Cross-Border Participation in the CRM

Decision Paper

SEM-26-056

08 September 2026

EXECUTIVE SUMMARY

In line with the requirements set out in the Clean Energy Package, specifically the regulation governing the Internal Market for Electricity, Member States are required to implement arrangements to enable explicit cross-border participation in capacity markets between neighbouring EU Member States. With the anticipated commissioning of the Celtic Interconnector between Ireland and France in 2028, capacity providers located in France will have the opportunity to participate directly in the Single Energy Market (SEM) Capacity Remuneration Mechanism (CRM). This will ensure compliance with EU Regulation 2019/943 Article 26, while supporting the efficient integration of European electricity markets and maintaining security of supply for SEM consumers.

This Decision Paper sets out the SEM Committee's high-level policy decisions and principles for facilitating explicit cross-border participation. In forming its decisions that are set out in this paper, the SEM Committee has sought to establish a framework that is simple, transparent, facilitates competition, ensures a level playing field between SEM and foreign participants and one that reduces the administrative burden for the SEM TSOs and the RAs as far as reasonably practicable.

The SEM Committee has deliberately adopted a principles-based approach, recognising that the SEM CRM is undergoing a wider review through the CRM Development Programme (CRM 2.0) and that aspects of market design may evolve ahead of the next State aid approval process. The decisions in this paper are therefore intended to remain applicable across both the current SEM CRM framework and any future market evolution.

The SEM Committee has determined that implementation of explicit cross-border participation will be contingent on the commissioning and operation of the Celtic Interconnector and the establishment of appropriate governance, operational and data-sharing arrangements between the SEM TSOs and the French TSO, RTE. Significant implementation work remains, including the development of qualification arrangements, Capacity Market Code modifications, and determining the assumptions and SEM-specific considerations underpinning the Maximum Entry Capacity (MEC)

calculation, which will determine the maximum volume of foreign capacity that may participate in the SEM CRM.

A central principle of the SEM Committee's approach is that MEC should represent a prudent estimate of the expected adequacy contribution from foreign capacity during periods of SEM system stress. The SEM Committee has decided[1] that domestic procurement volumes should not be increased to compensate for under procurement of the MEC by foreign capacity providers. This approach is intended to maintain consistency with the requirements of the EU framework for explicit cross-border participation and to ensure that explicit cross-border participation complements existing market arrangements for the benefit of consumers.

Following consultation, the SEM Committee has decided that foreign capacity providers will participate through a dedicated foreign unit auction that acts as a pre-selection mechanism for a single main SEM CRM auction, where foreign and domestic capacity providers compete together. Only foreign units selected through the pre-qualification stage will submit bids into the foreign unit auction. The same bid will be used for those units to compete in the main auction along with SEM units. The SEM Committee has further decided to adopt border-specific clearing prices, ensuring that positive difference between domestic and foreign clearing prices are reflected as CRM congestion revenues, which accrues to the Celtic Interconnector. This approach is expected to support consumer value while preserving competitive auction outcomes and remunerating the Celtic Interconnector for its ability to procure adequacy from neighbouring countries.

The SEM Committee has also reached decisions on a range of key market design parameters. Foreign capacity providers will be limited to single-year capacity contracts, reflecting uncertainty regarding interconnector performance and MEC forecasting in the early years of operation. However, foreign units will be eligible to participate in both long-term and T-1 auctions, which in the SEM Committee's view balances competition, long-term adequacy and incentivises participation from foreign units.

[1] In line with one of the key principles in EU Regulation 2019/943 Article 26(4) that cross-border physical flows are not affected by foreign unit participation in a domestic CRM.

In having regard to the consultation responses and to the potential competitive dynamics and risks, the SEM Committee has determined that the Existing Capacity Price Cap (ECPC) would apply to foreign units, which is consistent with how it is applied to Existing Capacity in the SEM. In line with the principle of non-discrimination between foreign and SEM capacity, foreign units would also be eligible to apply for a Unit Specific Price Cap (USPC). The SEM Committee will determine the level of evidence necessary from foreign units, the likely information sharing between the relevant Regulatory Authorities and the exact USPC process for foreign units as part of the detailed design.

The Market Reference Price (MRP) for foreign units will be based on the SEM MRP, ensuring alignment with existing Reliability Option (RO) arrangements and preserving consumer protection. Foreign units will be subject to the same applicable charges as domestic units and will not be permitted to submit inflexible offers. Participation will initially be limited to transmission-connected foreign units, while the eligibility of distribution-connected resources will remain under review. Finally, foreign unit auctions will only be run where the calculated MEC exceeds a minimum threshold to ensure that the benefits of participation justify the associated administrative processes.

Overall, the SEM Committee considers that these decisions provide a proportionate and pragmatic framework for facilitating explicit cross-border participation while preserving security of supply, promoting competition, protecting consumers, and ensuring compliance with European regulatory requirements. The next phase of work will focus on detailed implementation design, qualification and monitoring arrangements, and the associated Capacity Market Code modifications required to operationalise these decisions.

Finally, as an overarching principle, the SEM Committee intends to keep the implementation of explicit cross-border participation under review to ensure that its design and implementation supports overall system security, contributes to resource adequacy and promotes competition for the benefit of consumers of electricity.

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Glossary of Terms

Term	Meaning
AIRAA	All Island Resource Adequacy Assessment
Celtic TSOs	EirGrid and RTE, the TSOs jointly developing and owning the Celtic Interconnector project
CMC	Capacity Market Code
CRE	Commission de régulation de l'énergie
CRM	Capacity Renumeration Mechanism
ECPC	Existing Capacity Price Cap
ERAA	European Resource Adequacy Assessment
ILCs	Intermediate Length Contracts
MEC	Maximum Entry Capacity
MRP	Market Reference Price
NGFC	Net Going Forward Costs
NRA	National Regulatory Authority
NRAA	National Resource Adequacy Assessment
RAs	Regulatory Authorities
RO	Reliability Option
RTE	Réseau de Transport d'Electricité
SEM	Single Electricity Market
SEM TSOs	EirGrid and SONI, the TSOs jointly responsible for the operation of the SEM CRM
T-1 / T-4	Capacity Auction for delivery in T-1 / T-4 timeframe
TSO	Transmission System Operators
USPC	Unit Specific Price Cap

1 Introduction

Historically in the SEM and the EU in general, capacity markets were only available to domestic capacity. Foreign capacity could not participate directly and could not receive remuneration for the same service provided. Implicit participation in capacity markets, through the interconnector participating itself, was the mechanism to take into account cross-border flows in adequacy assessments. This is the approach currently applied in the SEM with the participation of SEM-GB interconnectors in the SEM CRM.

Following the 2019 Clean Energy Package[2] and implementation of Article 26 of EU Regulation 2019/943, explicit cross-border participation, whereby foreign units can directly participate in capacity markets of directly connected markets, was made mandatory for all market-wide capacity mechanisms (Article 26(2)). Implicit participation, through the interconnectors themselves, was a transitional measure, which has now lapsed.[3]

With the expected connection and operation of the Celtic Interconnector in Q4 2028, creating electrical interconnection between Ireland and France,[4] the SEM will have a direct network connection to another EU member state. This triggers the requirement to allow French capacity units the opportunity to compete in the SEM CRM[5]. Should the SEM become directly connected to other EU Member States, the same arrangements, set out in this decision, will apply to foreign capacity located in those Member States.

The SEM Committee notes that this decision does not apply to SEM-GB interconnectors.

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[2] The Clean Energy Package (CEP) includes eight new laws, with four focusing on electricity market design, as outlined here. This includes EU Regulation 2019/943 of the European Parliament and the council of 5 June 2019 on the internal market for electricity (recast), which provides the legislative background for explicit cross-border participation in capacity mechanisms.

[3] There was a transition period which allowed interconnectors to participate in the same competitive process as domestic capacity. This has now lapsed as per Article 26(3) of EU Regulation 2019/943.

[4] The Celtic Interconnector is a major strategic infrastructure project that will create an electrical interconnection between Ireland and France, to allow the exchange of electricity between the two countries. The project is being developed by EirGrid and its French equivalent, Réseau de Transport d'Electricité (RTE), hereby jointly referred to as the Celtic TSOs.

[5] EU Member States may require foreign capacity to be located in a Member State that has a direct network connection with Member State applying the mechanism. This is per Article 26(2) of EU Regulation 2019/943.

1.1 SEM Committee objectives

The SEM Committee is the decision-making authority for all SEM matters. The SEM Committee's principal objective is to protect the interests of consumers of electricity by promoting effective competition between persons engaged in, or in commercial activities connected with the sale or purchase of electricity through the SEM. The SEM Committee has had regard to its principal objective in forming its decisions on the auction design and the relevant capacity market design parameters that are set out in this paper.

1.2 Consultation and the purpose of this Decision Paper

The SEM Committee consulted on the high-level principles that will inform explicit participation of EU based foreign capacity in the SEM CRM in December 2025.[6] The consultation was open until March 2026.

Ten responses were received, including from EirGrid and SONI, the SEM System Operators also jointly responsible for the operation of the SEM CRM (hereby referred to as SEM TSOs), the Commission de régulation de l'énergie (CRE), the Electricity Association of Ireland, SEM generators such as SSE, Energia, Bord na Mona, ESB GT, EPUKI and BGE; and Moyle Interconnector. In forming its decision positions, the SEM Committee has considered stakeholder views.

It is important to note that this Decision Paper sets out the SEM Committee's principles-based decision of how explicit cross-border participation would be designed against the backdrop of an evolving SEM CRM Development Programme. The SEM Committee notes the CRM Development Programme, which was published for consultation in July 2026,[7] is reviewing the current SEM CRM to assess market design options for inclusion in the next State aid application. The approval process for the next State aid application is expected to be completed by 2028.

