

MODIFICATION PROPOSAL FORM			
Proposer <i>(Company)</i>	Date of receipt <i>(assigned by System Operator)</i>	Type of Proposal <i>(delete as appropriate)</i>	Modification Proposal ID <i>(assigned by System Operator)</i>
Bord na Móna	18th February 2022	Urgent	CMC_01_22
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Elaine Gallagher		Elaine.gallagher@bordnamona.com	
Modification Proposal Title			
Interdependent Combined Units			
Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of CMC used in Drafting	
CMC	E.7.6	5	
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>Section E.7.6 of the Capacity Market Code (CMC) prevents Candidate Units combining into a single Capacity Market Unit unless each unit is below the De Minimis Threshold or is Variable. As the De Minimis Threshold in the SEM is 10MW, then though aggregation can take place below that level, Section E.7.6 has an overly restrictive impact in that this low level prevents integrated Capacity Market Units, that is units with shared infrastructure from recovering costs other than in a manner which prejudices the consumer.</p> <p>This Modification Proposal does not alter the De Minimis Threshold itself which is a definition enshrined in the SEM and impacts the Balancing Market but rather resolves this issue by preventing the De Minimis Threshold from acting as a cap in Section E.7.6 and instead facilitating the combination of interdependent Candidate Units in the Capacity Market up to a higher combined MW threshold value. The level chosen would mitigate adverse competitive impacts in an auction. Additionally, the requirement for allowing the combination of units is limited to those units with shared infrastructure, namely a common grid connection point.</p> <p>The Modification Proposal allows for the functioning of an Eligible Interdependent Combined Candidate Unit, an option which would allow two or more Candidate Units that share common infrastructure – in the form of a common grid connection point - to be combined into one Capacity Market Unit, and thereby qualify together. Treating such Capacity Market Units as a combined unit or as one unit, would reduce the financial risk which would likely otherwise prevent participation (impact future development) of any and all such units in the Capacity Market auction.</p> <p>If each generator unit must bid separately, then the Participant is subject to significant price risk if economies of scale were to be reflected in their bids i.e. with lower bids (which reflect only the unit share of the infrastructure cost), as they cannot then guarantee that all ‘units’ will clear the capacity auction. Participants would therefore be strongly incentivised not to pass through the benefits of economies of scale, associated with common infrastructure/operation, in their higher, and less market efficient, Capacity Auction bids, which will result in less competition and higher costs to the consumer.</p> <p>The Modification Proposal is aimed at rectifying the current situation which could lead to under recovery of investment costs for shared interdependent infrastructure where units cannot be combined and therefore each unit is separately exposed to the risk of failure to clear at auction.</p>			

Currently, if only one Capacity Market Unit was to be successful in a Capacity Market auction, where such a unit is interdependent on another unit, and where the offer price is based on one unit's proportionate share of costs, then that successful Capacity Market Unit would not recover the total new infrastructure investment costs. This could prevent the interdependent combined units from competing at auction, thereby foregoing secure capacity volumes to the detriment of the capacity market and to the consumer.

The proposer submits this Modification Proposal as an Urgent Modification Proposal on the basis that pursuant to the provisions of B.12.9.3(a) "*the matter raised in the Modification Proposal is required before the next Capacity Auction or Secondary Trade Auction and could not in the absence of the pursuance of this Modification Proposal be otherwise dealt with in time for the next such auction.*" Accordingly, we would like to submit this as an Urgent Modification Proposal.

Legal Drafting Change

(Clearly show proposed code change using **tracked** changes, if proposer fails to identify changes, please indicate best estimate of potential changes)

Glossary

An Eligible Interdependent Combined Unit means a combination of one or more Capacity Market Units or Candidate Units which share infrastructure in the form of a shared grid connection point, which units are above De Minimis and are located on the same site, but where the combined capacity of interdependent units does not exceed 150MW.

150 MW was chosen as the cap for the participation of interdependent units in a combined basis as it is sufficiently large to permit cost recovery and to facilitate enhanced capacity market participation, without exposing the market to lumpiness or potential adverse auction results.

E.7.6 Requirements for Combining Candidate Units into a Capacity Market Unit

E.7.6.1 Subject to paragraph E.7.6.3, the System Operators shall reject an Application for Qualification for a Capacity Year for a proposed Capacity Market Unit comprising a combination of individual Candidate Units unless:

- i) each of the Candidate Units is either:
 - (i) a unit with a Registered Capacity (or in the case of a Demand Side Unit, a DSU MW Capacity), whether based on Existing Capacity or a combined Existing and New Capacity, below the De Minimis Threshold; or
 - (ii) a Variable Generator Unit; or
 - iii) **An Eligible Interdependent Combined Unit**

Modification Proposal Justification

(Clearly state the reason for the Modification)

The aim of this Modification Proposal is (i) to develop the concept of and facilitate the functioning of Interdependent Combined units on the same site – to form an ‘Eligible Interdependent Combined Unit’ (ii) where new infrastructure in the form of a common/shared grid connection point is shared between the units and therefore allowing cost recovery and (iii) protecting consumer welfare by ensuring that economies of scale drive more competitive auctions. To avoid market inefficiency and potential market power considerations, the proposal applies up to a limited combined scale of just 150MW¹.

The Modification Proposal allows for the functioning of an Eligible Interdependent Combined Candidate Unit, a construct which would allow two or more Candidate Units that share common infrastructure in the form of a common/shared grid connection point to be combined into one Capacity Market Unit, subject to a MW volume cap, and thereby qualify together. Treating such Capacity Market Units as a combined unit or as one unit, would reduce the financial risk which would likely otherwise prevent participation of any and all such units in the Capacity Market auction.

