

MODIFICATION PROPOSAL FORM			
<b>Proposer</b> <i>(Company)</i>	<b>Date of receipt</b> <i>(assigned by System Operator)</i>	<b>Type of Proposal</b> <i>(delete as appropriate)</i>	<b>Modification Proposal ID</b> <i>(assigned by System Operator)</i>
Energia	7th September 2023	Standard	CMC_22_23
Contact Details for Modification Proposal Originator			
<b>Name</b>	<b>Telephone number</b>	<b>Email address</b>	
Sean McParland		<a href="mailto:Sean.mcparland@energias.ie">Sean.mcparland@energias.ie</a>	
Modification Proposal Title			
Indexation of Capacity Payment Price for Inflation			
<b>Documents affected</b> <i>(delete as appropriate)</i>	<b>Section(s) Affected</b>	<b>Version number of CMC used in Drafting</b>	
CMC	Section F Section O Glossary Appendix F	Version 9	
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p><b><u>Area of Concern</u></b></p> <p>The modification seeks to address a risk whereby capacity contracts are currently awarded and fixed in nominal prices and therefore associated inflation risk is placed with the capacity market participant. As such all participants in the capacity auction (both existing capacity providers and prudent developers of new capacity) will then be required to build this inflation risk into their capacity bidding strategies when submitting their bids in the capacity auctions. However, this may be restricted by the bid caps and what is allowed in a USPC application for any given auction.</p> <p><b><u>Proposed Change</u></b></p> <p>In order to address these issues, we refer to the recent SEM Committee Call for Evidence / Consultation (SEM-23-014) which referred to introducing a similar approach employed in the GB capacity market whereby investors who are entering a capacity auction know that capacity contract prices will be indexed over the lifetime of the contract – whether that is a 1 year contract or a 10 year contract. They are therefore bidding a price in real terms into the auction knowing that inflation risk is accounted for in any awarded capacity contract.</p> <p>In order to avoid retrospective effect, the indexation of capacity contract prices would only take effect for <b><u>capacity auctions which have yet to take place</u></b> and would not apply to capacity auctions which have already been completed. This is important in order to maintain the integrity of previous auction results on the basis that the contractual terms for any participant that is awarded a capacity contract is clear when they are participating in the capacity auction.</p> <p>The modification follows the GB model and uses the relevant CPI depending on the jurisdiction of the capacity as the index. The modification does not allow for the Capacity Payment Price to be reduced from the price awarded in the auction. Where NetCONE / price caps have been inflated for certain capacity auctions (for example in the upcoming T-4 27/28 auction), the</p>			

modification allows for this to be accounted for in the inflation modifier calculation. To allow for the relevant indices to be published and for the SEMO CMC team to process the calculation, the modification proposes using the indexation figure at the end of June, three months prior to the start of the relevant capacity year.

#### Legal Drafting Change

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

**F.9.1.2** For Awarded Capacity in auctions that took place prior to XXXX (date on which Modification is approved), except to the extent provided for in the Trading and Settlement Code, the Capacity Payment Price shall not be subject to adjustment or indexation For Capacity that was awarded in auctions that took place after XXXX, the Capacity Payment Price will be indexed at the start of each Capacity Year to account for inflation by the Inflation Modifier as per section O.

### Section O Indexation

#### O.1 Indexation Concept & Methodology

**O.1.1.1** The Inflation Modifier will be applied on an annual basis at the beginning of each Capacity Year to the Capacity Payment Price. The formula to be used is  $PCP\Omega_n \times INFMOD_{u,y}$

The Inflation Modifier is:

$$INFMOD_{u,y} = (\max(CINF_u, 1))$$

$$CINF_u = \frac{CPI_x}{CPI_{adjusted}}$$

where:

- $CINF_u$  is the Calculated Indexation determined by the change in the published Consumer Price Index (CPI), beginning in the month in which the relevant Capacity Auction Approval Date occurs and ending in the month of June prior to the commencement of the relevant Capacity Year where  $INFMOD_{u,y}$  is calculated.
- $CPI_x$  means the CPI published for the month of June immediately prior to the beginning of the relevant Capacity Year
- $CPI_{adjusted}$  means the CPI for the month in which the relevant Capacity Auction Approval Date occurs adjusted for any inflation adjustments made to the Auction Price Cap and Existing Capacity Price Cap by the Regulatory Authorities up to the month of June prior to the commencement of the relevant Capacity Year.