The SEM Committee is cognisant of the evolution of the SEM CRM design, through the CRM 2.0 consultation, and its relationship with this project to facilitate explicit cross-border participation in the SEM CRM, in that both are currently anticipated to be

[6] See SEM-25-071 linked here.
[7] SEM Committee, High-level design options for CRM 2.0 – Consultation Paper – SEM-26-037, 3rd July 2026. Available here: sem-26-037-consultation-crm-design-options_v200.pdf.

effective from within a similar timeline. Therefore, the SEM Committee has decided that it is prudent to adopt a principles-based approach in its decision on explicit cross-border participation, with the intention that the principles decided in this decision apply equally to the current and any evolution of the SEM CRM designs. By adopting this approach, the SEM Committee will develop an explicit cross-border participation framework that is responsive and can accommodate potential adjustments or new requirements that may arise from the ongoing review of the SEM CRM and its long-term evolution, thereby future-proofing the consultation process and maintaining alignment with emerging market structures and regulatory obligations.

The SEM Committee expects that the design and implementation phases will follow for operationalising these decisions. Further detail on the implementation considerations are discussed in Section 2.

1.3 Structure of this Paper

This Decision Paper summarises the responses received by theme/consultation decision:

- Section 2 sets out the SEM Committee's views on the implementation considerations such as expected implementation timelines and key overarching parameters that affect the implementation of explicit cross-border participation in the SEM CRM such as Maximum Entry Capacity, qualification process and transparency obligations.
- Section 3 summarises responses in relation to auction design options for enabling foreign unit participation and sets out the SEM Committee's decision and rationale. This section also provides more details on the implications for the Celtic Interconnector's revenues.
- Section 4 summarises responses on the relevant capacity market design parameters that will govern explicit cross-border participation and sets out our decisions and rationale.
- Section 5 outlines next steps following this decision, including interactions with the wider CRM Development Programme.

2 Implementation considerations

This section discusses key implementation issues that have a material impact on the facilitating explicit cross-border participation in the SEM CRM. This includes timelines, roles and responsibilities for the SEM TSOs, as they relate to the Maximum Entry Capacity, qualification process and transparency obligations. This section also considers stakeholder responses when relevant.

2.1 Timeline and detailed design

This decision is one of the initial steps in an overall programme of work that will shape the upcoming iteration of the SEM CRM. The implementation of explicit cross-border participation and the outcomes from the CRM Development Programme will form the basis of the upcoming State aid application process, which is expected to commence in Q2 of 2027.

The overarching State aid approval process is expected to occur at the same time as the detailed design stage. Both will then shape the necessary Capacity Market Code modifications required and IT and process changes needed to facilitate the implementation of explicit cross-border participation in the SEM. For example, the overall implementation will necessitate changes to the qualification process, USPC process, auction timetable and the enduring TSO-TSO process whereby information can be shared between both the SEM TSOs and the French TSO – Réseau de Transport d'Electricité (RTE).

With regards to the implementation timeframe and in response to the consultation paper, a stakeholder highlighted that explicit cross-border participation should only be introduced where there are fully reciprocal arrangements in place, meaning that foreign generators can only take part in the SEM CRM only if SEM generators are allowed to participate in the other country's capacity market on equal terms. The SEM Committee does not consider that there is sufficient regulatory or legal basis to prevent participation based on other jurisdictions' arrangements. In addition, the SEM Committee also considers such barriers does not align with the intent of EU

Regulation 2019/43, specifically Article 26(3).[8] However, the SEM Committee considers that, in order to ensure appropriate and necessary governance and operational arrangements, the implementation of explicit cross-border participation in the SEM CRM is contingent on the following:

- The execution of the TSOs' agreement, which sets out processes, framework for cooperation between the SEM TSOs and RTE; and
- The commissioning and continued operation of the Celtic Interconnector. The RAs will continuously engage with the SEM TSOs to monitor progress in its development of the Celtic Interconnector, as well as during the early stages of operation.

Finally, as an overarching principle, the SEM Committee intends to keep the implementation of explicit cross-border participation under review to ensure that its design and implementation supports overall system security, contributes to resource adequacy and promotes competition for the benefit of consumers of electricity.

2.2 Key implementation considerations

In order to effectively implement explicit cross-border participation in the SEM CRM, there are key variables that will shape such participation such as the Maximum Entry Capacity Calculation, the qualification process, availability monitoring, the TSOs' agreement and transparency obligations. Each item is discussed in turn below.

2.2.1 Maximum Entry Capacity (MEC) Calculation and derating curves

The SEM Committee considers that the MEC is one of the most important parameters that will facilitate explicit cross-border participation. It should represent the best expectation of cross-border contributions in periods of system stress for a given Capacity Year, regardless of the volume of CRM contracts that are awarded to foreign units. In line with ACER's technical specifications, the MEC calculation shall take into account the expected availability of interconnection and the likely concurrency of

[8] Article 26(3) of EU Regulation 2019/943 states that the Member States shall not prevent capacity which is located in their territory from participating in capacity mechanisms in other member states.

system stress event in the SEM and the jurisdiction where foreign capacity is located.[9] The SEM Committee acknowledges while domestic unit contribution to adequacy is based on a specific capacity market unit's availability. For foreign units, their contribution to adequacy is based on their availability, the physical availability of the interconnector, and the price-based flow direction of the interconnector. The MEC calculation must consider the likelihood of coincident scarcity and interconnector capacity made available for cross-border transmission, rather than pure technical availability.

Across the consultation responses, MEC is consistently identified as the key parameter governing the scale of explicit cross-border participation in the SEM, with respondents emphasising that it must be calculated using a transparent and conservative methodology that reflects real-world deliverability. There is strong consensus that overestimating MEC poses significant risks to security of supply and consumer costs by potentially crowding out domestic capacity and contracting volumes that may not be deliverable at times of system stress. While views diverge on whether any unutilised MEC should be reallocated to domestic participants or simply reflected through a reduced demand curve, there is overall agreement that MEC must be set prudently, with appropriate derating and consideration of network and coincidence constraints, given its central role in ensuring adequacy outcomes in the SEM.

In the consultation paper, the SEM Committee required the SEM TSOs to develop a MEC methodology. In this context, the development of a methodology means having regard to ACER's decision on technical specifications for explicit cross-border participation and identifying specific assumptions that reflect the SEM and the existing forecasting approaches, to the extent that results in a justifiable MEC calculation, which maintains system security and resource adequacy to the largest degree.

The SEM Committee acknowledges the on-going engagement between the SEM RAs and the SEM TSOs on the specifics underpinning the MEC calculation. The SEM Committee notes that the alignment of the SEM MEC methodology with the European

[9] Article 26(7) of Regulation (EU) 2019/943 of the European Parliament and the council of 5 June 2019 on the internal energy market.

methodology[10] requires a careful assessment of the assumptions that will result in a MEC calculation that reflects the best expectation of contributions from France to the SEM during system stress events.

The SEM Committee requires the SEM TSOs to continue their assessment and to propose the MEC calculation, including a description of the underlying assumptions, for the SEM Committee's consideration by **Q3 2026**. To ensure necessary, proportionate and transparent governance surrounding the MEC, the SEM Committee has decided the following:

- The SEM TSOs will be responsible for calculating the MEC on a regular basis. The exact frequency, which best suits auction timing and auction parameters will be determined as part of detailed design.
- In response to queries raised over the potential conflict of interest concerning EirGrid's ownership stake in the Celtic Interconnector and role in proposing MEC calculations to the SEM Committee, the SEM Committee confirms that the ultimate decision on the MEC sits with the SEM Committee. Therefore, the SEM Committee will consider and make a final decision on the proposed MEC calculation. The SEM Committee may remit the calculation back to the SEM TSOs or substitute a MEC value should it decide that an alternative MEC value is a more representative value and one that sets the best expectation of cross-border contributions in periods of system stress for a given Capacity Year.
- The SEM Committee has also decided that MEC assumptions and calculations should be published for the interest of transparency. This is also in response to stakeholders' comments who invited further engagement on the MEC assumptions and calculation. It is important to note that, in line with the EU Regulation 2019/943 Article 26(7), the Regional Coordination Centre (RCC) shall make a recommendation to the TSOs on the MEC. The TSOs then shall set a MEC which considers the RCC's recommendation.

As discussed in Section 4 of this paper, calculation of the MEC is an important

[10] ACER Decision on technical specifications for cross-border participation in capacity mechanism: Annex I. 22 December 2020. Available here: Microsoft Word - XBP CM - Annex I - technical specifications.

parameter as it will dictate the MEC reserved in the long-term auction for CY2030-31, which is in **Q1 2027.**

Shortfalls in MEC

Several responses argued that, if foreign take-up is below the MEC (or if a cleared unit later fails), the framework should allow eligible domestic capacity to fill the gap to avoid weakening security-of-supply protections or leaving consumers under-hedged.

The SEM Committee maintains it's minded to position that, under normal operating conditions, no additional domestic unit volumes would be procured to make up any shortfall in awarded foreign capacity contracts relative to the MEC. This is in line with one of the key principles in EU Regulation 2019/943 Article 26(4) that cross-border physical flows are not affected by foreign unit participation in a domestic CRM. Therefore, the SEM Committee considers that procuring additional domestic capacity to compensate for a shortfall in foreign procurements may result in additional unnecessary costs for consumers.

Derating factors

Capacity Derating factors (DRFs) are used to reflect non-availability of dispatchable generation due to planned and forced outages, as well as unit size which is factored into the calculation as a diminishing calculation variable.

