



**Energia Response to SEM Committee
Consultation Paper SEM-21-039**

***Capacity Market Code
Terms of Reference for the Year 3 Market Audit***

18 May 2021

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-21-039 titled “Capacity Market Code Terms of Reference for the Year 3 Market Audit” (the Consultation Paper).

The purpose of the Capacity Market Audit is to provide independent assurance on the operation of the Capacity Market and is intended to cover a wide scope of activities as outlined in the Consultation Paper.

The Qualification and award of contracts to New Capacity which subsequently fails to deliver can materially distort market outcomes whilst compromising security of supply. It is therefore vitally important to ensure that the qualification process in section E.7 of the CMC is suitably robust and within the scope of the Market Audit. This would include E.7.2.1(f) which requires the System Operators to consider rejecting an Application for Qualification where *“they consider the delivery of a part or all of any New Capacity proposed in the Application for Qualification is not feasible (either technically or in the applicable time frame)”*. Underlining its importance, this clause of the CMC was specifically referenced in a recent CRU Direction¹ to EirGrid regarding the upcoming T-3 CY2024/25 Capacity Auction.

Notwithstanding its importance, we have a concern that section E.7, including the above requirement, has been inadvertently excluded from the scope of the Market Audit. Clearly, this need to be addressed in the final Terms of Reference. The remainder of this response elaborates.

2. Robust assurance of qualification process needed

The Consultation Paper states that the Terms of Reference for the upcoming Year 3 Audit (which will cover the T-4 CY2024/25 auction held in January 2021) is to include the same scope as that used in previous audits, which includes Qualification. However it is worth noting that Qualification was not included in the Year 1 Market Audit², with the Audit Report stating that *“those areas already assessed and reported on by the Capacity Auction Monitor are not required to also be assessed by the Capacity Market Auditor – in broad terms....this excludes from the Auditor scope the activities relating to Qualification...”*. As such it can be assumed that Qualification will again be excluded from the scope of the Year 3 Capacity Market Audit on the basis that it has already been included in the Capacity Monitor Report for the T-4 CY2024/25 auction.

Energia note that B.10.3.1 (b) of the CMC requires the Capacity Auction Monitor to produce a Report on the Qualification Process which *“states whether or not the Capacity Auction Monitor considers that the Qualification Process was conducted in accordance with this Code”*. However, having reviewed the Capacity Monitor Report for the T-4 CY2024/25 auction³ and indeed the report for previous auctions, we note that section E.7 of the CMC is not included within these Monitor Reports. Given the concerns over tight generation capacity margins (as reported in the EirGrid All-Island Generation Capacity Statement 2020-2029) and the risk that this poses to security of supply, it is imperative that there is sufficient scrutiny on the Qualification Process for

¹ [CRU21030a-CRU-Direction-to-EirGrid-re-T-3_Final.docx.pdf](#)

² [Global Referral Instructions \(sem-o.com\)](#)

³ [I-SEM 2024-25 T-4 Capacity Auction \(sem-o.com\)](#)

capacity auctions to ensure that New Capacity which qualifies has a realistic chance of delivering should it be awarded a contract. This was highlighted in the aforementioned CRU Direction to EirGrid in respect of the T-3 CY 2024.25 auction, which stipulates certain requirements that should be used as indicators of deliverability of New Capacity.

Neither the Capacity Market Audit or the Capacity Monitor Report are assessing compliance with this section of the CMC when carrying out their respective duties. Given that the Capacity Monitor Report for the T-4 CY2024/25 auction has already been completed, we strongly recommend that Qualification remains within the scope of the Year 3 Market Audit and specifically assesses compliance with section E.7 of the CMC in its entirety regarding the Requirements for Qualification. This is required in order to provide the independent assurance on the operation of the Capacity Market as intended.