contribute to true capacity adequacy in the same manner as domestic capacity. There is a genuine risk that, during simultaneous adequacy events, foreign capacity may be prioritised away from the I-SEM, calling into question the actual value it provides to national capacity adequacy. Potential solutions to this issue could involve securing transmission rights to ensure capacity is reliably available when needed. Furthermore, ESB GT is concerned about the potential distortion of competition, as foreign units bidding into the I-SEM auctions may do so at prices lower than those reflective of the market, owing to their ability to benefit from capacity market payments across multiple markets.

2. VIEWS AND COMMENTS ON MINDED TO POSITIONS

2.1. Section 3 Foreign Unit Participation Auction Design

ESB GT acknowledges the requirement to implement explicit cross-border participation following SEM reintegration. We consider that Option 2, the foreign unit auction as a selection mechanism, is preferable to Option 1 because it determines outcomes in the main CRM auction where domestic and pre-selected foreign units compete on a consistent basis. This reduces the risk of paying above the efficient level for foreign capacity that can arise under a standalone foreign auction with a separate clearing price and a downward adjustment to the domestic demand curve. In addition, Option 2 avoids the risk of under procurement by ensuring the full demand curve is satisfised through the single auction process.

Within Option 2, ESB GT believe that further clarification is needed on the SEM Committee's interpretation of Article 26, before we could express a preference on sub-options 2a and 2b. In particular, there is a need for further clarity on how the SEM Committee thinks that units would be pre-selected to participate in the SEM Capacity Market auction and whether this would be based on the lowest-priced offers or competitively allocating the available MEC, i.e. pre-select the units who are willing to pay the highest price to access the SEM Capacity Market. In assessing the potential for high infra-marginal rents to be made by foreign participants, it is not clear to us at this point that this would necessarily occur.

If a capacity pre-selection mechanism required a foreign participant to pay for the opportunity to bid for access to the SEM Capacity Market, their bid price would reflect this cost. As set out in Article 26 (9), these costs to the foreign participant arising through competitive allocation of the MEC would be accrued to the TSOs. Therefore, the participants wouldn't necessarily achieve high inframarginal rent. If it is the case that the SEM committee's interpretation of the auction pre-selection process is such that the bid stack will be constructed starting simply with the lowest priced eligible foreign participant bid, it is possible that high infra-marginal rents could be earned by foreign participants. However, ESB GT is not clear how this approach would align with Article 26 (8) and Article 26 (9) of EU Regulation 2019/943.

ESB GT also has concerns regarding the calculation and application of the MEC. Given the central role the MEC plays in determining both the scale of foreign participation and its interaction with domestic procurement, we believe greater clarity is required on the methodology that will be used to derive it. In particular, we would welcome a more transparent explanation of the assumptions and modelling inputs that will feed into the MEC calculation. Without visibility of the methodology, market participants cannot assess whether they think that MEC values are realistic or overstated, nor can they understand how these values might influence auction volumes, bidding behaviour, or adequacy planning. A lack of transparency also limits the ability to identify or challenge incorrect assumptions, which could lead to over or under reliance on foreign capacity, distorting outcomes. A clearer understanding of this process is important to ensure confidence that MEC values are robust, proportionate, and reflective of actual system conditions rather than theoretical maximums.

2.2. Section 4 Parameters for Foreign Participation

ESB GT recognises that the parameters governing foreign participation are central to ensuring a workable and proportionate implementation of explicit cross-border participation. While we understand the SEM Committee's intent to adopt a principles-based approach ahead of State Aid re-approval, our preference is generally for conservative, low-risk configurations, particularly during initial years when uncertainty around MEC values, interconnector performance, and cross-border operational processes remains high.

2.2.1. Length of Contract

ESB GT notes the SEM Committee's minded-to position of limiting foreign units to single-year contracts, primarily due to difficulty forecasting MEC over multi-year horizons and uncertainties around early-years interconnector availability.

ESB GT agrees that a single-year contract duration appears to be a prudent starting point. In our view, multi-year commitments for foreign capacity would introduce unnecessary risk, given that MEC values may decline year-on-year and could expose consumers to paying for contracted capacity that may not be capable of materially contributing to adequacy.

We therefore support the minded-to position, recognising that a future review could be appropriate once sufficient operational data becomes available on Celtic's performance.

2.2.2. Market Reference Price (MRP) and Strike Price

The SEM Committee is minded to set the MRP for foreign units with reference to the SEM price, noting that this aligns incentives for foreign capacity to deliver in SEM system stress events.

ESB GT supports this direction. If foreign units were instead exposed to their local bidding-zone price, the incentive to perform during SEM scarcity events would be weaker, and SEM consumers could be left without Difference Charge protection when it is most needed.

We acknowledge that this places foreign units at some basis-risk exposure, however, given that hedging is feasible and that consumers bear the adequacy and security-of-supply risk, this trade-off appears reasonable. Foreign units will participate only where the expected SEM capacity revenues exceed this risk, meaning their bids should naturally reflect the balance between upside value and the additional exposure created by using SEM prices as the MRP.

Additionally, foreign units will need a clearly defined process for handling CRM charges and payments. Domestic units rely on the Balancing Market for cashflows, credit, and enforcement, but foreign units will not be part of that system. This means a separate, reliable mechanism will be needed to manage payments, credit requirements, and any non-performance charges, so that financial arrangements remain secure and fair for all participants.

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2.2.3. ECPC and USPC

The SEM Committee is minded not to apply the Existing Capacity Price Cap (ECPC) or Unit-Specific Price Cap (USPC) to foreign units, noting that foreign cost structures are not directly comparable to domestic ones, and that competitive pressure from limited MEC volumes mitigates market-power risk.

ESB GT agrees that extending the ECPC/USPC framework to foreign units would add administrative complexity without a clear consumer benefit. Given that foreign units are not mandated to bid (unlike domestic existing units) and that their overall influence on price formation will be capped by available MEC, the absence of ECPC/USPC controls is unlikely to undermine competitive outcomes.

ESB GT would like to understand if there are impacts on competition if the ECPC and USPC framework is not applied to foreign units. Specifically, does limiting foreign units to bidding below the ECPC tend to push towards lower overall market prices? We would appreciate clarity from SEM Committee on their interpretation of this issue.

2.2.4. Minimum MEC to Run Foreign Unit Auctions

The SEM Committee is minded to run foreign participation auctions only where MEC exceeds a certain threshold.

ESB GT supports this approach in principle. Running a cross-border auction for very small MEC volumes is unlikely to be cost-effective and would create unnecessary administrative burden for both TSOs and participants. A threshold approach provides proportionality and avoids “token” auctions that do not materially contribute to resource adequacy.