The MEC variable is separate to the derating curves that apply per technology class, which are approved by the SEM Committee pursuant to Section D.3.1.2 of the CMC.

The SEM Committee acknowledges that there may be changes to the SEM derating methodology, which is currently subject to a consultation process under the high-level design options for CRM 2.0.[11] Therefore, the SEM Committee is not opining on the exact methodology that would apply to foreign units. In this Decision Paper, the SEM Committee sets out the principles that would govern the calculation of derating factors for foreign units, which are as follows:

- The calculation of derating factors in the foreign auction, which is further discussed in Section 4, will ensure technical equivalence between domestic

[11] SEM Committee, High-level design options for CRM 2.0 – Consultation Paper – SEM-26-037, 3 July 2026.

and foreign capacity.

- Any derating factors calculation will facilitate a level playing field between domestic and foreign units.
- Consistent with the existing CMC processes, the derating factors that will apply to foreign units will be subject to the RAs' approval as per the current process for SEM units.

2.2.2 Qualification process

The detailed qualification process for foreign participation is an important practical implementation consideration, which requires careful consideration and planning as part of detailed design. A streamlined process is needed which does not create a high administrative burden for the SEM TSOs and RAs. A consistent concern across responses was how the auction design would handle practical edge cases: in particular, the risk of a two-step qualification process (e.g., clearing first and failing qualification later). The SEM Committee notes that the detailed qualification process for foreign units and its interrelationship with the changes related to CRM 2.0 is expected to be considered together as part of detailed design and therefore, the SEM Committee has not opined on the detailed qualification process in this Decision Paper.

In this Decision Paper, the SEM Committee sets out the principles that will govern the development of the qualification process. The SEM Committee requires the SEM TSOs to develop a process that is transparent, creates a level playing field for all participants, enables competition and one that reduces the administrative burden for the SEM TSOs and the RAs as far as reasonably practicable.

2.2.1 Availability Monitoring

Article 26(7) of EU Regulation 2019/943 requires capacity providers to make non-availability payments if their capacity is not available. It further stipulates that if the capacity providers participate in more than one capacity mechanism, which is

permitted under the regulation,[12] capacity providers are required to make multiple non-availability payments where they are unable to fulfil multiple commitments.

Th SEM Committee acknowledges that it is currently considering enhancements to the availability incentives under CRM 2.0 consultation paper, therefore, the SEM Committee will not opine on the specific availability monitoring regime that will apply to foreign units that participate in the SEM CRM. However, the SEM Committee has decided to apply the same availability monitoring and incentive regime for SEM and foreign units. With regards to situations where capacity providers participate in the multiple capacity markets simultaneously, the SEM Committee requires the SEM TSOs to consider the appropriate data sharing regime between the SEM TSOs and the relevant foreign TSO, such as RTE, to ensure that capacity providers who are unable to fulfil their commitments, due to simultaneous participation in multiple capacity providers, are subject to relevant penalties and applicable charges.

2.2.2 TSOs' agreement

The SEM Committee considers that robust and timely coordination between the neighbouring TSOs will facilitate the implementation of explicit cross-border participation between SEM and France. The SEM Committee notes that the completion of the TSOs' agreement is a prerequisite for implementing EU Regulation 2019/943 Article 26 and, as such, is on the critical path for timely delivery of explicit cross-border participation in the SEM CRM. The SEM Committee requires the SEM TSOs to develop the relevant processes between SEM TSOs and RTE that would support the implementation of explicit cross-border participation. The SEM Committee expects that the SEM TSOs may engage directly with RTE on operational matters, but where items in the agreement have cost and/or revenue sharing implications, this will be in the remit of the relevant National Regulatory Authorities (NRAs) and subject to their approval.

The SEM Committee expects the agreement to include, but not necessarily be limited to, the following areas:

[12] Article 26(5) of EU Regulation 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast).

- The data sharing framework, including the validation of technical specifications of foreign capacity providers, to support the qualification process. For example, are there technical requirements that are SEM-specific that may be required for foreign capacity providers as part of the qualification-related information.
- Any revenue or cost sharing that may arise as a result of implementing explicit cross-border participation in the SEM CRM.
- Should this be applicable,[13] the specifics underpinning availability testing and monitoring in line with EU Regulation 2019/943 Article 26. This will inform the necessary data sharing to validate the performance of capacity providers during times of system stress.

2.2.3 Transparency requirements

The SEM Committee considers transparency as a fundamental principle underpinning the SEM CRM, as it serves as a key enabler of effective competition, regulatory accountability and investor confidence. The SEM Committee intends to apply the principle of transparency throughout the detailed design stage, to ensure the provision of clear, accessible, timely information and to ensure that the market is administered in a consistent, objective and non-discriminatory manner. This applies to the qualification criteria, auction parameters, decision-making processes and participants' obligations.

The SEM TSOs noted in their response to the consultation paper there is a general obligation contained in EU Regulation 2014/1127 and 2024/1106 to report inside information if it is precise, not public, price sensitive, and if it relates to the wholesale energy products (including contracted traded in capacity markets). The REMIT Implementing Regulation also contains a specific obligation to report information about transactions relating to capacity mechanisms on an annual basis.[14] The SEM TSOs note that foreign participants would be required to fulfil REMIT obligations. The

[13] This is contingent on the CRM Development Programme and policy decisions considered in terms of availability monitoring of units participating in the SEM CRM.
[14] EirGrid and SONI Response to SEM-25-071, Framework for Explicit Cross-Border Participation in the Capacity Remuneration Mechanism, 6 March 2026.

SEM TSOs also highlight their position that the foreign units must be registered in the Balancing Market.

While the SEM Committee agrees with the SEM TSOs that the REMIT obligations that apply to SEM units would also apply to foreign units, the SEM Committee does not consider, based on the information before it, that there is sufficient justification for why foreign units must be registered in the Balancing Market. The SEM Committee considers that further analysis is necessary as part of the detailed design to identify a simple, pragmatic and proportional approach that would implement such obligations in practice. For example, the necessary data may be obtained through the qualification process rather than requiring registration through the Balancing Market, however, the SEM Committee will keep the issue under review and welcomes further analysis from the SEM TSOs.

3 Foreign unit participation auction design

This section discusses the design of the auction which will determine how foreign units are selected and awarded CRM contracts, including whether and how they compete with domestic SEM units.[15]

3.1 Consultation paper position

In the consultation paper, the SEM Committee outlined two high-level options and their variants, the initial assessment of the advantages and disadvantages of each option and implementation considerations:

- **Option 1: Standalone foreign unit auctions**, separate from the SEM CRM auction held for domestic SEM units
- **Option 2: Foreign unit auctions that act as a pre-selection mechanism** for participation in the 'main' SEM CRM, i.e., in an auction where both foreign and domestic units compete. Two variants for determining the clearing price of successful foreign capacity units were considered:
  a) A single main auction clearing price applies to all capacity including foreign units
  b) Market-specific clearing prices are set by the most expensive unit that has cleared in each market.

The SEM Committee did not put forward a minded to position in the consultation paper and invited stakeholder views on auction design.

3.2 Stakeholder submissions

Most respondents expressed a preference for Option 2 (i.e., a pre-selection approach rather than running standalone foreign-only auctions). In particular, seven respondents supported Option 2 in some form, while one respondent expressed a clear preference for Option 1. The remaining responses did not record a clear preference between Option 1 and Option 2 (either because views were conditional on further detail or

[15] We note that all options considered in this section assume that auction clearing will be based on a pay-as-clear principle.

because no preference was stated).

Within Option 2, views split between the sub-variants: two respondents expressed support for Option 2a (a single clearing price applying to all capacity), two supported Option 2b (market-specific clearing prices), and three supported Option 2 but did not specify a sub-variant. In addition, two respondents indicated that a preference between the options (or between 2a and 2b) depended on further clarification of how the pre-selection mechanism would work in practice and/or further impact assessment. Finally, one respondent who supported Option 2b also proposed an alternative clearing price variant c, aligned with auction design precedent in France, whereby (i) foreign units receive a market-specific clearing price, whereas (ii) domestic units always receive the main auction clearing price, regardless of whether a domestic or foreign unit was marginal.

Respondents favouring the pre-selection approach (Option 2) argued that this would have the advantage of keeping procurement integrated (rather than fragmenting liquidity across separate auctions), and of preserving a coherent price signal and robust procurement outcome. Where respondents favoured a single clearing price (variant 2a), they argued that this option would be simpler and less prone to discrimination between domestic and foreign capacity. Where respondents favoured market-specific clearing prices (variant 2b), this was linked to a view that the design should better reflect the value of access via interconnection. A recurring point on this theme was that auction clearing price choices cannot be separated from how interconnector revenue arrangements are defined, and more clarity from the SEM Committee on these arrangements was requested.

Some respondents also stressed the need for clearer rules to manage potential gaming under Option 2. In particular, respondents noted that rules that ensure bids in the pre-selection auction cannot be changed and/or are used to appropriately constrain later bidding in the main auction, would be necessary to prevent any gaming by foreign units.

3.3 Decision

The SEM Committee has decided to adopt Option 2, variant b, whereby foreign units are subject to a foreign unit auction that acts as a selection mechanism for

participation in a single main auction, where foreign and SEM units jointly compete for award.

The SEM Committee considers that opting in favour of a single main auction for both foreign and domestic units offer advantages for both auction competitiveness and SEM consumer costs, as it ensures that any unduly expensive foreign or domestic units may be pushed out of merit by less expensive units, whether they are foreign or domestic.

