



**Single Electricity Market
(SEM)**

**Capacity Remuneration Mechanism
2027/28 T-4 Capacity Auction Parameters**

**Decision Paper
SEM-23-017**

03 March 2023

1. EXECUTIVE SUMMARY

Under the revised SEM arrangements, implemented in October 2018, capacity revenues are allocated by capacity auction for a relevant capacity year. Prior to each capacity auction, a number of capacity auction parameters must be set. The list of parameters to be determined by the Regulatory Authorities is described in paragraph D.3.1.3 of the Capacity Market Code.

This paper describes the SEM Committee's proposals for the relevant parameters to apply in the 2027/2028 T-4 Capacity Auction, scheduled to take place on September 28th, 2023.

Most of the parameters proposed are the same as those used in recent auctions, including the 2026/27 T-4 auction.

The proposed parameters for T-4 2027/28 Capacity Auction are:

Parameter	Proposed Value for 2027/2028 T-4 capacity auction
De-Rating Curves, defining De-Rating Factors by unit Initial Capacity and by Technology Class (including Interconnectors)	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Capacity Requirement	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Indicative Demand Curve	<p>The Demand Curve for the 2027/2028 T-4 auction will be set as the following:</p> <ul style="list-style-type: none">• Horizontal at the Auction Price Cap from 0 MW to 92.5% of the adjusted Capacity Requirement.• Slopes down in a straight line to 115% of the adjusted Capacity Requirement. The line passes through the point at where the volume is equal 100% of the adjusted Capacity Requirement and the price equals Net CONE¹

¹ The section in this paper on Price Caps below, includes a short explanation on the new Cost of New Entry figure, along with the SEM Committee decision as of February 2023.

Auction Price Cap	1.5 times Net CONE ² i.e., €163,757/de-rated MW / Year											
Existing Capacity Price Cap	0.5 x Net CONE i.e., €54,586 / de-rated MW /year.											
New Capacity Investment Rate Threshold	€300,000 /de-rated MW / year.											
Annual Stop Loss Limit Factor	1.5											
Billing Period Stop Loss Factor	0.5											
Indicative Annual Capacity Exchange Rate	To be determined by System Operators prior to publication of Initial Auction Information Pack.											
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	27-13 months prior to the beginning of the Capacity Year		30,000									
	From 13 months to beginning of Capacity Year		40,000									
	From beginning of Capacity Year		50,000									
Termination Charges	Date / Event		Termination Charge Rate (€/MW)									
	From Capacity Auction completion to 27 months		20,000									

² The SEM Committee have approved a Net Cone value of €107.03/de-rated kW/Year. The BNE decision paper will be published imminently.

	prior to the beginning of the Capacity Year	
	27-13 months prior to the beginning of the Capacity Year	30,000
	From 13 months to beginning of Capacity Year	40,000
	From beginning of Capacity Year	50,000
Full Administered Scarcity Price and Reserve Scarcity Price Curve	Short Term Reserve (MW)	Administered Scarcity Price (€/MWh)
	Demand Control	25% of VOLL
	0	25% of VOLL
	500	RO Strike Price
Anticipated values to be applied in determining the Strike Price	Current inputs to be re-applied.	

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3. BACKGROUND

Decisions made in this document reflect requirements set out in the Capacity Market Code (CMC), which sets out the arrangements whereby market participants can qualify for and participate in auctions for the award of capacity in the Capacity Remuneration Mechanism (CRM) in the SEM. The settlement arrangements for the CRM form part of the revised Trading and Settlement Code (TSC) (SEM-17-0243) published in April 2017³.

The introduction of the CRM involved formal notification to the European Commission (EC) of the proposed mechanism for purposes of State aid consent. This process was led by Department of Communications, Climate Action & Environment (DCCA) and Department for the Economy (DfE) who together with the Regulatory Authorities (CRU and UR) engaged with the EC in advance of the notification and during the notification process.

The Parameters as set out in this document relate to the T-4 CY2027/28 Capacity Auction. The T-4 auction for CY2027/28 is planned for September 2023. A detailed timetable for the auction is also available⁴.

