



**Single Electricity Market
(SEM)**

**Capacity Market Code Workshop 33
Decision Paper**

CMC_22_23: Indexation of Capacity Payment Price for Inflation

SEM-24-061

01 October 2024

EXECUTIVE SUMMARY

The purpose of this decision paper is to set out the decisions relating to one Proposed Modification to the Capacity Market Code (CMC). This was discussed at Workshop 33, held on 21 September 2023.

➤ CMC_22_23: Indexation of Capacity Payment Price for Inflation

The decision within this paper follow on from the associated consultation ([SEM-23-084](#)), which closed on 01 December 2023.

Seven responses were received to the Capacity Market Code Workshop 33 Modification Consultation Paper (SEM-23-084). None were marked as confidential. The responses to the consultation have been published alongside the decision paper for CMC_22_23, which was also discussed at this Workshop ([SEM-24-015](#)).

Summary of Key Decisions

Following consideration of the proposals and the responses received to the consultation, the SEM Committee have decided:

Modification	Decision	Implementation Date
CMC_22_23: Indexation of Capacity Payment Price for Inflation	Not make a Modification	N/a

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1. OVERVIEW

1.1. BACKGROUND

1.1.1. The SEM CRM detailed design and auction process has been developed through a series of consultation and decision papers, all of which are available on the SEM Committee's (SEMC) website. These decisions were translated into legal drafting of the market rules via an extensive consultative process leading to the publication of the Trading and Settlement Code (TSC) and the Capacity Market Code (CMC). Updated versions of the CMC and the TSC are published on the SEMO website.

Process and Timeline for these Modifications

1.1.2. On the 07 September 2023, Energia submitted one Modification Proposal (CMC_22_23) under the terms of B.12.4 of the CMC. This Modification Proposal was marked as Standard.

1.1.3. The RAs reviewed the Modification Proposal and determined that it was not spurious.

1.1.4. On the 05 October 2023, the RAs determined the procedure to apply to the Modification Proposal. An overview of the timetable is as follows:

- i. The System Operators convened Workshop 33 where the Modification Proposal was considered on 21 September 2023, alongside four other Modifications.
- ii. The System Operators, as set out in B.12.7.1 (j) of the CMC, prepared a report¹ of the discussions which took place at the workshop, provide the report to the RAs, and publish it on the Modifications website promptly after the workshop.
- iii. The RAs then consulted on the Modification Proposals from the date of publication of the Consultation until the closing date of Friday, 01 December 2023.
- iv. As set out in B.12.11 the RAs shall make their decisions as soon as reasonably practicable following the conclusion of the consultation and would publish a report in respect of their decision. The purpose of the decision paper is to set out the decisions relating to the two Modification Proposals discussed during Workshop 33 to:
 - a) Make a Modification;
 - b) Not make a Modification; or
 - c) Undertake further consideration in relation to the matters raised in the Modification Proposals.

1.1.5. This decision paper provides a summary of the consultation proposals and sets out the SEM Committee's decision(s).

¹ [Capacity-Modifications-Workshop-33-Report.pdf \(sem-o.com\)](#)

1.2. RESPONSES RECEIVED TO CONSULTATION

1.2.1. This paper includes a summary of the responses made to Capacity Market Code Modifications Workshop 33 Consultation Paper [SEM-23-084](#), which was published on 23 October 2023 and closed on 01 December 2023.

1.2.2. Seven responses were received to the Consultation. None were marked as confidential. The respondents are listed below:

- Bord Gáis Energy (BGE)
- Bord na Móna (BnM)
- EirGrid & SONI (TSOs)
- Energia
- EP UK Investments (EPUKI)
- ESB Generation and Trading (ESB GT)
- SSE

