

Maintaining Net Present Value in new capacity market contracts for no-fault delays

Modification CMC_07_25

Capacity market modifications meeting, Wednesday 28th May 2025



CMC_07_25: Overview

Driver

- ❖ Under Mod CMC_16_23, **projects subject to no-fault delays can apply to the RAs for an extension** to their Capacity Quantity End Date and Time (CQEDT)
- ❖ This **preserves the duration** of the capacity contract (e.g. 10 years) but the **NPV of the capacity revenues is eroded**
- ❖ This erodes the economic viability of new capacity investments and **unfairly penalises the market participant** for delays outside its control
- ❖ SEMC recently rejected CMC_04_24 on a similar theme – however this **Mod CMC_07_25 mitigates the concerns raised**

Proposal

- ❖ **New mechanism to calculate uplift on Capacity Payment Price to compensate for NPV erosion** due to no-fault delays
- ❖ NPV adjustment **preserves NPV of original capacity payments**
- ❖ Impact of NPV **adjustment spread over contract duration**
- ❖ **BNE WACC** (currently 7.27%) used to determine Capacity Payment Price NPV Adjustment Factor **to remove subjectivity** (objective reference price)
- ❖ **Eligible for projects which have applied for extension to CQEDT** under CMC J.5.7 / J.5.8
- ❖ **Subject to separate RA approval process** to grant NPV adjustment (not automatic following a CQEDT extension)
- ❖ **RA discretion in assessing applications** consistent with the CMC objectives and statutory duties

→ Principle: RAs should have a mechanism to preserve capacity revenue NPV for projects that are subject to no-fault delays

CMC_07_25: An Example

See attached Excel file
with example calculations

Example Calculation

- ❖ 50 MW Awarded Capacity at 150,000 €/MW/yr, 10 yr capacity duration, subject to **6 months' delay**
- ❖ **NPV erosion 1.86 mil€** (based on 7.27% BNE WACC)
- ❖ NPV Adjustment Factor 1.0357
- ❖ **Uplifted Capacity Price 155,357 €/MW/yr** (+3.57%) to compensate / maintain original NPV of capacity revenues
- ❖ Uplifted Capacity Payment Price results in **1.86 mil€ NPV reduction being exactly recouped over the contract term**

[Based on core example in the Excel file]

Awarded Capacity	MW Derated	50
Capacity Payment Price ($CP_{original}$)	€/MW	150,000
Capacity Payment Monthly	€/MW/Month	12,500
BNE WACC Interest Rate		7.27%
Participant Contract Duration (Months)	Months (Integer)	120
Delay Duration (Months)	Months (Integer)	6
NPV Original	€	€ 54,052,413
NPV Update	€	€ 52,188,636
NPV Reduction	€	€ 1,863,777
NPV Adjustment Factor		1.0357
Monthly Uplift Required	€/MW/Month	€ 446.40
Capacity Price Monthly Uplifted	€/MW/Month	€ 12,946
Capacity Price Uplifted ($CP_{uplifted}$)	€/MW	€ 155,357
NPV Uplifted	€	€ 54,052,413

Formulaic NPV Adjustment Factor calculated to exactly preserve capacity revenue NPV @BNE WACC discount rate:

$$PCPNPV_{AdjFact\Omega n} = (1 + r)^{\frac{Delay\ Duration}{12}}$$

Where:

- r = Best New Entrant WACC,
- Delay Duration is the rounded integer number of months of delay approved under J.5.9

CMC_07_25: Justification

- ❖ **Formulaic approach using BNE WACC mitigates subjectivity concerns.** This is very **transparent** and **simplifies** the process for both the RAs and the TSOs assessing applications
- ❖ **Workload concerns mitigated** due to no need to assign fault and a “reasonable” deadline for assessment by the RAs
- ❖ **Strong incentive to deliver retained.** NPV retention only applies to capacity payments, with projects still exposed to loss of energy and ancillary services revenues and material construction prolongation costs
- ❖ **Risks allocated to those best able to manage them.** Pending the addressing of the underlying causes of 3rd party delays (e.g. GNI or EirGrid connections), the most equitable approach is to take no-fault delay risk off those developing / delivering projects to deliver security of supply benefits for consumers
- ❖ **Spreading cost of NPV retention** over contract term (vs. front-loading) results in **fair balanced outcome for consumers** who pay for the security contracted, over the correct 10-year period

- ❖ **Enhancing regulatory investment environment** will support ongoing and future investments, ensuring security of supply and mitigating risk of further costs to the consumer e.g., via more Temporary Emergency Generation which is currently costing consumers ~€300m/ year
- ❖ **Attribution of fault in a “no-fault” delay scenario not required**, aligned with the RAs’ well-established view on the difficulty establishing fault. To balance statutory duties to the consumer and to the financeability of projects it is sufficient for the SEMC to satisfy itself that the fault is outside the control of the market participant without explicitly allocating fault to another party
- ❖ **Proposal not retrospective** as does not reopen settled transactions in accordance with SEMC precedent decisions (SEM-23-045; SEM-23-101; SEM-24-015)
- ❖ **Investor confidence.** Existing / new projects experiencing 3rd party delays will continue to be inequitably penalised through a reduced NPV over the 10-years of their capacity contract if this Modification is not approved. This undermines investment to deliver projects critical to providing secure and reliable electricity supplies, negatively impacting both security of supply and costs for consumers

→ Key concerns raised regarding CMC_04_24 mitigated: workload, subjectivity, and maintaining strong incentives to deliver capacity