On 20 January 2023, the SEM Committee issued a consultation on parameters for the 2027/28 T-4 Capacity Auction (SEM-23-006).

The purpose of this decision paper is to:

- Provide a summary of the responses received to the parameter's consultation
- Provide a SEMC summary response to responses received
- Set out the decisions and final parameters for the T-4 CY2027/28 Capacity Auction parameters.

Parameters to be determined:

- the De-Rating Curves, defining De-Rating Factors by Technology Class, (including for Interconnectors).
- the Capacity Requirement;

³ [I-SEM Trading and Settlement Code Amendments Decision Paper | SEM Committee](#)

⁴ [CAT2728T-4-2027-2028-T-4-Capacity-Auction-Timetable.pdf \(sem-o.com\)](#)

- an indicative Demand Curve;
- the Auction Price Cap;
- the Existing Capacity Price Cap;
- the €/MW rate of the New Capacity Investment Rate Threshold;
- the Annual Stop-Loss Limit Factor;
- the Billing Period Stop-Loss Limit Factor;
- the indicative Annual Capacity Payment Exchange Rate;
- the Increase Tolerance and Decrease Tolerance by Tolerance Class that may be applied by a Participant in its Application for Qualification to Capacity Market Unit de-ratings;
- in respect of Performance Securities:
 - the final Performance Security Posting Dates/ Events applicable to Awarded Capacity allocated in the Capacity Auction; and
 - for each Performance Security Posting Date/ Event, the final €/MW rate to be applied in setting Performance Securities applicable to Awarded Capacity allocated in the Capacity Auction;
- the €/MW fee rates for calculating Termination Charges;
- values for the Full Administered Scarcity Price and the Reserve Scarcity Price; and anticipated values for the parameters to be applied in determining the Strike Price

4. SUMMARY OF PROPOSALS IN THE CONSULTATION PAPER

Below is the table on the Parameters to be Determined as printed in the Consultation Paper:

Parameter	Proposed Values for 2027/28 T-4 capacity auction
De-Rating Curves, defining De-Rating Factors by unit Initial Capacity and by Technology Class (including for Interconnectors)	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Capacity Requirement	To be determined by System Operators prior to publication of Initial Auction Information Pack.
Indicative Demand Curve	

	<p>The Demand Curve for the 2027/2028 T-4 auction will be set as the following:</p> <ul style="list-style-type: none"> • Horizontal at the Auction Price Cap from 0 MW to 92.5% of the adjusted Capacity Requirement. • Slopes down in a straight line to 115% of the adjusted Capacity Requirement. The line passes through the point at where the volume is equal 100% of the adjusted Capacity Requirement and the price equals Net CONE 									
Auction Price Cap	1.5 times Net CONE i.e., €146,920 / de-rated MW / year. This value may be subject to change following the outcome of the ongoing BNE study									
Existing Capacity Price Cap	0.5 x current Net CONE i.e., €46,150 / de-rated MW /year. As above. This value is fixed irrespective of the outcome of the current BNE study.									
New Capacity Investment Rate Threshold	€300,000 /de-rated MW / year.									
Annual Stop Loss Limit Factor	1.5									
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Full Administered Scarcity Price and Reserve Scarcity Price Curve	Short Term Reserve (MW)	Administered Scarcity Price (€/MWh)
	Demand Control	25% of VOLL
	0	25% of VOLL
	500	RO Strike Price

Anticipated values to be applied in determining the Strike Price	Current inputs set out within the IAIP to be applied.

5. SUMMARY OF RESPONSES

Eight responses were received in total from the following:

1. SSE
2. Energia
3. Bord na Mona
4. Energy Storage Ireland (ESI)
5. EPUKI
6. Electricity Association Ireland (EAI)
7. Bord Gais Energy
8. ESB GT

BNE NET CONE Consultation

SSE Thermal note that the price caps for the T-4 2027/28 auction appear to have been set based on previous BNE modelling from 2018. Both price caps have been proposed for consultation yet the outcome of the BNE study remains unknown, which could have a significant impact on the price cap parameters.

