

# Response to SEM-23-040

## Capacity Market Code Modifications Workshop 29 Consultation on CMC\_03\_23

June 2023



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# 1. Introduction

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland. System Operator Northern Ireland (SONI Ltd) is the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group and operates the Single Electricity Market on the island of Ireland.

EirGrid and SONI have been certified by the European Commission as independent TSOs. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

EirGrid and SONI have duties under licence to advise the CRU and UR respectively on matters relating to the current and expected future reliability of the electricity supply. We have also been allocated responsibility for administering the Capacity Market Code through our TSO licences. This response is on behalf of EirGrid and SONI in their roles as TSOs for Ireland and Northern Ireland.

## 1.1. EirGrid and SONI View on the Consultation Topic

EirGrid and SONI, in our role as System Operators, welcome the opportunity to respond to the SEM Committee's consultation paper (SEM-23-040, 2nd June 2023) in relation to the proposed alternative drafting for Capacity Market Code modification:

- CMC\_03\_23 Amendment of Long Stop Date for T-1 Capacity Auction

EirGrid and SONI support the Regulatory Authorities' intentions in this regard and particularly recognise the need for changes in the current security of supply challenges we are facing in the coming years. We do however have significant concerns about the proposed legal drafting. Our response is guided by the following considerations:

1. Importance of creating conditions for early delivery of new capacity in Ireland and Northern Ireland for 2023/2024.
2. Importance of preserving the integrity of the Capacity Market commitment model in terms of clear delivery obligations and clear consequences of non-delivery.
3. Importance of ensuring that any proposed process can be operated adequately by the System Operators and the Regulatory Authorities including where there may be a potentially high number of applications for extension.

If the Long Stop Date for one year Awarded New Capacity remains at 1 month, there is a high risk that new capacity that could deliver in the timeframe of the 2023/2024 will not participate due to the risk of not reaching Substantial Completion by the Long Stop Date. Given the current needs of the systems in Ireland and Northern Ireland, the System Operators would support creating the conditions that would enable participation in the 2023/2024 T-1 Capacity Auction. The System Operators are not convinced that the proposed wording will achieve this as, on one hand, it does not provide certainty to risk-averse participants and on the other, it may facilitate more risky propositions on the basis that they can just seek an extension with the possible view that such extensions are likely to be granted.

We are also concerned that while the approach is perhaps intended for the 2023/2024 Capacity Year, where the RAs choose to adopt the proposed changes, it may be difficult to not have to adopt similar approaches for different Capacity Years, and different Maximum Capacity Durations. This could seriously undermine the current commitment model, which is critical for the ongoing delivery of Awarded New Capacity.

The System Operators are conscious of the importance of providing clarity in this regard to industry in advance of the 2023/2024 T-1 Capacity Auction and we are supportive of the overall RA intent here. Therefore we propose a variation on the RA approach, which is based on the original drafting, which has already been consulted on. The System Operators view that this option has already been consulted on and therefore, the RAs would be in a position to adopt this approach instead of the draft text published.

The System Operators consider that the rationale originally provided by the RAs to not adopt a market wide extension to the Long Stop Date should be revisited. The System Operators consider that the Regulatory Authorities can take into account the prevailing conditions at the point of Final Qualification Decisions and in advance of the publication of the Final Auction Information Pack and decide to amend the Long Stop Date in advance of the Capacity Auction in the best interests of the electricity customer. In this case, given the clear security of supply challenges, we believe that an extension period would not be unreasonable and we could support same. An example of such a period may be in the region of 4-6 months given the expected delivery profile of the projects that may benefit from such an extension.

The System Operators however would like to strongly emphasise that there is a pressing need for new capacity to deliver for this coming winter and the clear expectation is that units will deliver well in advance of any extended longstop dates and will use all acceleration measures available to them to do so. This approach is only intended to facilitate projects that clearly cannot deliver in 2023 but can still contribute to security of supply for a reasonable portion of the 23/24 capacity year.