The SEM Committee confirms that under this option, bids in the foreign unit auction will be binding to prevent gaming; bids of pre-selected foreign units will be passed on unchanged to the single main auction.

The SEM Committee considers that variant b, whereby border-specific clearing prices determined within the auction clearing algorithm apply to foreign and SEM units, is preferable, as this avoids excessive inframarginal rent for foreign units relative to variant a. Under variant b, where the foreign unit border-specific clearing price is lower than the clearing price that SEM units receive, this translates to CRM interconnector revenue[16] (as detailed in section 3.4 below), rather than being passed on to foreign units as inframarginal rent. The SEM Committee favours maximising CRM interconnector revenue over foreign unit inframarginal rent, as this approach may reduce total SEM consumer costs under certain interconnector regulated frameworks.

The SEM Committee has also considered alternative variant c (suggested by a respondent), whereby a border-specific price would apply to foreign units, but SEM units would always receive the main auction clearing price. This would have similar benefits to variant b in avoiding excessive inframarginal rent for foreign units and supporting CRM interconnector revenue, but the SEM Committee considers that this variant is less desirable than variant b from a consumer cost perspective.

Shortfalls in the MEC

The SEM Committee would like to re-affirm our minded-to position in that no additional

[16] We note that this refers to CRM revenues for interconnectors *not* directly participating in the SEM CRM, i.e., interconnectors with neighbouring markets from which foreign units can directly participate in the SEM CRM. As previously stated, GB interconnectors are out of scope and explicit cross-border participation arrangements are only expected to apply to French units and the Celtic Interconnector.

domestic unit volumes should be procured to make up any shortfall in awarded foreign capacity contracts relative to the MEC. As discussed in section 2.2.1, the SEM Committee considers that the MEC represents the best expectation of cross-border contributions in periods of system stress for a given Capacity Year, regardless of the volume of CRM contracts that are actually awarded to foreign units in line with one of the key principles in EU Regulation 2019/943 Article 26(4) that cross-border physical flows are not affected by foreign unit participation in a domestic CRM.

This would also apply should any pre-selected foreign units be pushed out of merit by cheaper domestic units in the main auction, for example, through an additional step within the auction clearing algorithm.[17]

3.4 Interconnector revenue considerations

In line with EU Regulation 2019/943[18] and ACER decision 36/2020 and associated technical guidelines,[19] CRM interconnector revenue[20,21] arises when the price received by foreign units awarded CRM contracts is lower than the price received by SEM units procured in the same CRM auction. Specifically, when $Clearing\ price_{Foreign}$ is less than $Clearing\ price_{Domestic}$, CRM interconnector revenue is calculated as follows:

$$CRM\ IC\ revenue = \left(Clearing\ price_{Domestic} - Clearing\ price_{Foreign}\right) \times\ Cleared\ volume_{Foreign}$$

No CRM interconnector revenue shall be paid if the foreign unit border-specific price is more expensive than the SEM unit border-specific price.

The SEM Committee notes that this approach also aligns with the approach applied in the context of the French CRM, ensuring reciprocity and consistency across both CRMs.

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[17] How this is achieved in practice will be determined as part of the detailed design stage.
[18] EU Regulation 2019/943 of the European Parliament and the council of 5 June 2019 on the internal market for electricity (recast), Article 26(9).
[19] ACER Decision on technical specifications for cross-border participation in capacity mechanisms: Annex I Technical specifications for cross-border participation in capacity mechanisms (December 2020).
[20] Further consideration to CRM interconnector revenue will be undertaken as part of the detailed design.
[21] This refers to CRM revenues for interconnectors *not* directly participating in the SEM CRM, i.e., interconnectors with neighbouring markets for which explicit cross-border unit participation arrangements apply.

For the Celtic Interconnector, should this CRM interconnector revenue arise, it will be shared between the Celtic TSOs i.e., EirGrid and RTE, as the interconnector's joint owners.[22] We expect that within the Celtic Interconnector's regulatory regime, these revenues will be shared between EirGrid and RTE on the basis of the 50/50 sharing, similar to the approach applied to the project's revenues from congestion rents.[23,24]

[22] Noting that the Celtic Interconnector is under a Regulated Asset Base (RAB) regime, which ensures that it receives a fixed regulated revenue to recover its investment, and as such its final revenue is unaffected by any revenues linked to the direct French unit participation in the SEM CRM.
[23] In line with the coordinated Cross-Border Cost Allocation (CBCA) decision by both NRAs: CRU19125-revised-CBCA-decision.pdf.
[24] Noting that EU Regulation 2019/943 and ACER decision 36/2020 also allow for an alternative common revenue sharing methodology to be designed and jointly approved by applicable NRAs, CRU and CRE.

4 Relevant capacity market design parameters for foreign participation

This section discusses parameters that will affect the auction design and the overall framework of foreign unit participation. The SEM Committee has considered stakeholder submissions on these options and has arrived at a decision on each, as outlined in the table below and the sub-sections that follow.

Table 1 – Parameters considered and decisions

Parameter	Consultation minded to position	Decision
Length of Contract	Foreign units limited to single year contracts	Foreign units limited to single year contracts. However, the SEM Committee will keep the issue under review
Participation in long-term auctions	No minded to position	Participation in both long-term and top-up auctions
Market Reference Price and Strike Price	MRP based on SEM price	MRP based on SEM price
Application of the Existing Capacity Price Cap (ECPC) and Unit Specific Price Caps (USPCs)	Exclude foreign units from the application of the ECPC and USPCs	Apply the ECPC to foreign units and allow USPC applications
Applicable Charges	No minded to position	Same as domestic
Auction offer structures	No minded to position	No inflexible bids

Parameter	Consultation minded to position	Decision
Eligibility of distribution-connected foreign units	No minded to position	Distribution-connected foreign units are ineligible. However, the SEM Committee will keep the issue under review
Secondary Trading	No minded to position	Restrict secondary trading to foreign units within the same market/border. However, the SEM Committee will keep this issue under review
Minimum MEC to run foreign unit auctions	Only run if MEC is above a certain value	Only run if MEC is above a certain value

4.1 Length of Contract

This section discusses the contract length that foreign units are eligible for, including the interrelationship with auction design and current RAs' processes.

Contract length determines how long a capacity provider can lock in its RO fee. Under the current SEM CRM arrangements, units can bid into an auction for either a single-year contract, or a multi-year contract (subject to RAs' approval of an Exception Application) – for up to a maximum of ten years in the case of New Capacity and for an Intermediate Length Contract (ILC) up to a maximum duration of five years for Existing Capacity.

Contract length is a key design lever for balancing (i) investor certainty and financeability, particularly for capital-intensive investments, against (ii) the risk of over-procurement for consumers, who are committing to pay for capacity on the basis of assumptions that may change over time. Longer contracts can strengthen investment signals and reduce the cost of capital, but they also increase the consequences of

forecast error and changing system conditions, as the system may end up paying for capacity that is less needed or that can less reliably deliver in later years.

Setting contract length for foreign units in particular requires judgement on how stable the underlying adequacy contribution and deliverability are expected to be over the contract horizon, considering the difficulty of forecasting MEC for a multi-year period and risks related to unexpected interconnector unavailability.

4.1.1 Consultation paper position

The SEM Committee consulted on two options:

- **Option 1: Single-year contracts only** for foreign units (as a potentially transitional approach, referencing Belgium where one-year foreign contracts were treated as transitional and periodically reviewed).
- **Option 2: Eligibility for multi-year contracts** on a similar basis to SEM units, subject to Exception Applications.

Arguments in favour of Option 1 focused on limiting over-procurement and consumer cost risk where MEC may be volatile/declining and interconnector delivery and early performance is uncertain. Arguments in favour of Option 2 focused on consistency with domestic treatment and the potential for supporting foreign unit participation and investment by providing longer-term revenue certainty. This, however, comes at the cost of materially greater forecasting and governance complexity, including potentially committing consumers ahead of clear evidence of interconnector performance and an increased administrative burden of additional exception applications.

The SEM Committee stated a *minded-to position* to proceed with Option 1, subject to review once sufficient operational evidence is available for the Celtic Interconnector and directly participating foreign units.

4.1.2 Stakeholder submissions

All respondents expressed a preference for single-year contracts only for foreign participation.

Support for single-year contracts was typically justified by citing the difficulty of forecasting the MEC over multiple years, the risk of locking consumers into paying for capacity that may not be deliverable, and questions over how multi-year commitments

would interact with changing MEC values. Where multi-year contracts were opposed, some respondents also questioned whether multi-year contract eligibility tests (e.g., investment-rate thresholds) could be applied consistently to foreign units, particularly where those units may also benefit from support arrangements in their home jurisdiction.

4.1.3 Decision

The SEM Committee re-affirms its *minded-to position* to proceed with Option 1, i.e., to only make single-year contracts available to foreign units. This decision considers the difficulty of forecasting the MEC over a multi-year period and the risk of foreign capacity over-procurement that this may introduce at the expense of SEM consumers.

The SEM Committee considers that this risk of potential MEC forecasting error and foreign unit over-procurement is likely to be particularly stark in the early years following the Celtic Interconnector's commissioning, where the cable's performance and availability is more likely to be uncertain. As such, the SEM Committee re-affirms its position in the Consultation Paper that the appropriate contract length for foreign units may be reassessed once sufficient historical evidence is available on the operational performance of the Celtic Interconnector and directly participating foreign units. As such, restricting foreign units to single-year contracts should be viewed as primarily a transitional measure.

4.2 Participation in long-term auctions

Participation in long-term auctions determines which auction timeframes foreign units are eligible to compete in, and therefore how much capacity is committed several years ahead of delivery versus procured closer to the Capacity Delivery Year.

