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Kevin Lenaghan/Kenny Dane
Utility Regulator
Queens House
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Consultation on the Parameters for T-4 2022/23 Capacity Auction

Dear Kevin/Kenny,

Belfast Power Limited welcomes the publication of the consultation document on Capacity Remuneration Mechanism 2024/25 T-4 Capacity Auction Parameters and Compliance with the Clean Energy Package (SEM-20-006) and the opportunity to provide comments on the questions asked. Belfast Power Limited ("BPL") is currently developing a 480 MW CCGT Power Station at Belfast Harbour Estate. This facility will provide enough electricity to power up to 500,000 homes and businesses whilst providing additional security of electricity supply in Northern Ireland.

As with any major capital infrastructure project, investor confidence in the regulatory regime is crucial in securing the necessary investment and the Capacity Remuneration Mechanism ("CRM") will be a key component of this. BPL is pleased to have the opportunity to respond to this consultation on specific areas of the CRM auction design and on certain parameters for the for the T-4 capacity auction for capacity year 2024/25. These responses are set out below. There are certain areas whereby BPL has elected not to respond in detail to the consultation. Where BPL has

not made any reference to specific questions the SEM-C can consider BPL to be neutral in respect of its proposals.

Compliance with the Clean Energy Package

The transition towards clean energy and a carbon-neutral economy is one of the greatest challenges of our time and the EU's Clean Energy Package is crucial in delivering this goal. By providing a modern, stable legal environment and setting a clear and common sense of direction, the Clean Energy Package is designed to stimulate the necessary public and private investment to facilitate this energy transition.

BPL believes that it is incumbent on the SEM C to do everything in its power to encourage more efficient energy policy and practice across Ireland as quickly as possible. Specifically in relation to procurement of capacity, EU Regulation 2019/943 sets limits on the funding through capacity mechanisms of plants with high CO2 emissions limits. Specifically Article 22(4) stipulates that from 1 July 2025 at the latest, generation capacity that started commercial production before 4 July 2019 and that emits more than 550 g of CO2 of fossil fuel origin per kWh of electricity and more than 350 kg CO2 of fossil fuel origin on average per year per installed kWe shall not be committed or receive payments or commitments for future payments under a capacity mechanism. As the deadline for ceasing these payments falls within the 2024/25 capacity year the SEM Committee must determine how it intends to treat these plants in the T-4 2024/25 Capacity Auctions.

Specifically, the SEM Committee has asked:

Which of Option 1 (allow high CO2 emitting plant to participate in the CRM, but be subject to additional derating) and Option 2 (make no changes to the CRM, but ensure that any unit with emissions exceeding 550g CO2 / kWh comply with CEP annual run-hours limitations) is your preferred approach?

BPL is firmly of the view that Option 1 is the appropriate action i.e. if High CO2 emitting plant continue to participate in the CRM they should be subject to additional derating factors. There is an inherent restriction on the ability of these plants to provide capacity in line with the principles of the Clean Energy Package for the entirety of the capacity year. This is contrary to good practice and would raise questions about the commitment of the market to the environmental concerns outlined and addressed by the Clean Energy Package if this restriction were not recognised by derating. If the SEM Committee were to select Option 2 and allow high emissions plant to compete with no change to the existing process this is effectively ignoring legislative changes that serve to send exit signals to the market. This

creates a scenario that potentially favours keeping higher polluting existing generators in the market at the expense of environmentally compliant plant.

If the additional de-rating is applied, should it be applied for the 2024/25 capacity year, or held until the 2025/26 capacity year? Alternatively, should the duration of the 2024/25 capacity year be reduced to nine months? •

Any changes should be implemented for the 2024/25 capacity year. From a social responsibility perspective the market should be encouraging more environmentally friendly generation as early as possible irrespective of the deadline within the legislation. Ireland, and Northern Ireland in particular has already fallen behind other regions in terms of phasing out high polluting generators. Specifically with respect to the legislative deadline, the capacity year 2024/25 is the year that is impacted by the legislation and as such this should be reflected in the auction parameters.

Furthermore, as the SEM Committee identifies in the consultation paper, failing to implement the changes in the 2024/25 capacity year carries the highest long-term risk as it is likely to subject the SEM to the highest level of reliance on heavily run-hours limited capacity.

It is likely that new build capacity will be required to replace any exiting high emissions plant. New build capacity will necessitate complex construction projects and while providers will commit to having the capacity in place by the start of the capacity year it is possible that delays may occur. This is already recognised in the auction guidelines through the provision for a longstop date. By allowing new build to compete on a level playing field for the full 2024/25 capacity year, the SEM Committee will have increased comfort that there will not be a scenario whereby old, high emission plant has exited but replacement, New Build plant has not yet been commissioned, thereby reducing the security of supply concern.

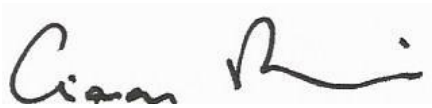
From a financial perspective, there is a likelihood that existing capacity may seek a USPC to mitigate against any increased derating. Under the current auction guidelines an existing plant could apply for a USPC and be awarded a RO at a price higher than new capacity bid as existing capacity is favoured over multiyear contracts. The SEM Committee should move to address this in the 2024/25 auction as providing USPCs to high emission plant that will have to exit imminently due to legislative requirements is not good practice from an environmental or consumer perspective. In this scenario any existing plants that seeks a USPC should not be ranked ahead of a new build plant simply because it is seeking a multiyear RO and the auction should be allowed to solve using multi-year new capacity.

Should the Long Stop Date be reduced from 18 months to (for example) 12 months or 6 months?

The Long Stop Date should be maintained at 18 months. If a New Build generator is granted a RO they are already heavily incentivised to commission the plant as early as possible. However, given the complex nature of these projects it is important from a financing perspective that there is an allowance for unforeseen delays. This is particularly important given the delays to auction timetables in recent years that have already served to reduce the time between auction results and the commencement of the relevant capacity year, effectively reducing the construction window for new build.

Should you have any queries in respect of the responses above please do not hesitate to contact me.

Kind Regards,



Ciaran Devine
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