

**EP Kilroot**

**EP Ballylumford**

**Response to SEM Capacity Remuneration Mechanism 2024/25  
T-4 Capacity Auction Parameters and Compliance with the  
Clean Energy Package**

**on behalf of**

**EP Kilroot Ltd and EP Ballylumford Ltd**

**20 March 2020**

## 1. General Comments

EP Kilroot Limited (**EPK**) and EP Ballylumford Limited (**EPB**) welcome the opportunity to comment on the SEM Capacity Remuneration Mechanism 2024/25 T-4 Capacity Auction Parameters and Compliance with the Clean Energy Package.

We have limited our response to some critical parameters and the explicit questions raised by the SEMC in the paper.

## 2. Proposed Auction Parameters

### *Auction Price Cap*

In previous auction parameter papers the Cost of New Entrant (CONE) has been based on a distilled fired Open Cycle Gas Turbine (OCGT) based in Northern Ireland (NI). We would suggest that the Clean Energy Package (CEP) will mean that distillate OCGT technology will not be viable in the market and any assessment of CONE should now reflect technology which is compliant with the CE.

### *Existing Capacity Price Cap*

EPK and EPB do not support any proposal to reduce the Existing Capacity Price Cap (“ECPC”) for the 2024/25 T-4 capacity auction.

In previous responses to similar consultation, EPK and EPB highlighted to the SEM Committee that the ECPC was not sufficiently high to allow the recovery of fixed and sunk cost – for example covering necessary upgrades. From experience of the previous auctions where EPK has been required to submit USPC applications to enable a cost reflective missing money offer to be submitted, it is clear that the level of the ECPC at 0.5 x CONE has been set too low.

In addition, EPK and EPB is concerned with the proposal to move away from the SEM Committee’s principle to link price caps to market-based parameters. The current method of linking auction price caps to CONE for new and existing plant was presented and accepted during the high-level design with ‘0.5 x CONE = ECPC’ an International Benchmark. Changing and lowering ECPC would ignore the SEM Committee’s own principle by deciding on its own regulated price caps and moving away from a market-based approach (the guiding philosophy contained in the relevant State Aid Approval). The resulting administrative and mechanistic price setting methodology creates more unwelcome uncertainty for market participants.

The rationale for the SEM Committee proposing a reduced ECPC based primarily on the fact that the RA’s have gained experience in assessing USPC applications would evidence that the ECPC is currently set too low. Having been through the USPC application process for all of the auctions thus far the time, cost and effort involved is considerable and in our view reducing the ECPC will only serve to increase this burden on ourselves and an increased number of market participants who find that their offer now exceeds the ECPC.

This proposal to reduce the ECPC views the administrative burden and associated cost exclusively from the viewpoint of the RAs and does not take into account the cost, time and effort incurred by

a participant who finds that their auction bid exceeds a reduced ECPC and is now faced with that cost, time and tying up of considerable resources to prepare, validate and submit a USPC bid.

#### *Auction Format*

Given the complexity involved with testing, trialling and implementing format D we do not believe that it is achievable in the limited 9 months available. Based on pragmatism and clarity our preference is for a continuation with format C.

### **3. Compliance with the Clean Energy Package**

We have assessed the options set out in the consultation paper based on our likely portfolio of generation in the 2024/25 period and beyond. Consequently, our preference is Option 1 – allow high CO2 emitting plant to participate in the CRM but with additional derating. This approach should be applied for the 2024/25 period for the full year.

The derating methodology is critical particularly for OCGT units which could be forced to submit USPC applications to ensure that they can recover their costs. The methodology should be consulted on well in advance of the Exception Application / Opt-out process to allow participants to make a meaningful assessment of the viability of the units and make informed decisions in relation to closure or otherwise.

In relation to the Long Stop Date given the potential security of supply issues for the period we would believe it would be appropriate to reduce the Long Stop Date to 12 months.