**O.1.1.2** The CPI to be used for those Capacity Market Units in Ireland will be the Consumer Price Index in Ireland, as published by the Central Statistics Office (CSO).

**O.1.1.3** The CPI to be used for those Capacity Market Units in Northern Ireland will be the Consumer Price Index in the United Kingdom, as published by the Office for National Statistics (ONS).

**O.1.1.4** The System Operators shall determine the Inflation Modifier in line with the above methodology and publish the Inflation Modifier no later than 5 Working Days after all of the required monthly CPI publications have been published in accordance with  $CPI_x$  and  $CPI_{adjusted}$ .

**O.1.1.5** The provisions of this section O apply only to the Capacity Payment Price for Capacity Auctions that take place after XXX (date on which Modification is approved)

## Glossary

**Inflation Modifier** means a modifier applicable to a Capacity Year which indexes the Capacity Payment Price for inflation and is determined in accordance with section O.1.

**Calculated Indexation** means the change in the published Consumer Price Index 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. Calculated Indexation is calculated based on the jurisdiction of the relevant Capacity Market Unit.

## APPENDIX F: CAPACITY AND TRADE REGISTER DATA

**15 Inflation Modifier:** the modifier to be applied to the Capacity Payment Price to index it for inflation for each Capacity Year of a Capacity Market Units contract. This will be the Inflation Modifier published by the System Operator no later than 5 Working Days after all of the required monthly CPI publications have been published.

### Modification Proposal Justification

*(Clearly state the reason for the Modification)*

Investors in the CRM are afforded no protection from inflationary risk. This is in contrast to other SEM auctions (e.g. RESS, ORESS), and other capacity market auctions in neighbouring countries (GB). This issue was highlighted in the recent SEM Committee Call for Evidence / Consultation (SEM-23-014). Accordingly, this modification would seek to address this risk by providing certainty for investors in both new and existing capacity units by indexing the Capacity Payment Price for inflation.

This proposal is a proportionate and necessary change to the CRM that would help safeguard the delivery of new capacity and provide inflationary protection for holders of existing capacity. Whilst inflation risk is removed from investors, ultimately consumers will be better served if the CRM contracts offer protection from high inflation, and therefore mitigate the risk of inefficient exit or failure of delivery for new capacity.

Given that separate arrangements are being progressed for the contract holders for the T-3 2024/25 and the T-4 2025/26 auctions, and the need to ensure that the modifications do not have retrospective effect on auctions that have already concluded, the modification applies exclusively to auctions that have yet to occur. Progressing this modification in a timely manner would ensure that this modification could apply for auctions planned for the 2024 calendar year and beyond.

### Code Objectives Furthered

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

- A.1.2.1 (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;
- A.1.2.1 (e)** to provide transparency in the operation of the SEM;
- A.1.2.1 (f)** to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code
- A.1.2.1 (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 pass this modification risks further deterring potential investors from investing in the CRM, and also risks the inefficient exit of existing capacity at times of high inflation.

**Impacts**

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

The proposed modification would require some resource from the SEMO CRM team to calculate the Inflation Modifier for each Capacity Auction and each Capacity Year. This is a relatively simple calculation, and sufficient time has been built in to the modification to allow for the publication of the relevant indices and the processing of the calculation. Once the calculations are completed, the final Capacity Payment Prices for the ROs can be passed to the SEMO Settlement Team as per usual.

We are not aware of any system changes required as a result of this modification.

*Please return this form to the System Operators by email to [CapacityModifications@sem-o.com](mailto: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:

<b>CMC / Code:</b>	means the Capacity Market Code for the Single Electricity Market
<b>Modification Proposal:</b>	means the proposal to modify the Code as set out in the attached form
<b>Derivative Work:</b>	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.