### 1.1.1. APPENDIX: Response Template

#### SUMMARY INFORMATION

<b>Respondent's Name</b>	SONI & EirGrid
<b>Type of Stakeholder</b>	System Operators
<b>Contact name (for any queries)</b>	Provided
<b>Contact Email Address</b>	Provided
<b>Contact Telephone Number</b>	Provided
<b>Confidential Response</b>	No

#### CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

CMC\_03\_23 Amendment of Long Stop Date for T-1 Capacity Auction

ID	EirGrid and SONI Response
Proposed Legal Text and its Consistency with the Code Objectives	<p>The System Operators believe the modification proposal could undermine a number of the Code Objectives, as follows:</p> <p><i>A.1.2.1 (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner; and</i></p> <p><i>A.1.2.1 (g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland.</i></p> <p>On one hand, the proposed drafting does not provide the necessary certainty to the more risk averse participant as any change is subject to RAs’ approval with input from the System Operators.</p> <p>On the other hand, the option of a possible extension may facilitate higher risk projects, which are less likely to deliver on time.</p>

<p>Impacts Not Identified in the proposed Legal Text</p>	<p>Should there be evidence that there is a volume of capacity which would be encouraged to come forward to participate in optional T-1 Capacity Auctions should the Long Stop Date be extended, to four months for example, then there may be justification in reframing the Long Stop Date due to the contribution it could make in the short term.</p> <p>In particular, the System Operators are interested to understand if Awarded New Capacity from longer term auctions could be accelerated to T-1 timeframes and if the one month Long Stop Date discourages attempts to expedite.</p> <p>Parametrising the Long Stop Date (see System Operator alternative proposal below) could provide a mechanism to maintain a default one month Long Stop Date, allowing for additional weeks for a given optional T-1 auction in response to evidence-based parameter consultation submissions e.g. should innovation or learnings with respect to new technologies, development models or contractual arrangements lead to expedited delivery.</p> <p>As stated in our response to the consultation on the original CMC_03_23 proposal, the System Operators would advise against an exception-type process due to the subjectivity, uncertainty and reduced clarity it would introduce. A Long Stop Date that is fixed and applicable to all from the outset benefits all Parties, providing clarity on the commitment required when entering into the process.</p> <p>In relation to the SEM Committee’s alternative proposal, as drafted, the conditions on which a Participant may submit an application for extension of the Long Stop Date are not specific. It is likely that all units that expect to be late will apply to the Regulatory Authorities to extend the Long Stop Date. Each application would likely require significant administration, analysis and management. There would be further impacts to record the changes to Long Stop Dates for each project and to track these revised timelines individually.</p> <p>There is no guidance included in the proposal on how the RAs would arrive at a decision to accept or reject an application. Based on the current experience of the extension of Substantial Financial Completion, all decisions to accept and reject would form a body of ‘case law’, with any subsequent decision needing to be consistent with these prior decisions to avoid the risk of undue discrimination. There would be an increasing resource requirement to track these decisions over time and ensure that subsequent decisions are consistent with previous decisions where the circumstances are similar.</p> <p>It is not clear on what basis the change can be included for one year Awarded New Capacity and not for multi-year Awarded New Capacity, which is the subject of numerous modification proposals.</p>
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<p>Detailed CMC Drafting Proposed to Deliver the Modification</p>	<p>System Operators' alternative to the original proposal which has been consulted on. The System Operators consider that the below text is sufficiently close to the original proposal to enable the RAs to apply this change in their decision, without the need for further consultation.</p> <p>F.5.1.3 The Final Auction Information Pack for a Capacity Auction shall comprise:</p> <p>...</p> <p>(p) anticipated values for the parameters listed in paragraph F.16.1.1 and F.16.1.5 of the Trading and Settlement Code to be applied in determining the Strike Price in accordance with the Trading and Settlement Code for the Capacity Year;<del>and</del></p> <p>(q) the final Capacity Auction Threshold for the Capacity Auction;<del>;</del> <del>and</del></p> <p>(r) the Long Stop Date in respect of Awarded New Capacity as determined in accordance with J.2.1.1(b).</p> <p>J.2.1.1(b) Long Stop Date: the Long Stop Date in respect of Awarded New Capacity means</p> <p>(i) in the case of a Capacity Award with a capacity duration greater than one year, the last day of the eighteenth full calendar Month after the start of the first Capacity Year in which the Awarded New Capacity is to be provided; or</p> <p>(ii) in the case of a Capacity Award with a capacity duration of one year or less, the last day of the first full calendar Month after the start of the first Capacity Year in which the Awarded New Capacity is to be provided<del>;</del> or</p> <p>(iii) as otherwise approved by Regulatory Authorities prior to the publication of the Final Auction Information Pack.</p>
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