In the SEM CRM and based on the current CMC, the SEM TSOs are currently required to conduct a T-4 auction for every Capacity Year, at which the majority of the Capacity Requirement is procured. Other auctions are held at the instruction of the RAs, to procure any residual capacity ahead of the relevant Capacity Delivery Year, given there is less uncertainty regarding the volumes that need to be procured, but also to facilitate procurement of certain resources when it is more appropriate to do so. The CRM Development Programme, through CRM 2.0, is currently considering

extending the delivery timeframes to T-5 timeframe.[25] The move to a T-5 is intended to improve delivery certainty for New Capacity and better aligns the CRM framework with practical lead times associated with infrastructure development.

Participation of foreign units in long-term auctions is a key design lever for balancing (i) earlier procurement that can provide greater revenue certainty and support entry, against (ii) the risk to consumers of procuring too much capacity on the basis of forecasts that may change as delivery approaches. Allowing participation in longer-term auctions can strengthen investment signals, but it increases exposure to forecast error around both capacity need and deliverability. Restricting participation to nearer-term auctions reduces that forecast risk by procuring with better information but may limit competition and weaken longer-term signals. For foreign units in particular, the trade-off is sharper because the cross-border contribution available to be contracted (as reflected in MEC) may be more uncertain over time – though this risk is mitigated by the SEM Committee's decision to restrict foreign units to single-year contracts, as outlined in the previous section, and so this parameter is considered in that context.

4.2.1 Consultation paper position

The SEM Committee consulted on two options:

- **Option 1: T-1 only** for foreign units, with forecast MEC reserved in longer-term auctions and carried into the T-1 auction.
- **Option 2: Eligibility for both T-1 and long-term auctions**, allowing foreign units to also compete in longer-term auctions (and interacting with any decision to allow multi-year contracts in the future).

Arguments in favour of Option 1 focused on limiting over-procurement and consumer cost risk by holding back the cross-border contribution to be auctioned closer to delivery, when there is less uncertainty and less exposure to MEC forecasting errors (particularly if combined with single-year contracts). Arguments in favour of Option 2 focused on the potential for enhanced participation and competitive pressure by giving foreign units access to longer-term auctions and therefore earlier revenue certainty, but at the cost of materially greater forecasting and governance complexity (including,

[25] SEM Committee, High level design options for CRM 2.0 – Consultation paper (SEM-26-037), p.9.

if long-term auctions clear multi-year contracts, needing to forecast MEC many years ahead to avoid over-procurement). The SEM Committee did not state a *minded-to position* on this parameter but noted that proceeding with Option 1 may avoid over-procurement risk driven by MEC forecasting errors and that the feasibility of Option 2 is closely linked to decisions on contract length.

4.2.2 Stakeholder submissions

Stakeholder submissions were mixed on whether foreign units should be able to participate in long-term auctions as well as T-1:

- Three respondents supported participation in T-1 auctions only,
- One respondent expressed support for participation in T-1 auctions only should the SEM Committee re-affirm its position that no additional SEM units be procured to cover any MEC shortfalls, as is now the case,
- Two supported participation in both long-term and T-1, and
- Four responses did not record a clear preference.

Support for restricting participation to the T-1 auction was generally linked to uncertainty around coincident scarcity conditions and interconnector performance at longer lead times, and concerns that reserving[26] volume in earlier auctions could unnecessarily suppress domestic investment signals if the interconnector is not operationally ready. Conversely, support for allowing participation in both long-term and T 1 auctions was framed as a way to enhance competition and reduce costs, provided that the approach remains compatible with a cautious stance on contract length (i.e., single-year contracts even in long-term auction timeframes) and that MEC forecasting risk is managed.

4.2.3 Decision

The SEM Committee has decided to proceed with Option 2, whereby foreign units will be eligible to participate in both T-1 and long-term auctions.

[26] The SEM Committee would like to clarify that restricting participation of foreign units to T-1 auctions only would have necessitated reserving volume (at least partially) at the long-term auction stage to avoid this being discriminatory. As such, while stakeholder comments highlight reserving capacity (or not) for foreign units as a key consideration in forming their stated preference, this does not reflect the SEM Committee's position.

The SEM Committee recognises the concerns raised by stakeholders regarding the uncertainty associated with forecasting MEC and interconnector availability over longer time horizons. However, the SEM Committee considers that these risks can be more appropriately managed through Option 2 and do not justify excluding foreign units from long-term auction participation. It is important to note, that under Option 1 and consistent with CISAF's target model[27], the MEC would be forecast, reserved in longer-term auctions and carried into the T-1 auction in its entirety. Such arrangement potentially increases the risk of over procurement, should the calculated MEC at the T-1 auction be lower. However, under Option 2, a proportion of the calculated MEC (between 75% to 90%,) could be auctioned in the long-term auction, creating a buffer for forecasting errors.

A key consideration here is also the fact that foreign units will be limited to single-year contracts only, which significantly reduces the risks associated with long-term participation as foreign units successful in a long-term auction would only secure capacity obligations for a single Capacity Year rather than multiple years. Consequently, any forecasting errors relating to the MEC and foreign capacity contributions are not locked-in to the market for an extended period and can be reassessed for subsequent auctions.

The SEM Committee also considers that providing access to long-term auctions improves the investment and participation signals available to foreign capacity providers. While foreign units will not be eligible for multi-year contracts, participation in earlier auction timeframes nonetheless provides increased revenue visibility and greater certainty regarding future market opportunities. This may support participation by a wider range of providers than would otherwise be the case under a T-1-only model.

The detailed implementation arrangements, including qualification requirements and the methodology for determining volumes of eligible foreign capacity, will be developed through the associated CMC Modifications and implementation

[27] CISAF requires the following, that if cross border capacity is not eligible to participate in the main auctions, at least 10 % of the estimated volume required for the delivery window plus the Maximum Entry Capacity should be demanded in the adjustments for the auctions.

processes. The percentage of the MEC to be auctioned in the long-term auctions will also be decided at a later stage.

4.3 Market Reference Price

This section discusses whether the Market Reference Price (MRP) the foreign unit will be exposed to should be based on the SEM day-ahead market price or the foreign day-ahead market price.

In the SEM CRM, the RO takes the form of a one-way Contract for Difference with a Strike Price and a MRP based on the SEM day-ahead price, intraday market or balancing market price, depending on the market in which the RO holder actually traded.[28] In all settlement periods when the MRP exceeds the Strike Price, the RO holder will be required to pay an amount equal to the MRP minus the Strike Price to the RO Counterparties, referred to as Difference Charges. The Market Operator then recovers/pays the net difference between reliability option fees paid out to RO holders and Difference Charges received from suppliers, and this is passed on to consumers.

In the context of foreign unit participation, the design of the RO and whether this needs to be amended in the case of foreign units is worth consideration. Specifically, the choice of MRP would need to be considered.

MRP determines the market price index used to settle Difference Charges under the RO contract. In effect, it defines what price the RO holder is deemed to have earned (or could have earned) in energy markets for the purpose of calculating any payback when prices exceed the Strike Price.

The choice of MRP is a key design lever because it affects both incentives and risk allocation. An MRP that closely tracks the revenues a unit earns supports bid efficiency by limiting unhedgeable risk premia, but it may not provide consumers with paybacks that align with the SEM's own scarcity price outcomes. Conversely, an MRP referenced to the SEM price strengthens the linkage between SEM scarcity events

[28] And if the RO holder did not trade/deliver to the market in a given high price period, then they will not earn energy revenue but will still be subject to Difference Charges at the Imbalance Price from the balancing market. This means that the SEM CRM MRP is designed to 'track' the actual electricity market revenues of the SEM capacity providers, ensuring that ROs only expose providers to difference payments when they earn (or could have earned) high electricity market revenues.

and RO paybacks (and therefore consumer protection and delivery incentives) but can expose a foreign unit to basis risk where its local market price and the SEM price diverge.

For foreign participation, MRP selection also interacts with practical implementation and enforceability: where the RO references a price outside the SEM, the framework must specify the relevant bidding zone price, data source and any rules for cases where the unit trades in different markets or does not deliver. More broadly, MRP choice affects the extent to which the RO contract incentivises delivery during SEM stress events versus insulating foreign units from outcomes driven by conditions in the SEM that are not reflected in their local market.

4.3.1 Consultation paper position

The SEM Committee consulted on two options:

1. **MRP based on the SEM price** (e.g., the SEM day-ahead market price).
2. **MRP based on the foreign unit's local bidding zone price** (e.g., its local day-ahead market price, or an approach aligned to the local market in which the unit traded).

Arguments in favour of Option 1 focused on maintaining consistency with the SEM RO design intent and strengthening consumer protection: referencing the SEM price helps align paybacks and incentives with SEM scarcity outcomes, and ensures that when SEM prices exceed the Strike Price, consumers receive Difference Charges from all relevant RO holders (including foreign units). It was also noted as potentially simpler to administer, as it avoids needing to define and govern a foreign-market price reference within the SEM arrangements. Arguments in favour of Option 2 focused on better aligning the RO settlement price with the foreign unit's actual earning opportunities and therefore limiting basis risk exposure between SEM and local prices, which could reduce risk premia, support participation and lower bids in the foreign unit auction. However, this option could weaken incentive alignment in SEM stress events (where SEM and local prices diverge), reduce the extent of consumer protection during SEM high-price periods, and introduce additional complexity and cross-border coordination requirements (e.g., agreeing price sources, market definitions and treatment of non-delivery).

