



## **Information Note on indexation of the Auction Price Cap for the T-3 2024/25 and the T-4 2025/26 Capacity Market Auctions**

**22 December 2021**

**SEM-21-110**

In SEM-21-058 (“*Capacity Remuneration Mechanism 2024/25 T-3 Capacity Auction Parameters Decision*”) and SEM-21-079 (“*2025/26 T-4 Capacity Auction Parameters & Annual Run Hour Limited Plants*”), the SEM Committee noted the proposals to apply indexation to the Net Cost of New Entry (Net CONE) in a number of consultation responses, in order to adjust upwards the price caps applied in the forthcoming Auctions. At that time, the SEM Committee did not consider that there are compelling reasons to apply indexation to the Net CONE given the Unit-Specific Price Cap (USPC) process allows existing units to bid above the Existing Capacity Price Cap (ECPC) if the existing cap is demonstrably too low to recover existing units’ net going forward costs. More broadly at that point in time, the RAs were still considering the compliance of the current Net CONE with ACER’s recent decision, and, on balance, decided against adjusting the Net CONE.

More recently, the SEM Committee has observed the significant increase in economic activity following more stringent COVID lockdowns, and also the recent high levels of inflation seen more broadly, as costs associated with supply chain-disruptions and increased demand feed through to inflation. In this context, the SEM Committee has noted the following publications from both the Bank of England<sup>1</sup> and the Central Bank of Ireland<sup>2</sup>. The SEM Committee also notes the decision taken by the Bank of England in relation to interest rates in the last week<sup>3</sup> in response to concerns relating to inflation.

In light of this, as we move further from delivery of capacity for 2022, the target year of the existing Net CONE calculation, the risk that the current BNE underestimates existing investment costs and the investment climate risks for new investments in particular, may be seen as increasing.

In relation to the forthcoming T-3 2024/25 and T-4 2025/26 auctions, in order to respond to these unprecedented circumstances, the SEM Committee has decided to inflate the Auction Price Cap by 2% per annum, reflective of standard target level of inflation, from a 2022 value to a 2025 value. This leads to a 6.12% increase in the Auction Price Cap for the forthcoming T-3 and T-4 auctions from €138.45/kW derated/year to €146.92/kW derated/year or £130.79/kW derated/year.

---

<sup>1</sup> Bank of England, 4 November 2021. Monetary Policy Report available [here](#).

<sup>2</sup> Central Bank of Ireland, 1 November 2021. *Economic Letter: An Overview of Inflation Developments* available [here](#).

<sup>3</sup> Bank of England, 16 December 2021. *Monetary Policy Summary* available [here](#).

The SEM Committee considers it is not necessary at this point to increase the ECPC, as the processes to allow the submission of Unit-Specific Price Caps has been completed for both auctions. This is the appropriate route for generators to reflect their net going forward costs in excess of the ECPC.

The SEM Committee, following engagement with the TSOs, has agreed that these updated values will be reflected in the Final Auction Information Packs for the forthcoming T-3 2024/25 and T-4 2025/26 Auctions. In addition to this, the SEM Committee will ensure that competitive pressures are maximised in relation to the data published by TSOs as part of this process.

The SEM Committee considers it important to stress that this should not be considered as precedent-setting with regard to indexation policy, and further, that this decision is triggered by the unprecedented circumstances seen with regard to inflation in the relevant jurisdictions.