



**CALL FOR COMMENTS ON THE EY REVIEW OF THE  
PERFORMANCE OF THE SEM CRM**

**SEM-22-054**

**26 August 2022**

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## 1. Introduction

The Minister for Environment, Climate and Communications of Ireland, Mr Eamon Ryan, requested the Commission for Regulation of Utilities (CRU) in 2021 to review the performance of the SEM Capacity Remuneration Mechanism (CRM). Following this request, the CRU included this piece of work under the Security of Supply Programme which commenced in September 2021. The CRU procured EY to perform this review. EY prepared the report following engagement with both regulators, DECC, market participant representative bodies and the TSOs.

It should be noted that the CRM is jointly governed by CRU and Utility Regulator (UR) under SEM arrangements through the SEM Committee. Thus, the EY report on CRM has been reviewed jointly by the SEM Committee and any further developments or decisions made on the contents of this report will be undertaken by and through the SEM Committee.

## 2. SEM CRM Recommendations by EY

As a part of this review, EY assessed the design of the CRM for any improvements that could be made in order to ensure sufficient procurement of capacity and prepared a report, which includes recommendations that could be implemented to make the CRM more beneficial to the industry and consumers. EY assessed the CRM around four areas:

1. Volume of capacity procured in auctions;
2. Level of participation in the auctions;
3. Timely delivery of new capacity procured; and
4. Value of procured capacity.

More details on the assessment can be found in the *Performance of the SEM Capacity Remuneration Mechanism* report by EY (SEM-22-054A) published alongside this Call for Comments.

The SEM Committee and TSOs have already begun progressing some of these recommendations, including:

- TSOs have implemented an enhanced monitoring process for new capacity coming through the capacity auctions since T-3 2024/25. Through this enhanced monitoring, which includes expert advice on power generation delivery, deliverability risks associated with the new projects are assessed which enables early indication of non-delivery.
- The SEM Committee increased the performance security rate and termination charges for any event that occurs 13-24 months prior to the beginning of the capacity year for the T-4 2025/26 auction.
- A SEM Committee consultation (SEM-22-036) on interim and enduring solutions to enable energy payments in the Balancing Market for DSUs was published on 4 July 2022.
- A SEM Committee consultation (SEM-22-030) was published on 6 July 2022 seeking stakeholder responses on circumstances in which Capacity Market Units can be available and in-merit, but not dispatched as well as application of non-performance difference charges to such units.
- The SEM Committee has initiated studies to re-calculate the Volume of Lost Load (VoLL) and the Cost of New Entry (CONE). These will feed into the re-evaluation of the reliability standard.
- The RAs are considering a TSO paper to introduce a System Services product with a longer lead time and duration.

In addition to these, the SEM Committee is considering progressing the following recommendations from the EY review. Some of these recommendations interact with each other in different ways, and therefore not all recommendations would need to be progressed. Please note that the SEM Committee have not made any decisions related to the recommendations made by EY and are only considering these recommendations.

- Greater transparency of target setting through a panel of technical experts (PTE) assessment of EirGrid recommendations, with findings published, and explanation of process by which TSO forecasts are translated to Target Volume to procure in capacity auctions.

- More explicit accounting of non-delivery in setting target volume, with two options for implementation:
  - Introduce process to monitor progress reports for early indication of non-delivery; OR
  - Apply a standardised adjustment to the capacity requirement to account for the likelihood of non-delivery and review inputs to adjustment % periodically.
- Increase lead time to at least 4 years from the announcement of auction results to start of the relevant capacity delivery year.
- Requirement of new prospective capacity to have all necessary consents to prequalify for auction. This remedy is potentially of less importance if auction lead times are extended.
- Increase performance securities following the auction.
- A permissive approach to requests for extensions from new build projects.
- Recalibrating the administrative scarcity pricing function so BM pricing better reflects market scarcity and causes a higher frequency of periods with prices above the RO strike price.
- Refining the principle of flagging interconnector actions from SEM BM prices to drive prices that are more likely to exceed the RO strike price and more reflective of the value of generation.
- Greater monitoring of technology performance in stress events to inform future de-rating factor setting.
- Applying administrative penalties for non-delivery to plants in specific locations where an amber alert has been raised and a plant is unavailable.
- Implement a baseline methodology for assessing the contribution of DSUs in reducing energy demand.
- Pay DSUs for negative generation up to the RO strike price.

- Determine energy-only stack within balancing market and compensate generators if instructed not to run for system reasons.
- Greater focus on delivery of infrastructure to enable more competitive all-island market and to reduce pressure for new builds to be situated in particular locations.

There are a number of other recommendations in addition to the ones mentioned above, which are detailed in the EY Report which the SEM Committee is not proposing to consider further at this time.

### 3. Next Steps

The SEM Committee welcomes the views of the industry and stakeholders on the recommendations made by EY. Any comments or feedback on the recommendations must be sent in electronic form to Merin Joseph ([mjoseph\[at\]cru.ie](mailto:mjoseph@cru.ie)) and Donna Maye ([Donna.Maye\[at\]juregni.gov.uk](mailto:Donna.Maye@juregni.gov.uk)) by the close of business on **21 October 2022**.

Once the responses are reviewed and analysed, SEM Committee intends to publish a plan of action detailing the next steps on the various recommendations from the EY Report.