EPUKI advise that the SEMC provide urgent and transparent communication with industry in relation to the BNE Net CONE assessment. The qualification window for the 2027/2028 Capacity Auction will open in April 2023.

Demand Curve

SSE Thermal would appreciate better transparency in the derivation of the demand curve. They also seek greater clarity as to the demand curve methodology giving insight into how it will evolve over time.

ESB GT note that it is fundamental for participants to understand what RA adjustment values are and how they are determined.

Auction Price Cap (APC)

SSE Thermal refer to the recent update to APC in the T-4 2026/27 auction. This sets an expectation of an uplift on the APC however there is an absence to appropriately value the contribution of existing units price caps.

ESI note that in the consultation document for the T-4 2027/2028 Capacity Auction Parameters, the Auction Price Cap is still proposed as €146,920 / de-rated MW / year. They go on to state that in order to incentivise low carbon capacity such as storage, it is important that there is no reduction in the price cap from the 2026/27 T-4 auction to the 2027/28 T-4 auction.

Bord na Mona are of the view that the current level of the APC it is not financially viable to develop a modern CCGT. While the decision on the BNE and Cost of New Entrant (CONE) is important they believe the RAs should also perhaps consider changes to the multiplier applied to the CONE in determining the APC.

Bord na Mona note an approach where a specific multiplier is applied to CCGTs to ensure their delivery while maintaining control on the overall costs of the CRM. A multiplier of greater than 1.5 may also be necessary, to facilitate the deployment of technologies necessary to deliver a low or zero carbon electricity system.

EAI note that, it is critical that APC value is set to a level which reflects the investor case for technologies which are required in securing the pathway to zero carbon, as and when they are required.

Bord Gais Energy note that applying any increase to the multiplier factors for the auction's caps (both APC and ECPC) commensurately, not to undermine the role that existing, efficient units will have in the decarbonisation transition and security of supply.

ESB GT believe that given the capacity scarcity in the market, evidenced by the RAs interventions using LCCAs and other mechanisms, that the Auction Price Cap multiple is now no longer justified to remain at 1.5 x Net CONE.

Existing Capacity Price Cap (ECPC)

SSE Thermal note the recent increase to the APC, therefore the symmetrical adjustment to ECPC must be matched to ensure the correct price signals. Any consideration of an increase would need to reach levels much higher than previously considered given the current level has still been insufficient for delivery and clearing prices for existing and new have not reflected the current price cap levels.

Energia note that the current ECPC does not provide sufficient headroom to allow generators to cover their Net Going Forward Costs (NGFC), substantially increasing the risk of unplanned exits.

Energia are of the view that in addition to being insufficient to cover net going forward operational costs, there is an erroneous belief among the RAs that the ECPC (or USPC) does not need to allow for recovery of past investments or “sunk costs”.

Energia note that rather than acknowledge the outlook for thermal generators and increase the bid caps to allow for greater cost recovery in the capacity market, the SEMC is proposing to hold specifically ECPC flat based on an outdated calculation of Net CONE.

Bord na Mona note the decision that the Existing Capacity Price Cap (ECPC) will not be changed versus a previous auction, irrespective of the BNE review. While this is a deviation from the current approach where the ECPC is set at 50% of Net CONE they can understand the RA's desire to contain the overall cost of the CRM while still being able to provide the required financial signals to new capacity.

A number of participants raised concerns that the Existing Capacity Price Cap (ECPC) will remain unchanged regardless of the outcome of the BNE Net CONE review. EPUKI believe this direction will have detrimental impacts on Security of Supply if it is no longer economically feasible for existing, older plant to remain in the market.

Further to this, many respondents felt that if the SEMC do not intend to increase the ECPC, then EPUKI would request a commitment from the RAs to allow existing units to fully recover their costs through the Unit Specific Price Cap (USPC) process.

There were a number of responses that centered on the perceived de-coupling of ECPC and APC to Net CONE, with only the latter being tied to it. Many felt that the SEMC must give clarity that both Price Caps will be dependent on Net CONE moving forward.