2. CMC_22_23 – INDEXATION OF CAPACITY PAYMENT PRICE FOR INFLATION

2.1. CONSULTATION SUMMARY AS PRESENTED BY ENERGIA

- 2.1.1 This Modification Proposal seeks to address the inflation risk of capacity contracts and introduce an indexation mechanism like the indexation mechanism implemented in the Great Britain (GB) market.
- 2.1.2 Energia’s proposal would only apply to index capacity payments from auctions yet to take place and would not apply to auctions already completed. The inflation ‘modifier’ would be applied on an annual basis at the beginning of each capacity year. As proposed by Energia, the calculated indexation would be based on the change in the published Consumer Price Index (CPI) beginning in the month in which the Capacity Auction Approval Date occurs and ending in the month of June prior to the commencement of the relevant Capacity Year. Energia noted that it had selected the month of June to allow SEMO three months to process the calculation ahead of the start of the capacity year. Indexation would be calculated based on the jurisdiction of the relevant Capacity Market Unit, thus using data from the Central Statistics Office (CSO) in Ireland and the Office for National Statistics (ONS) for Northern Ireland. Energia noted that its modification thus follows the GB model.
- 2.1.3 Energia grounded the rationale for its proposal in protecting investors from inflationary risk, believing that if investors are sufficiently protected, consumers will ultimately benefit through a mitigated risk of inefficient exit or failure to deliver New Capacity.
- 2.1.4 Energia’s proposed modification would only index capacity contract prices for auctions which have yet to take place.
- 2.1.5 It noted that its proposed modification would not allow for the Capacity Payment Price to be reduced from the price awarded in the auction.
- 2.1.6 Energia also highlighted that other energy schemes operating in Ireland like RESS and ORESS protect investors from inflationary risk.

2.2. CMC_22_23 RESPONSES

- 2.2.1. Responses to this proposal were largely supportive.
- 2.2.2. BGE supported the modification in its consultation response. It restated a point made by Energia regarding the existence of an inflationary mechanism for ORESS and RESS and the absence of one in the CRM. BGE also believed that a ‘whole construction’ index would be more suitable to address inflation risks facing new delivery and, as such, suggested amending the Modification Proposal to use a different index to reflect this.
- 2.2.3. EPUKI supported the modification where it highlighted that it believed there was no retrospective risk with respect to the CMC and supported an amendment to apply this modification to all auctions. EPUKI believed that without this amendment to the modification, it would be an unfair

outcome for existing capacity and other Awarded New Capacity. EPUKI also recommended that the application of indexation should be implemented through the Trading and Settlement Code (TSC).

- 2.2.4. SSE supported the modification and believed it should also be widened to include projects in delivery and at auction from 2024. SSE also noted that failure to accept this modification, in its view, would be inconsistent with the CMC objectives and would send the wrong investment signal when security of supply is at risk. It emphasised that acceptance of an indexation mechanism would only have a positive impact on consumers.
- 2.2.5. ESB GT supported the modification, where it cited rising costs and economic uncertainty as reasons to support the modification.
- 2.2.6. Energia stated that the Modification Proposal represents a workable solution that would apply indexation on a forward-looking basis. It further expressed disappointment with the initial minded to reject position of the SEM Committee and urged that any Modification Proposals proposed by the RAs regarding indexation should be consulted on in detail by stakeholders and should apply on a forward-looking basis.
- 2.2.7. The TSOs highlighted that the Modification Proposal differs substantially from the indexation methodology previously implemented, where they noted the absence of a “dead band”, a risk share and different inflation reference dates.

2.3. CMC_22_23 SEM COMMITTEE DECISION

- 2.3.1. The SEM Committee welcomes the feedback provided by participants both as part of the Workshop and through the consultation process.
- 2.3.2. The SEM Committee acknowledges the support from several market participants for this Modification Proposal and the proposer’s efforts to bring forward a proposal.
- 2.3.3. The SEM Committee, however, considers that the introduction of an enduring indexation mechanism would be a significant change to the design of the CRM and would require detailed policy analysis and associated development. The SEM Committee will consider consulting upon such a policy change in the next significant update to the CRM, which is expected to be ahead of the next State aid application.
- 2.3.4. Based on these reasons, the SEM Committee will not, at present, make a Modification.

3. NEXT STEPS

- 3.1.1. Given that the SEM Committee has decided to reject the Proposed Modification CMC_22_23, there are no actions required of the System Operators with regards to its implementation. The SEM Committee will also consider consulting upon an indexation policy in the next significant update to the CRM.

3.1.2. All SEM Committee decisions are published on the SEM Committee website:
www.semcommittee.com.