EP **UK Investments**

A member of the EPH Group

TYNAGH ENERGY

Mod_07_22 – Indexation to Calculation of Capacity Payments for New Capacity
Mods Committee Meeting 112

Mod 07_22 – Indexation to Calculation of Capacity Payments

Background

This modification was proposed in response to spiralling inflation increasing the costs of projects delivering capacity. Failure to address this issue may result in projects becoming economically infeasible and not being completed. This would be detrimental to Ireland's Security of Supply, resulting in a continued reliance on expensive emergency generation.

The proposed modification would apply indexation to participants' Capacity Payments <u>only in instances where inflation exceeds a specified threshold.</u>

This modification was first proposed at Mods Committee Meeting 111. Following this, an industry call was held in July to discuss specific details of the mod. The modification was also raised for discussion at Capacity Market Modifications Workshop 26. While we believe the Trading and Settlement Code to be the most appropriate place for the modification, we are cognisant of its potential impact on the Capacity Market.

Mod 07_22 – Implementation of Mod

This modification introduces a new term to the calculation of capacity payments.

> F.17.1.1　　The Market Operator shall calculate the Capacity Payment (CCPΩγ) for each Capacity Market Unit, Ω, in each imbalance Settlement Period, γ, as follows:
>
> $$CCP_{\Omega\gamma} = \sum_{n\,\in\,\gamma,qCCOMMISS\,\neq 0} \left(qC_{\Omega n} \times PCP_{\Omega n} \times \frac{1}{ISPIY_y} \times INFMOD \right)$$

The inflation modifier, INFMOD, is calculated as follows:

$$INFMOD = \left(1 + (CINF - AIND)\right)^{CPERIOD + OPERIOD}$$

Where CINF is the average annualized inflation (or deflation) for the period beginning when a New Capacity contract is awarded and ending at the beginning of the Relevant Capacity Year.

AIND is the upwards or downwards indexation (if any) applied to the Auction Price Cap for the relevant Capacity Auction Year – this variable acts as a threshold for the application of the modifier.

CPERIOD is the duration in years, between when a New Capacity contract is awarded and the beginning of the relevant Capacity Year.

OPERIOD is the duration in years between the date when Capacity Payments are calculated and the date at which the Capacity Market Unit reached substantial completion.

Mod 07_22 – Changes from Original Version

The following changes have been applied to the modification which was presented at Mods Committee 111 following feedback from industry:

➢ Modification is now bi-directional, accounting for deflation as well as inflation.

➢ Threshold for the modification to activate is now based on indexation applied to Capacity Auctions in a given year. Previously was fixed at a value of 2%.

➢ The period to which the modification applies has been extended. Previously the modification only applied to inflation during the construction period, this has now been amended to take account of operational costs throughout the lifetime of the contract.

➢ The modification will now apply to New and Existing Capacity. Previously the modification only applied to New Capacity.

➢ The modification will not be technology-specific.

➢ CPI will be used as the metric for inflation.

➢ The inflation rate applied in the INFMOD calculation will be based off of a 50-50 blended rate of inflations in Ireland and the UK.

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