A small number of participants indicated that a review of the USPC process would be helpful to address the existing capacity "Missing Money" problem, and that at present the USPC process does not allow for the full recovery of costs in the Capacity Market.

Administered Scarcity Price (ASP)

SSE Thermal note the call for feedback from participants on whether any changes could be made to the parameters of the ASP function to encourage availability at times when system margins are tight. SSE Thermal note that at times of system stress, units face Reliability Option Difference Charges which do not represent trivial penalties on a unit.

SSE Thermal note the workstream within SEMC and CRU forward workplan to review the ASP and expect a dedicated consultation. SSE Thermal also reference an awaited decision on the applicability of RO payments on in-merit generators which is likely to have an impact on ASP.

In their view, EPUKI feel that given that the current ASP value does not reflect the actual value of scarcity in the market. They would like to see ASP set at 100% of VOLL.

Bord Gais Energy do not agree with looking at adjustments to parameters of the Administered Scarcity Price (ASP) function to encourage availability when system margins are tight.

Bord Gais Energy support the proposal to set the starting point of the piece-wise linear function of the Administered Scarcity Price (ASP) to the RO Strike Price as it delivers on the decision by the SEM Committee in the second CRM Detailed Design Decision Paper.

Performance Security and Termination Charges

SSE Thermal note the increase in charges within the T-4 2027/28 auction and can appreciate the intention, however there is an absence of justification for the increase from previous auctions with no indication that the first increase of charges have not had the desired effect. SSE Thermal are of the view that indiscriminately increasing charges

potentially hinders participation and new investment at a time where there is a capacity shortfall partly contributed to by terminated previous capacity.

Bord na Mona are not convinced that the increase in performance bonds relative to the T-4 2026/27 auction is sufficiently justified. Participants entering projects into the capacity auction, especially larger projects, already make a substantial financial commitment that is sufficient to deter speculative bids.

Bord Gais Energy believe the increased Performance Security Posting and Termination Charge levels should operate in conjunction with a separate review by the Regulatory Authorities.

ESB GT agrees that the performance and termination securities need to be set at an appropriate level that will provide an incentive to deliver awarded new capacity.

Locational Capacity Constraints Adjustments (LCCAs)

EPUKI note the implementation of modification CMC_08_22, where this modification allows the TSO to define LCCAs with a maximum Capacity volume in a given location. As this is the first year that this measure has been in place, EPUKI request clarity on how multi-year contracts will be treated as opposed to single-year contracts.

Bord Gais Energy asks that the unconstrained run of the CRM auction is not impacted by the on-going changes from the additional Local Capacity Constraint Areas (LCCAs) in the Greater Dublin area, and that the all-island capacity requirement volume equals the sum of the LCCA areas' volume, providing predictability and transparency to participants to aid investment decisions by developers.

ESB GT acknowledge the importance of solving locational constraints in the SEM and also question the effectiveness of the LCCA approach. They note the inclusion of LCCAs in the CRM should not negatively impact on capacity providers that have cleared in the unconstrained auction.

New Capacity Investment Rate Threshold (NCIRT)

Energia and ESB are of the view that the current rate of NCIRT is set too high and is contrary to its stated purpose. In particular, Energia wish to see existing generators who invest significantly in the refurbishment and maintenance of their plants be allowed to qualify for multi-year contracts at a higher price than ECPC so that they can be sure of recovering their investment.

Capacity Requirement

Bord na Mona note the change in methodology used for calculating the capacity requirement. At a time when capacity adequacy is deteriorating in Ireland a robust capacity requirement can be set in the knowledge that it will be required later in the decade. Bord na Mona hope that the change to a net-demand modelling approach will help ensure that sufficient capacity is procured in the future.

ESB GT request that the RAs provide greater transparency and evidence for any changes to the capacity requirements, as this would assist market participants in identifying future capacity requirements. Due to considerable fluctuation in capacity requirement values without any justification sends a confusing signal to the market and is generally unhelpful to developers seeking to plan projects.

