



# CMC Mod CMC\_10\_24

## Intermediate Length Contracts

10 July 2024

# Introduction

- SEM Committee published policy decision SEM-24-035 on 2 May 2024, allowing investors investing  $> \text{€}100,000/\text{MW}_d$  to bid for an Intermediate Length Contract of up to 5 years.
- Will apply for T-4 2028/29 auction, and subsequent auctions.
- SEM-24-035 noted that:
  - Investors seeking to bid for an ILC in the 2028/29 T-4 auction must submit an ILC Exception Application by 4 June 2024.
  - While changes to the Capacity Market Code would not be in place by 4 June, the SEM Committee intends to bring forward a CMC Modification Proposal to implement the ILC decision.
- On 4 July 2024, TSOs published URGENT Mod CMC\_10\_24, proposed by RAs to implement key decisions set out SEM-24-035. One change required to wording published on 4 July.
- This mod has been developed following consultation with TSOs.

# Timetable

- SEM-24-035 (ILC Decision paper) published: 2 May 2024
- Qualification and Exception Application deadline for T-4 2028/29: 4 June 2024
- Urgent Mod CMC\_10\_24 submitted: 4 July 2024
- Today's workshop: 10 July 2024
- Consultation opens: 22 July 2024
- Consultation closes: 12 August 2024
- Target date for decision: 11 September 2024
- ILC Exception Application decisions published: 7 Nov 2024
- T-4 2028/29 Auction date: 28 Nov 2024

# Reminder of key policy decisions (1 of 2)

- Existing and New Capacity eligible for a fixed price contract of up to five years, where they demonstrate:
  - To the SEM Committee's satisfaction: that the unit will be investing more than €100,000/MW<sub>d</sub> and that this investment will be efficiently incurred and delivers relevant benefits to consumers.
  - To the TSOs' satisfaction: that post-investment, it will emit no more than 550gCO<sub>2</sub>/kWh. If a unit is subject to run-hour limits, investment made under an ILC contract should aim to remove the emission restriction on run hours or, at the least, not exacerbate the restriction.
- Capacity seeking an ILC will need to submit an Implementation Plan (like New Capacity) but the SEM Committee will consider exemptions if requested by the participant due to certain milestones not applying to the project.
- Mandatory Bidding for refurbishing existing capacity.
- Existing Capacity eligible for an ILC will be subject to the ECPC/a USPC.
- A multi-year ILC offer will be treated the same as multi-year New Capacity offer for the purposes of solving constraints, i.e., all out-of-merit single year offers will be accepted before out-of-merit multi-year ILC offers in the constrained auction run.

# Reminder of key policy decisions (2 of 2)

- Existing Capacity winning an ILC will not be subject to termination payments or performance security, but New Capacity winning an ILC will be subject to termination payments and performance security.
- Having won an ILC, an Existing or New Capacity unit will be required to submit a Director's certificate affirming that it has spent the money materially in line with its submission prior to the start of the first Capacity Year, and after it has undertaken the investment.
- If it has not spent the money (and submitted the Director's certificate to do so), the following sanctions will be applied:
  - The unit will be paid at the auction clearing price, not at a pay-as-bid price, until it has submitted the certificate.
  - The second and subsequent years of the ILC will be terminated if a Director's certificate has not been submitted by the first day of the second contract year.
- If the CMU fails to submit the Director's certificate prior to the first day of the first Capacity Year, but subsequently submits it before the contract is terminated, it can then get paid at a pay-as-bid price going forward.

# Key changes proposed (1 of 3)

General approach, in line with TSO advice: Treat refurbishing existing CMUs as New Capacity (by changing glossary definition of New Capacity), but with specific carve-outs for: mandatory bidding requirements; ECPC/USPC treatment; termination payments and performance securities.