Overall, considering the appropriate balance between incentivising foreign unit participation, incentivising delivery during SEM system stress events and costs to SEM consumers, the SEM Committee stated a *minded-to position* to proceed with Option 1.

4.3.2 Stakeholder submissions

Most respondents supported setting the MRP for foreign capacity based on the SEM price. In particular, eight respondents supported the SEM-price approach, while none expressed a preference for using the home-country price; two responses did not record a preference.

The main rationale was to preserve consistent incentives for performance during SEM system stress events and maintain consumer protections under the reliability option; respondents argued that linking to a home-country price could weaken incentives to deliver to the SEM when it matters most. Several responses acknowledged that this approach creates basis risk for foreign participants but viewed this as an appropriate consequence of choosing to participate in another jurisdiction's mechanism (noting that hedging may be feasible). A minority view suggested that treatment might need to differentiate between cases where a unit is available but delivery is prevented by interconnector issues, versus cases where both the unit and interconnector are unavailable.

4.3.3 Decision

The SEM Committee has decided to proceed with its minded-to position of Option 1, whereby the MRP applicable to foreign direct units participating in the SEM CRM will be based on the SEM price, consistent with the existing Reliability Option framework.

The SEM Committee remains of the view that the principal purpose of the RO is to provide incentives for capacity providers to support SEM security of supply and to protect SEM consumers during periods of scarcity and high prices. The SEM Committee considers that using the SEM price as the MRP for foreign direct units best supports these objectives by ensuring that foreign and domestic capacity providers are subject to broadly the same incentives and obligations. It also ensures that consumers receive the intended benefits of the RO arrangements when SEM prices exceed the Strike Price.

The SEM Committee acknowledges stakeholder submissions regarding basis risk for foreign participants. However, the SEM Committee considers that participation in the SEM CRM should be accompanied by exposure to SEM market outcomes given participants are receiving payments in return for contributing to resource adequacy in the SEM. While a home-country price may reduce risk exposure for foreign participation, it would also weaken the link between SEM scarcity events and consumer protection outcomes.

The SEM Committee has therefore concluded that a SEM-based MRP represents the most appropriate balance between supporting foreign participation and protecting consumers.

4.4 Existing Capacity Price Cap and Unit Specific Price Cap

This section discusses whether foreign units should be eligible for the application of the Existing Capacity Price Cap (ECPC) and, subsequently, for a derogation to apply for a Unit Specific Price Cap (USPC).

In the SEM CRM, the ECPC is a market power mitigation measure that limits the maximum price existing units can bid, while the USPC provides a derogation route where an existing unit can demonstrate that its Net Going Forward Costs (NGFC) exceed the ECPC. Together, these arrangements aim to protect consumers from the exercise of market power while allowing units with legitimately higher cost bases to remain financially viable.

For foreign unit participation, the ECPC/USPC question is primarily about whether the same market power mitigation logic and cost-recovery safeguard should apply to cross-border units. Applying the ECPC could constrain bids and reduce the risk of uncompetitive outcomes, but it also raises questions about comparability of cost evidence across jurisdictions and the practicality of assessing NGFC (and enforcing any associated obligations) for foreign units.

This parameter also interacts with the chosen foreign unit auction design and the role of competitive pressure. Where many foreign units compete for a limited volume set by the MEC, competition itself may mitigate market power concerns. Conversely, if participation is limited or auction design creates scope for strategic bidding, additional

safeguards may be more important.

4.4.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Same as domestic**, i.e., apply the ECPC to existing foreign units and allow eligibility to apply for a USPC via an Exception Application to the RAs.
2. **Exclude foreign units** from the application of the ECPC and USPCs.

Arguments in favour of Option 1 focused on consistency and symmetry with domestic treatment, and on retaining a familiar market power mitigation framework (noting that variants exist in other regimes, such as Belgium, where derogations are available for both local and foreign units under a pay-as-bid design). However, stakeholders and the SEM Committee highlighted that assessing NGFC and verifying cost evidence for foreign units may be significantly more complex, given information asymmetry and reliance on cross-jurisdictional inputs, and that foreign units' cost structures may not be directly comparable to SEM units. Arguments in favour of Option 2 focused on avoiding this administrative burden and recognising that, depending on the final auction design, market power concerns for foreign units may be mitigated through competition for a limited volume of de-rated interconnector capacity (as represented by the MEC) rather than through ex ante bid caps. The main trade-off is that excluding foreign units from ECPC/USPC removes a direct cap-based mitigation tool but may be proportionate where participation is expected to be competitive and where comparable cost scrutiny is difficult to implement effectively.

The SEM Committee stated a *minded-to position* to proceed with Option 2. It noted that the ECPC/USPC framework was introduced in the SEM to address structural market power and to balance consumer protection with continued operation of existing plant under mandatory bidding; by contrast, for foreign units, competitive dynamics against a limited MEC volume and the chosen auction design may provide sufficient mitigation, while the cross-border administrative burden and evidential challenges of USPC assessments would be material.

4.4.2 Stakeholder submissions

On whether foreign units should be subject to the Existing Capacity Price Cap / Unit Specific Price Cap framework, most respondents supported applying the price-cap

framework to foreign participation. In particular, one respondent supported applying the framework in full, one partly supported the minded to consultation position of excluding foreign units, seven supported a modified approach (typically applying an existing-capacity cap but not extending unit-specific applications), and one response did not record a clear preference.

There was a general theme of not supporting the application of USPC to foreign units. The recurring argument was that the application of the USPC in the SEM CRM is closely linked to mandatory participation for domestic units and therefore, respondents questioned the justification for extending USPC eligibility to foreign units for whom participation is optional. Several responses highlighted administrative complexity for assessing foreign unit cost bases.

At the same time, some respondents cautioned that exempting foreign units from price-cap disciplines could be discriminatory and undermine auction integrity; a common compromise position was to apply an Existing Capacity Price Cap to foreign units while making them ineligible for unit-specific applications, as a third option. The SEM Committee considered this third option to be inconsistent with the overarching principle of non-discrimination between foreign and SEM capacity, therefore, the SEM Committee has not explored this third option further.

4.4.3 Decision

The SEM Committee has decided to adopt Option 1, whereby existing foreign units participating in the SEM CRM will be subject to the ECPC and will be eligible to apply for a USPC through the Exception Application process.

In reaching this decision, the SEM Committee has considered the interaction between this parameter and the broader design of the explicit cross-border participation framework, including the decisions to permit foreign participation in both T-1 and long-term auctions, with approximately 75% to 90% of the forecast MEC made available in the long-term auction timeframe and the remainder closer to delivery in T-1, and to restrict foreign units to single-year contracts.

The SEM Committee considers that where foreign units are permitted to compete directly against SEM units in long-term auctions, it is important that an appropriate and broadly consistent market power mitigation framework applies across participants.

Applying the ECPC to foreign units ensures that bidding constraints do not differ materially between domestic and foreign capacity competing within the same auction process.

The SEM Committee further notes that foreign units will only be eligible for single-year contracts, including where they are successful in long-term auctions. As a result, foreign units will not benefit from the longer-term revenue certainty available under certain multi-year contract arrangements elsewhere in the SEM CRM framework. The SEM Committee considers that, in these circumstances, retaining access to a USPC is particularly important. A foreign unit with legitimate costs above the ECPC may otherwise be unable to recover those costs through a single-year contract, potentially discouraging participation and reducing competition in the auctions.

The SEM Committee also recognises the concerns raised regarding the administrative complexity associated with assessing USPC applications from foreign participants. In particular, the SEM Committee accepts that evaluating NGFCs across different jurisdictions may require consideration of differing regulatory and commercial arrangements in either market. However, the SEM Committee does not consider that these challenges outweigh the benefits of applying a consistent market power mitigation framework. The SEM Committee notes that the potential administrative burden can be mitigated through the design of the application process, including the evidential requirements and qualification criteria applicable to foreign applicants.

Furthermore, the SEM Committee considers that the detailed design stage will consider the interrelationship between the USPC process and the overall auction timeline but on a principles-basis, the SEM Committee expects the following:

- Foreign units that submit USPC applications will bid at their intended USPC in the foreign auction;
- If USPC applications are not approved (or approved at a lower level than bidders requested), the bid prices would be changed to the ECPC/approved bid price level before being passed on to the main auction, but bids would still otherwise be binding.

4.5 Applicable Charges

This section discusses what charges should be applicable to foreign units and whether

there is a need for bespoke charges. Charges in the SEM CRM are an important element, and they apply when capacity providers fail to meet their obligations under the CMC and RO framework.

In practice, the SEM CRM charging regime includes (i) non-performance charges (e.g., Non-Performance Difference Charges) that incentivise availability and delivery during system stress events, and (ii) termination-related charges and securities for New Capacity that incentivise timely delivery of projects and protect consumers from replacement procurement costs if milestones are missed.

For explicit cross-border participation, the key question is whether foreign units should face the same charge design (including exceptions) as domestic SEM units, and how any such regime can be enforced effectively across jurisdictions. Charges need to be strong enough to support reliability incentives and deter gaming – particularly where units may hold obligations in more than one capacity mechanism – while remaining implementable in practice through clear rules, monitoring and data-sharing between TSOs and relevant authorities.

4.5.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Same as domestic charges** for foreign units, i.e., apply the existing SEM CRM charge framework (and associated exceptions) to foreign units.
2. **Bespoke charges for foreign units** in addition to domestic charges, tailored to explicit cross-border participation and the foreign unit's market context.