Stop Loss Limits

EPUKI request that the current Stop Loss Limits are reduced from 1.5 times the annual option fee to 1.0. EPUKI are of the view that the growing proportion of intermittent renewable generation on Ireland's power system has substantially increased the risk that thermal units will be forced offline.

Indexation

Bord Gais Energy maintains that indexation for inflation needs to be applied appropriately to the demand curve parameters and ask the RAs to apply inflation uniformly to the demand curve by adjusting Net CONE for inflation instead of the proposed indexation adjustment of only the Auction Price Cap (APC).

Annual Run Hour Limit (ARHL) De-Rating Factors (ARHLdf)

Bord Gais Energy seeks clarity on the application of Annual Run Hour Limits (ARHL) to New Capacity for the CY2027/28 T-4 Auction and that this auction will have the same application of the ARHLdf only to new gas turbines and new steam turbine units as the CY2026/27 T-4 auction.

5. SEM COMMITTEE RESPONSE

BNE NET CONE Consultation

The SEM Committee acknowledge the points made by a number of participants regarding the pending outcome of the BNE consultation. We recognize the material impacts any outcomes will have on the calculation of the Auction Price Cap and Existing Capacity Price Cap.

For the avoidance of any doubt, the SEM Committee will be utilising the newly published value for the Best New Entrant value of €107.03/MW⁵. Conscious of the study by CEPA/Ramboll on the Best New Entrant value, along with the underlying cost base which was as of 2022/23 it is important to note that there was a 2% applied to these cost base items to inflate into 2026/27 values.

The SEM Committee has decided to inflate the CoNE figure by a further 2% to account for the Capacity Year 2027/28. This increases the 2027/28 Net CoNE figure to €109,171/MWd/Yr. Given this information:

The two price caps to be used in the T-4 2027/28 Capacity Auction are:

1. Existing Capacity Price Cap (ECPC) of $0.5 \times \text{Net CoNE} = €54,586/\text{MWd/year}$
2. Auction Price Cap (APC) of $1.5 \times \text{Net CoNE} = €163,757/\text{MWd/year}$

⁵ The SEM Committee have approved a Net Cone value of €107.03/de-rated kW/Year. The BNE decision paper will be published imminently..

These values are to apply to this auction only, and subsequent auctions may contain different values for the Price Caps, which, for the avoidance of doubt may increase or decrease.

Demand Curve

The SEM Committee notes the views put forward regarding the formulation of the Demand Curve and transparency. The SEM Committee will take these views into consideration into future publications of the inputs and formulation of the Demand Curve.

Administered Scarcity Price (ASP)

The SEM committee welcome the points raised regarding the ASP, and as there is a planned consultation on the ASP function, and as such will for this auction at least, continue to be set at 25% of VOLL. Note that VoLL is a Trading and Settlement Code Parameter, and an anticipated value. Therefore, this paper does not make any determination on the value of ASP due to the planned consultation.

Performance Security / Termination Charges

The SEM committee welcome the points raised regarding the performance security and termination charges to be posted. In the 2026/27 Parameters consultation paper, the SEM Committee had proposed to increase the required Securities and Bonds, however within the decision paper decided, and felt it appropriate at that time to remain at the current levels set within prior capacity auctions. However, within the 2027/28 capacity auction, the SEM Committee, following comments observed within EYs review of the SEM CRM⁶, feel it is now appropriate to raise the Securities and Bonds within an Auction. While EY set out a number of advantages and disadvantages to increasing the levels, the SEM Committee have taken both on board, but are of the view that the increase is justified to incentivise delivery of projects and meet their major milestones. While the SEM Committee acknowledge the additional financial requirements, we must ensure that developers are appropriately incentivised for delivery of capacity.

⁶ [SEM-22-054A Performance of the SEM CRM.pdf \(semcommittee.com\)](#)

Locational Capacity Constraints Adjustments (LCCAs)

The SEM committee acknowledges the comments on LCCs and note the SEM Committee decision on modification 08_22⁷ published in September 2022. The Net Maximum Quantity (NMQ) within an LCCA will be satisfied by the sum of single year contracts applicable PQ pairs that have cleared first, then further with the exempt PQ Pairs until the NMQ has been reached and not exceeded.