If each generator unit must be bid separately, then the developer is subject to significant price risk if economies of scale, associated with common infrastructure, were to be reflected in their bids i.e. with lower bids (reflective of only the unit share of total costs), as they cannot then guarantee that all ‘units’ will clear the capacity auction. Developers would therefore be strongly incentivised not to pass through the benefits of economies of scale, associated with common infrastructure, in their higher, and less market efficient Capacity Auction bids, which will result in less competition and higher costs to the consumer.

The Modification Proposal is aimed at rectifying the current situation which could lead to under recovery of investment costs for shared interdependent infrastructure where a common/shared grid connection point exists, where units cannot be combined and therefore each unit is separately exposed to the risk of failure to clear at auction.

The benefit to the System Operators would be to ensure the participation of New and Existing Capacity Market Units which seek to be engaged in the provision of electricity capacity in a financially secure manner in the Capacity Market, thereby increasing system security, while providing increased consumer welfare both in terms of secure supply as well as delivering value to the consumer.

Although this issue has been previously considered by the Regulatory Authorities in 2018 and in 2019, revisiting of this issue is warranted given the continued security of supply issues on the island of Ireland evidenced in the System Operator’s Winter Outlook estimating a margin of 929 MW in 2020 and which has now subsequently decreased to a margin of 182MW in the System Operators’ Winter Outlook in 2021.

A useful comparison of medium-term forecasts of future demand is to compare the Generation Adequacy reports released in 2018 and 2021.

According to EirGrid Group’s All-Island Generation Capacity Statement 2021 – 2030, the growth in energy demand high scenario for calendar year 2027 is 5% greater than for the same year using EirGrid Group’s All-Island Generation Capacity Statement 2018 – 2027. This incremental growth for 2027 is underpinned by a combined, All-Island basis, projected growth in energy demand from 2021 through to 2030 by up to 43%.

¹ This Proposal highlights the scale of the 150MW upper threshold, relative to the average over most recent last three Capacity Auctions, (T-1 CY2022_23, T-4 CY24_25, T-3 CY24_25), of the largest and smallest Locational Constraint Area Volumes. It represents 2.4% of the Largest Locational Constraint area Volumes and 7.5% of the smallest area volumes.

The change in system margin in the intervening period means that without maximising participation of generators including those units which are interdependent on each other, there is a real threat to consumer welfare for reasons of security of supply. Rather, the Modification Proposal is more likely to result in increased security of supply and therefore a reduced risk of scarcity pricing. This Modification will also ensure more cost-efficient capacity auction outcomes.

In addition, this Modification Proposal merits further consideration as it applies in particular to both Existing as well as New Capacity. This important distinction means that New and Existing Capacity participants would be treated equally

Code Objectives Furthered

(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)

- (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;
- (c) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;
- (d) to promote competition in the provision of electricity capacity to the SEM;
- (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.

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)

Failure to implement this proposal will prevent the participation at auction of interdependent Capacity Market Units combined Units, which fall within the proposed definition of **An Eligible Interdependent Combined Unit**, which seek to be engaged in the provision of electricity capacity in a financially secure manner in the Capacity Market, as is the intention of code objectives A.1.2.1(b) and (c).

Failure to implement this proposal would be to reduce the security of supply of electricity across the Island of Ireland over the foreseeable future (contra to intention of code objective A.1.2.1 (g))

Failure to implement this proposal would also deny the System Operators the opportunity to secure much needed locked-in capacity volumes to hold over the multi-year term of the Exception (contra to intention of code objective A.1.2.1 (g)).

Failure to implement this proposal would result in a less competitive market and reduced consumer welfare owing to higher prices, together with potential security/shortage of supply (contra to intention of code objective A.1.2.1 (d) and (g)).

Impacts

(Indicate the impacts on systems, resources, processes and/or procedures)

There will be some changes to the Capacity Market Qualification processes to facilitate the resolution of this issue which will facilitate the attainment of Code Objectives. This Urgent Modification Proposal would facilitate increased participation of Qualified capacity in the associated auction.

The Modification Proposal would afford the Capacity Market the opportunity to secure locked-in capacity volumes to hold over the multi-year term of the Exception.

This Modification Proposal would facilitate the participation of interdependent units, ie, having a shared grid connection point, with a combined volume not exceeding 150MW in the capacity market auctions where they might otherwise simply not participate. This would ensure competitive capacity market auctions supporting consumer welfare as well as ensuring the delivery of security of supply for the SEM.

The proposed Modification has no known impact on systems.

Please return this form to the System Operators by email to CapacityModifications@sem-o.com

Notes on completing Modification Proposal Form:

1. If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.
2. Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Regulatory Authorities.
3. Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.
4. For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:

CMC / Code:	means the Capacity Market Code for the Single Electricity Market
Modification Proposal:	means the proposal to modify the Code as set out in the attached form
Derivative Work:	means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal

The terms "System Operators" and "Regulatory Authorities" shall have the meanings assigned to those terms in the Code.

In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section B.12 of the Code, which I have read and understand, I agree as follows:

1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:
 - 1.1 to the System Operators and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;
 - 1.2 to the Regulatory Authorities to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;
 - 1.3 to the System Operators and the Regulatory Authorities to incorporate the Modification Proposal into the Code;
 - 1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.
2. The licences set out in clause 1 shall equally apply to any Derivative Works.
3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.
4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.

5. I hereby acknowledge that the Modification Proposal may be rejected by the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.