Arguments in favour of Option 1 focused on consistency and simplicity: a single set of rules would provide a clearer, more level playing field and avoiding the need to develop and maintain a separate cross-border charging framework. It was also noted that, given the possibility of participation in more than one capacity mechanism, effective monitoring and data-sharing on availability (via the TSOs' agreement) would still be required to mitigate gaming and ensure consumers pay only for capacity that is actually available. Arguments in favour of Option 2 focused on the potential to reflect cross-border realities more explicitly (e.g., treatment of transmission availability and interactions with foreign market rules) and to target incentives/penalties to the risks specific to foreign participation; however, this comes with higher design and

administrative burden and greater enforcement complexity for the RAs and SEM TSOs.

The SEM Committee had not formed a *minded-to position* on this parameter. It noted major concerns regarding the potential for gaming, including double payments and market distortion where units can hold obligations in multiple jurisdictions, and invited stakeholder views on whether additional measures beyond charges (e.g., enhanced data-sharing/monitoring) are needed to address these risks.

4.5.2 Stakeholder submissions

Views on applicable charges were mixed, with limited detailed commentary recorded. In terms of stated preferences, five respondents supported aligning charges with domestic arrangements, none expressed a preference for adding bespoke charges in addition to domestic charges, and five responses did not record a clear preference.

Key concerns raised included whether it is feasible to calculate and settle domestic-style charges for foreign units given differences in data availability and market arrangements, and whether consumers could end up bearing risks that sit outside SEM stakeholders' control (for example, if transmission/infrastructure issues in the foreign market affect delivery and the design exempts foreign participants from certain charges). Some respondents highlighted that a distinct financial process may be needed for foreign units, given they are not embedded in SEM cashflow/credit arrangements in the same way as domestic participants.

4.5.3 Decision

The SEM Committee has decided to adopt Option 1, whereby foreign direct units will be subject to the existing SEM CRM charging framework, including the same charges, exceptions and related provisions that apply to domestic SEM capacity providers. The SEM Committee considers that this approach ensures consistency of treatment between domestic and foreign capacity providers and avoids unnecessary administrative complexity.

The SEM Committee notes stakeholders' concerns regarding the practical implementation of charges for foreign units and the interaction with different market arrangements outside the SEM. However, these considerations are principally implementation issues and do not, in the SEM Committee's view, justify the

introduction of a separate charging regime.

Furthermore, the SEM Committee considers that the existing charge framework is capable of underpinning appropriate reliability incentives for foreign direct participation. As such, the SEM Committee has concluded that the application of the existing framework to foreign direct units represents the most proportionate and efficient approach.

4.6 Auction offer structures

This section discusses the structure of auction offers for foreign units, including whether foreign units should be permitted to submit Inflexible Offers (i.e., all-or-nothing bids) or whether offers should be required to be Flexible (i.e., capable of partial acceptance).

Offer structure affects how efficiently bidders can reflect lumpy costs and indivisibilities (for example, minimum stable generation levels or fixed-cost recovery needs) and therefore can influence participation and bid levels. In the SEM CRM, the availability of Inflexible Offers is balanced by other design features (including the two-step unconstrained/constrained clearing process and a sloped demand curve) that help mitigate gaming opportunities and other unintended outcomes that can arise when bids are all-or-nothing.

By contrast, for foreign unit auctions the demand curve is effectively vertical at the applicable MEC (subject to price caps), because procuring beyond the MEC would not be expected to contribute to SEM resource adequacy. This limits the extent to which demand-curve design can dampen strategic behaviour and means the choice to allow or disallow Inflexible Offers has a more direct impact on clearing outcomes (including the risk of under-procurement against the MEC and the potential for inefficient outcomes if inflexible bids interact with the supply curve).

In this context, the SEM Committee considered whether it would be appropriate to allow Inflexible Offers for foreign units or whether these should be disallowed.

4.6.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Allow foreign units to submit Inflexible Offers** (all-or-nothing bids).

2. **Disallow Inflexible Offers for foreign units** (require offers to be Flexible/partially acceptable).

Arguments in favour of Option 1 focused on consistency with domestic SEM treatment and on allowing bidders to express lumpy fixed-cost or investment-driven indivisibilities, which could support participation and competitiveness in the foreign unit auction. The key risks are that all-or-nothing bids can interact with a vertical MEC-based demand curve in a way that leads to (i) under-procurement against the MEC (if inflexible quantities do not "fit" the remaining demand) and/or (ii) inefficient outcomes where a small, high-priced inflexible offer clears ahead of larger, cheaper flexible offers. The consultation noted that some of these risks may be mitigated through auction design and/or targeted clearing-algorithm safeguards (for example, the Polish approach to limiting how far the algorithm searches up the supply curve following an inflexible marginal offer). Arguments in favour of Option 2 focused on reducing these risks and increasing the likelihood that the auction procures up to the MEC, but with a potential downside that disallowing inflexible bids could deter participation by units with genuine indivisibilities, increasing risk premia and clearing prices.

The SEM Committee had not formed a *minded-to position* on Inflexible Offers by foreign units.

4.6.2 Stakeholder submissions

On auction offer structures (in particular, whether to permit inflexible offers), two respondents supported permitting inflexible offers, four supported disallowing them, and four responses did not record a clear preference.

Where concerns were raised, they focused on how offer flexibility interacts with the mechanics of allocating interconnector capability and verifying deliverability. Some respondents supported disallowing inflexible offers to reduce computational/operational complexity, while others viewed allowing inflexible offers as a way to increase the likelihood of procuring the available volume. Linked to the broader two-stage design debate, some responses also pointed to a need for clear rules to prevent gaming where a low bid could be used to access the market in an initial stage and then not constrain bidding later.

4.6.3 Decision

The SEM Committee has decided to adopt Option 2; whereby foreign direct units will not be permitted to submit inflexible offers. The SEM Committee notes that, unlike with domestic CRM auctions, foreign unit procurement is based on the MEC, with demand effectively becoming vertical at that level. In such circumstances, allowing inflexible offers presents a greater risk that available capacity cannot be efficiently procured where bid quantities do not align with residual demand.

The SEM Committee acknowledges that permitting Inflexible Offers may facilitate participation for some providers. However, the SEM Committee considers that the primary objective of the auction is to procure the maximum contribution to resource adequacy up to the applicable MEC and this to be in the most efficient manner possible. Requiring offers to be flexible better supports that objective by enabling the auction to make full use of available and eligible capacity, thereby reducing the risk of under-procurement as well.

In addition, noting stakeholders' concerns regarding gaming, the SEM Committee considers that requiring offers to be flexible also reduces opportunities for strategic behaviour associated with all-or-nothing bidding and supports more efficient auction outcomes.

4.7 Eligibility of Distribution-connected foreign units

This section discusses whether distribution-connected foreign units should be eligible to participate in the SEM CRM. Distribution-connected units refer to generation or demand-side resources connected to a distribution network rather than the transmission system.

Eligibility at the distribution level matters because it changes both the pool of potential participants and the practical ability of the SEM TSOs to monitor and enforce performance. Compared with transmission-connected units, distribution-connected resources are more likely to face constraints that are not visible at the transmission level and may have less standardised metering/telemetry, which can make it harder to validate availability and assess delivery in system stress events.

There is also a policy trade-off between maximising access (consistent with the EU non-discrimination principle for technically equivalent capacity) and adopting a more

risk-averse approach to ensure deliverability and minimise implementation complexity. In other regimes (e.g., Belgium), foreign participation is restricted to transmission-connected units, reflecting the view that this boundary provides a clearer basis for data provision, qualification and congestion risk management.

4.7.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Permit distribution-connected foreign units to participate**, subject to meeting qualification and performance requirements.
2. **Do not permit distribution-connected foreign units to participate**, restricting eligibility to transmission-connected foreign units.

Arguments in favour of Option 1 focused on broadening the pool of eligible foreign capacity and aligning with a non-discrimination interpretation where distribution-connected resources can demonstrate equivalent technical performance. The key challenges are the additional implementation burden and risk: ensuring sufficient data granularity, verification and availability monitoring may require new arrangements involving the foreign TSO and potentially DSOs, and distribution-level congestion could create additional deliverability risk that is harder to assess and manage within SEM CRM processes. Arguments in favour of Option 2 focused on simplicity and robustness: limiting eligibility to transmission-connected units provides a clearer basis for metering/telemetry, qualification, and monitoring, and reduces the risk that local distribution constraints undermine delivery during stress events. The main trade-off is that this restriction could reduce competitive participation and exclude potentially viable resources.

The SEM Committee had not formed a *minded-to position* on this parameter.

4.7.2 Stakeholder submissions

On eligibility of distribution-connected foreign units, the balance of views favoured a more cautious approach: six respondents supported not permitting distribution-connected foreign units, one supported permitting them (with conditions/thresholds), two responses did not record a clear preference and one response noted its support for allowing a framework supporting all foreign capacities while recognising that a balance needed to be struck between costs and social benefits of permitting

distribution-connected foreign units.

Concerns included the ability of the SEM authorities (and/or the foreign TSO) to provide robust guarantees of availability and to verify output/availability through reliable metering data, as well as increased exposure to local network congestion that could constrain delivery. At the same time, some responses recognised a potential tension with non-discrimination requirements and suggested that, if distribution-connected participation were allowed, it may need to be paired with thresholds or additional conditions to limit administrative burden and manage reliability risks.

4.7.3 Decision

The SEM Committee has decided to adopt Option 2, whereby distribution-connected foreign units will not be eligible to participate in the SEM CRM at this time. Eligibility will be restricted to transmission-connected foreign units.