New Capacity Investment Rate Threshold (NCIRT)

The NCIRT is a €/MW or £/MW amount determined that must be exceeded the cost per MW of constructing New Capacity for that capacity to be eligible to be allocated Awarded Capacity with a duration of more than one year. For this auction the SEM Committee have decided the NCIRT will be set at €300,000/MWd/year as per the consultation.

Capacity Requirement

The SEM committee welcome the points raised regarding Capacity Requirement and note that the Requirement for this auction will be as a result of the ISAC2 methodology, as set out in SEM-22-075.

Calculation of Strike Price

The SEM committee acknowledges the points made by EPUKI regarding the updating of the strike price parameters, however for the T-4 2027/28 Capacity Auction the SEM Committee do not intend to change any inputs to the Strike Price at this time.

Indexation

The SEM committee welcome the points raised regarding Indexation. The Committee will not be commenting on any aspects of Capacity Payment inflation in this decision paper and ask that Participants consider instead the consultation on indexation that is currently live and can be found on the SEM Committee website (noting the latest call for evidence which closes on March 10th⁸).

⁷ [WP-05: Institutional Arrangements \(sem-o.com\)](#)

⁸ See [SEM-23-014 Consultation and Call for further Evidence on Indexation of Capacity Payments | SEM Committee](#)

Annual Run Hour Limit (ARHL) De-Rating Factors (ARHLdf)

Annual Run Hour Limit de-rating factors are determined by the TSOs within the Initial Information Auction Pack for the T-4 CY 2027/28.

6. SEM COMMITTEE DECISION – CY 2027/28 CRM PARAMETERS

The table below summarises the decisions taken by the SEM Committee in light of the responses above. The following parameters will apply for the 2027/28 T-4 Capacity Auction.

Parameter	Values for 2027/28 T-4 capacity auction
De-Rating Curves, defining De-Rating Factors by unit Initial Capacity and by Technology Class (including for Interconnectors)	To be determined by System Operators prior to publication of Initial Auction Information Pack.
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New Capacity Investment Rate Threshold	€300,000 /de-rated MW / year
Annual Stop Loss Limit Factor	1.5
Billing Period Stop Loss Factor	0.5

Indicative Annual Capacity Exchange Rate	To be determined by System Operators prior to publication of Initial Auction Information Pack.											
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Termination Charges	<table border="1"> <thead> <tr> <th data-bbox="663 1270 1034 1355">Date / Event</th> <th data-bbox="1038 1270 1423 1355">Termination Charge Rate (€/MW)</th> </tr> </thead> <tbody> <tr> <td data-bbox="663 1361 1034 1538">From Capacity Auction completion to 27 months prior to the beginning of the Capacity Year</td> <td data-bbox="1038 1361 1423 1538">20,000</td> </tr> <tr> <td data-bbox="663 1545 1034 1677">27-13 months prior to the beginning of the Capacity Year</td> <td data-bbox="1038 1545 1423 1677">30,000</td> </tr> <tr> <td data-bbox="663 1684 1034 1780">From 13 months to beginning of Capacity Year</td> <td data-bbox="1038 1684 1423 1780">40,000</td> </tr> <tr> <td data-bbox="663 1787 1034 1883">From beginning of Capacity Year</td> <td data-bbox="1038 1787 1423 1883">50,000</td> </tr> </tbody> </table>		Date / Event	Termination Charge Rate (€/MW)	From Capacity Auction completion to 27 months prior to the beginning of the Capacity Year	20,000	27-13 months prior to the beginning of the Capacity Year	30,000	From 13 months to beginning of Capacity Year	40,000	From beginning of Capacity Year	50,000
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Full Administered Scarcity Price and Reserve Scarcity Price Curve	Short Term Reserve (MW)	Administered Scarcity Price (€/MWh)
	Demand Control	25% of VOLL
	0	25% of VOLL
	500	RO Strike Price
Anticipated values to be applied in determining the Strike Price	Current values to be re-applied.	