Section	Key changes
B.9.1.2	Strengthens market manipulation provisions around Exception Applications (including around ILCs and 5-year USPC applications).
D.3.1.2	<ul style="list-style-type: none"><li>• Requirement for TSOs to publish all Capacity Investment Rate Thresholds (ICIRT, as well as NCIRT) within the IAIP.</li><li>• Clarifies that performance security and termination payment rates for refurbishing capacity (as well as New Capacity) are to be published within the IAIP.</li></ul>
E.5.1.1(a)	Allows any capacity that exceeds the relevant Capacity Investment Rate Threshold to apply for a Maximum Capacity Duration specified in the IAIP. RAs have decided: <ul style="list-style-type: none"><li>• If spend greater than ICIRT (= €100,000/MW<sub>d</sub>), Maximum Capacity Duration = 5 years</li><li>• If spend greater than NCIRT (= €300,000/MW<sub>d</sub>), Maximum Capacity Duration = 10 years</li></ul>
E.5.1.1(b)	Introduces the term Unit Specific Net Going Forward Costs to the CMC, to facilitate multi-year USPCs for units seeking ILCs.

# Key changes proposed (2 of 3)

Section	Key changes
E.5.1.8	Updates the section to include more general approval of Maximum Capacity Duration of more than one year (no longer applies just to New Capacity and does not have to be 10 years).
E.8.5.1, E.8.5.2, F.7.1.1, and F.7.1.3	Changes to ensure that refurbishing capacity is subject to mandatory bidding. Changes Firm Offer Requirement to reflect lesser of firm network access and net de-rating capacity existing and applies this to Existing and New Capacity. This will ensure that any unit that has firm access to the system including Existing Capacity and New Capacity that is repowered or refurbished based on previous Existing Capacity will be required to submit an offer. As all New Capacity that is not repowered or refurbished based on Existing Capacity is treated as non-firm initially, the Firm Offer Requirement for capacity yet to be built would remain as zero.
E.8.7.1	Offer Price Cap section is updated and reordered to provide for application of USPC to New Capacity that is repowered or refurbished based on previous Existing Capacity.
G.3.1.9	<b>Note: correction required to published drafting.</b> Intent is to ensure that refurbished capacity continues to be treated as Existing Capacity up to Substantial Completion, a new paragraph is included after table G.3.1.8 to state that this capacity will be treated as existing and settled at the Auction Clearing Price until such time as they reach either Substantial Completion or the Long Stop Date, which will be the end of the Capacity Year. <b>Replace</b> “prior to the Long Stop Date” with “prior to the first day of the relevant Capacity Year”. Then any unit which fails to meet the 12 month Long Stop Date will be terminated, and no change to CMC needed, only publication of LSD in IAIP

# Key changes proposed (3 of 3)

Section	Key changes
J.2.1.1(c)	<ul style="list-style-type: none"><li>• J.2.1.1 ( c ) (i) Requires that works associated with providing the Awarded New Capacity (including refurbished capacity) be those described in the approved Exception Application.</li><li>• Note that provision of J.2.1.1( c ) (v) applies requiring refurbishing capacity to emit less than 550gCO<sub>2</sub>/kWh, refurbishing capacity incorporated into Glossary definition of New Capacity (and with no carve-out for emissions of less than 350kgCO<sub>2</sub>/kW/year).</li><li>• J.2.1.1 ( c ) (vi) requires that post investment ARHL for refurbished capacity is not less than the ARHL associated with the Existing Capacity prior to the refurbishment.</li></ul>
J.6.1.1(b)	Introduce a Long Stop Date at end of Capacity Year for five year Awarded New Capacity (including repowered or refurbished capacity), as a result of change in definition of New Capacity.
M.15	On a temporary basis, for the purposes of the T-4 2028/29 auction only, introduces legal drafting to allow the SEM Committee to issue directions to ensure the full implementation of SEM-24-035.
Glossary	<p>Changes to key definitions:</p> <ul style="list-style-type: none"><li>• Date of Start of Commercial Operation: makes clear that “[w]here a Capacity Market Unit or CMU Component undergoes refurbishment or repowering associated with Awarded New Capacity with a duration of greater than one year, this date is the date of Substantial Completion of the Awarded New Capacity”.</li><li>• New Capacity: includes repower or refurbished generators, so that existing generators which are refurbishing treated as new, except where carve-outs are specifically applied.</li><li>• Capacity Investment Rate Threshold: delete “New”, to make more generic and allow for ICIRT as well as NCIRT.</li><li>• Unit Specific Net Going Forward Costs: new definition to facilitate the application of multi-year USPCs.</li></ul>