

Capacity Remuneration Mechanism Indexation of Capacity Payments for 2024/2025 T-3 Capacity Auction

Approved Capacity Payment Price
Indexation Factor.

10th February 2025



1. Summary

In its Detailed Response Paper [SEM-23-045](#), the SEM Committee set out the method for calculation of indexation rates for Capacity Payments. As per M.14.5 of the Capacity Market Code, the System Operators shall determine, and submit to the Regulatory Authorities for approval, the Capacity Payment Price Indexation Factor.

Following its submission to the Regulatory Authorities, this paper contains the approved Capacity Payment Price Indexation Factor.

2. Calculation

As set out in SEM-23-038 Indexation of Capacity Payments Decision Paper, the form of indexation to be applied is as follows:

- Indexation will only be applied based on the calculated change in the indices during the Build Period;
- The Build Period is defined as the period starting on the relevant auction date (i.e., 20 January 2022 for the 2024/25 T-3 and 24 March 2022 for the 2025/26 T-4), and finishing on the last day of the Capacity Year prior to the year in which projects are due to deliver (i.e., 30 September 2024 or 30 September 2025 respectively). As per M.14.4, a Participant can elect to limit its Build Period up to the date of SFC completion. One Participant elected to do so and, as such, has limited its Build period to January 2024;
- Indexation will be applied on a currency zone basis. The relevant indices are:
 - Ireland: The Central Statistics Office's (CSO) Wholesale Price Index
 - for Building and Construction (materials)¹;
 - Northern Ireland: the UK Office for National Statistics' Construction
 - Output Price Index (OPI) for New Work (Infrastructure)²;
- Explicit risk-sharing mechanism: There will be an explicit risk-sharing percentage, which will result in 70% of Unexpected Inflation being passed through to the capacity price;

¹ See link [here](#) and data in Appendix 2 of SEM-23-038

² See link [here](#) and data in Appendix 2 of SEM-23-038

- “Unexpected Inflation” means variances in the relevant indices from an assumed expected level of 2% annual growth during the Build Period;

2.1. Calculation: Republic of Ireland

The below calculations are done in accordance with M.14.3 of the Capacity Market Code. The Capacity Payment Indexation Start Date is January 2022 and the Capacity Payment Indexation End Date is September 2024.

As per the Central Statistics Office, the Wholesale Price Index (Excl VAT) for Building and Construction Materials for January 2022 is 124.4. The Wholesale Price Index (Excl VAT) for Building and Construction Materials for September 2024 is 144.8.

Compound total inflation in Ireland is therefore $144.8/124.4 - 1 = 16.40\%$.

Expected annual inflation in both jurisdictions is considered to be 2%, so in the 2.666666 years between January 2022 and September 2024, compound expected inflation is $(1 + 2\%)^{2.666666} - 1 = 5.42\%$.

The appropriate percentage to index to represent Unexpected Inflation = $(1 + \text{compound total inflation}) / (1 + \text{compound expected inflation}) - 1$.

So the indexation percentage applicable, before the application of risk-sharing, in Ireland is $(1 + 16.40\%) / (1 + 5.42\%) - 1 = 10.41\%$.

With the application of 70% risk-sharing, the final Indexation Factor in Ireland is 7.29%.

2.2. Calculation: Northern Ireland

The below calculations are done in accordance with M.14.3 of the Capacity Market Code. The Capacity Payment Indexation Start Date is January 2022 and the Capacity Payment Indexation End Date is September 2024.

As per the UK Office of National Statistics, the Construction Output Price Index (OPI) for New Work (Infrastructure) for January 2022 is 119.7. The Construction Output Price Index (OPI) for New Work (Infrastructure) for September 2022 is 140.4.

Compound total inflation in Northern Ireland is therefore $140.4/119.7 - 1 = 17.29\%$.

Expected annual inflation in both jurisdictions is considered to be 2%, so in the 2.666666 years between January 2022 and September 2024, compound expected inflation is $(1 + 2\%)^{2.666666} - 1 = 5.42\%$.

The appropriate percentage to index to represent Unexpected Inflation = $(1 + \text{compound total inflation}) / (1 + \text{compound expected inflation}) - 1$.

So the indexation percentage applicable, before the application of risk-sharing, in Northern Ireland is $(1 + 17.29\%) / (1 + 5.42\%) - 1 = 11.26\%$.

With the application of 70% risk-sharing, the final Indexation Factor in Ireland is 7.88%.

3. Summary

The Capacity Payment Price Indexation Factor to be applied in the Republic of Ireland is 7.29% whilst the Capacity Payment Price Indexation Factor to be applied in Northern Ireland is 7.88%.

Concerning the Participant which elected to shorten its Build Period to its SFC date, the Capacity Payment Price Indexation Factor to be applied is 7.23%.