At this stage of implementation, the SEM Committee considers that there remain challenges associated with the qualification and monitoring of distribution-connected foreign units. In particular, the SEM Committee notes concerns regarding the availability of sufficiently robust operational data, the visibility of distribution network constraints, and the need to establish reliable verification and enforcement arrangements cross-jurisdictionally. However, the SEM Committee also recognises that distribution-connected resources may be capable of making a valuable contribution to resource adequacy and that, over the longer term, developments in metering, telemetry, monitoring and data exchange arrangements may support broader participation by such resources.

Therefore, the SEM Committee will keep the eligibility of distribution-connected foreign units under review as the foreign participation framework develops and operational experience is gained. The SEM Committee notes this may entail the SEM TSOs and foreign DSO to enter into a TSO-DSO agreement.

4.8 Secondary Trading

Secondary trading allows holders of capacity contracts to adjust (reduce or transfer) their RO for legitimate reasons (e.g., planned or unplanned outages) by buying and selling secondary trading products. A buyer uses these products to offset capacity it previously sold via its contract; the seller takes on the obligation instead (and receives

the associated capacity payments and is exposed to difference charges). In the SEM CRM, only units that have been qualified for the relevant Capacity Delivery Year can act as sellers, and seller limits apply to prevent over-commitment.

For foreign participation, secondary trading is also a regulatory requirement (Article 26(14) of EU Regulation 2019/943) and can reduce risk premia by providing a route to manage unavailability. However, it introduces additional design constraints: the total foreign Reliability Obligations that can be carried by units connected to a given border and delivery year must respect the MEC as a cumulative upper limit, regardless of whether obligations were acquired through the primary auction or via secondary trading.

In practice, these constraints affect both who can trade with whom and the liquidity of the secondary market for foreign units. If foreign units are only fully qualified after the foreign unit auction (to reduce administrative burden), there may be few or no eligible foreign sellers available when foreign contract holders need to buy products to trade out; conversely, allowing foreign buyers to offset obligations by purchasing from domestic SEM sellers can conflict with the principle that the MEC should represent the expected cross-border contribution regardless of contracted volumes (and that domestic volumes should not be used to "backfill" any shortfall against MEC). These interactions mean the secondary trading design is closely linked to the approach to qualification, monitoring and enforcement.

4.8.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Restrict secondary trading to foreign units within the same market/border** (i.e., foreign units can only buy/sell products with other foreign units in their own connecting market; no trading with domestic SEM units). *Variant:* allow foreign unit contract holders to buy secondary trading products from the SEM TSOs (on behalf of SEM consumers) acting as a notional seller at an administratively set price (e.g., the applicable secondary market product price cap).
2. **Allow secondary trading between foreign units and domestic SEM units** (subject to enforcing the MEC as a cumulative upper limit on foreign units' net sold positions for a given border and delivery year).

Arguments in favour of Option 1 focused on preserving the MEC constraint and avoiding outcomes where domestic SEM capacity effectively offsets (or substitutes for) cross-border contributions, while also simplifying enforcement by keeping foreign obligations and trades within a separate pool. This approach can be more straightforward to implement (e.g., separate clearing/registration and less need for continuous MEC checks across live trades), but it risks low liquidity and limited availability of eligible foreign sellers, particularly if qualification timing means few foreign units are qualified early enough to sell products thus potentially increasing risk premia and bid prices. The TSO market-maker variant could mitigate this liquidity risk by providing a backstop route for foreign buyers to trade out when no eligible sellers exist, but it would represent a new role for SEM TSOs, would require an administered pricing approach and governance around when/why it is triggered, and could be complex to implement. Arguments in favour of Option 2 focused on improving liquidity and counterparty availability by enabling a larger pool of sellers (including domestic SEM units), which could reduce risk premia and support participation; however, it increases implementation complexity because the MEC must be enforced as a cumulative cap across multiple products and trades, and it can create conceptual and practical challenges where foreign obligations are reduced through purchases from domestic sellers (potentially conflicting with the principle that domestic volumes should not be procured to "make up" any shortfall against MEC).

The SEM Committee had not formed a *minded-to position* on this parameter.

4.8.2 Stakeholder submissions

On secondary trading, preferences split: two respondents supported limiting trading to foreign units within the same market, five supported allowing trading between foreign and domestic units (subject to the maximum entry capacity constraint), and three responses did not record a clear preference.

Support for broader trading was typically framed around improving liquidity and enabling obligations to move to parties best able to deliver (including enabling domestic capacity to take on obligations that foreign units cannot fulfil), while still respecting the MEC limit. More cautious positions argued that trading between domestic and foreign units could undermine physical locational signals and create

risks in constrained zones, implying that trades should be restricted to units facing comparable delivery requirements.

4.8.3 Decision

The SEM Committee has decided to adopt Option 1, whereby secondary trading involving foreign units will be restricted to foreign units within the same connecting market/border and secondary trading between foreign units and domestic SEM units will not be permitted.

The SEM Committee acknowledges that the interrelationship of secondary trading with the qualification process is an important consideration. In the event that the number of qualified foreign participants is too low to facilitate secondary trading, the SEM Committee considers that the existing provisions in the CMC, will allow foreign units to manage their planned outages without necessarily needing to trade out their position.

At this stage of policy development, the SEM Committee considers that simplicity is important in establishing an operational explicit cross-border participation framework. Facilitating trade between domestic and foreign units is likely to be associated with a degree of complexity. For example, trade between domestic and foreign units need to be restricted depending on MEC. However, the SEM Committee also recognises that there may be liquidity benefits in allowing such trade. Therefore, the SEM Committee will keep Option 2 under review as the foreign participation framework develops and operational experience is gained.

4.9 Minimum MEC to run foreign unit auctions

This section discusses whether foreign unit auctions should only be run if a minimum MEC value is calculated. This parameter determines whether cross-border auction arrangements are triggered in years where the expected cross-border adequacy contribution is small.

Setting a threshold is a trade-off between ensuring that the benefits of running a foreign unit auction (in terms of additional competitive pressure and access to cross-border capacity) outweigh the administrative burden and costs of running and governing the process, versus ensuring that potentially valuable cross-border contributions are not foregone in years where MEC is low but non-zero. In other regimes (e.g., Belgium), the TSO does not facilitate foreign participation when the

calculated MEC is below a minimum level (understood to be <50 MW), on the basis that the benefits may be limited relative to the overhead of running the process.

4.9.1 Consultation paper position

The SEM Committee consulted on two options:

1. **Always run foreign unit auctions if MEC is non-zero**.
2. **Only run foreign unit auctions if MEC is above a minimum threshold** (threshold value to be determined).

Arguments in favour of Option 1 focused on ensuring that explicit cross-border participation is enabled whenever there is any positive expected contribution, avoiding arbitrary cut-offs and providing a clear, predictable rule that could support market confidence and participation. However, where MEC is very small, running an auction may deliver limited practical benefit while still incurring non-trivial administrative and governance costs (including qualification, monitoring, settlement and the associated TSOs' arrangements). Arguments in favour of Option 2 focused on proportionality and efficient use of resources by only running the process where the expected contribution is material enough to justify the overhead and to support sufficient competition/liquidity. The key design question under Option 2 is how to set the threshold (e.g., as a fixed MW value or a value linked to system size / capacity requirement) and how to govern it over time so that it remains appropriate as the interconnector and market context evolve.

The SEM Committee stated a *minded-to position* to proceed with Option 2, such that foreign unit auctions will only be run where the calculated MEC is above a minimum threshold, with the threshold value to be determined at a later stage.

4.9.2 Stakeholder submissions

Most respondents supported applying a minimum threshold for the maximum entry capacity below which a foreign unit auction would not be run. In particular, eight respondents supported a threshold-based approach, one supported running an auction whenever the MEC is non-zero, and one response did not record a clear preference. Where respondents suggested indicative levels, views ranged from setting the threshold around 50 MW (or 50–100 MW) to reflect resourcing constraints and the practicalities of running auctions in close succession, through to setting a much lower

de minimis (e.g., 5 MW) on the basis that once processes are established, the marginal administrative cost should be limited. Some respondents also noted that, because T-1 procurement volumes may be relatively small, any minimum threshold would need to be carefully parameterised to avoid ruling out credible participation unnecessarily.

4.9.3 Decision

The SEM Committee has decided to proceed with its *minded-to position* of Option 2, whereby foreign unit auctions will only run when the calculated MEC exceeds a minimum threshold. The specific threshold value will be determined separately and reflected in the detailed implementation arrangements and may change from time to ensure it remains appropriate and effective. The SEM Committee considers that a threshold represents a proportionate means of balancing the benefits of foreign participation with the costs and complexity of administering cross-border auction arrangements. Where the calculated MEC is very small, the expected contribution to resource adequacy may not justify the operational and administrative effort required to establish and administer an auction.

The SEM Committee notes that the majority of respondents supported this approach and broadly agreed that a minimum level of materiality should be demonstrated ahead of the auction. At the same time, the SEM Committee recognises the concerns raised regarding the potential exclusion of useful capacity where the threshold is set too high. The SEM Committee therefore considers that the threshold should be calibrated carefully to balance proportionality with the objective of facilitating effective explicit cross-border participation where it can make a meaningful contribution to security of supply.

5 Next Steps

This Decision Paper has set out the SEM Committee's decision on the high-level design parameters that will shape the implementation of explicit cross-border participation in the SEM.

The principles set out in this decision, along with the outcomes of the SEM Committee's consultation of the high-level design options for CRM 2.0[29] will form part of upcoming State Aid application process.

The SEM Committee expects on-going engagement between the RAs and the SEM TSOs on the following:

- The detailed design of explicit cross-border participation,
- The MEC assumptions that will be used in the SEM,
- The qualification and availability monitoring process.
- The CMC modifications for implementation.

[29] SEM Committee, High level design options for CRM 2.0 – Consultation Paper.