



TYNAGH ENERGY LIMITED

Mod Proposal 07_22 – Indexation to Calculation of Capacity Payments for New Capacity

Mod Explanation

- This modification proposal seeks the introduction of indexation to the calculation of Capacity Payments for New Capacity in instances where an exceptional level of inflation has incurred.

Justification

- This modification has been proposed in response to a risk of New Capacity being exposed to significant cost increases as a result of inflation. This could jeopardise the ability of New Capacity to complete construction.
- The SEM-C introduced 2% indexation to the auction price cap in December 2021. Inflation trends since then, and specifically construction and materials inflation has been significantly higher than this. Inflation at the level currently experienced would be difficult to forecast accurately.

Justification

- Inflation risk is amplified due to the window of time between the awarding of New Capacity and the beginning of commercial operation of New Capacity.
- This issue has already been realised in RESS-1 with only 630MW of an awarded 1,275MW expected to complete construction by the end of the year. A number of outstanding projects are not expected to complete as a result of rising construction costs.
- In Ireland, the Minister for Public Expenditure and Reform introduced measures to facilitate the recovery of inflation costs relating to public works construction.
- New Capacity awarded in the CRM represents critical infrastructure which is necessary to secure Ireland's Security of Supply and support the energy transition.

Expected Impact

- This modification proposal, if passed, may result in increased Capacity Payments in response to inflation.
- This modification will increase the likelihood of New Capacity being delivered in line with the awarded contracts as required to ensure Security of Supply.

Proposed Change

- This modification proposal introduces an inflation modifier to the equation for the Calculation of Capacity Payments. The inflation modifier is defined as follows (note, this legal drafting has been updated from the version presented in the original modification proposal on the basis of feedback received):

F.17.1.2 The inflation modifier *INFMOD*, will be defined as:

$$INFMOD = (1 + \max((CINF - 0.02), 0))^{CPERIOD}$$

where:

- (a) *CINF* is the average annualized inflation for the period beginning when a New Capacity contract is awarded and ending at the beginning of the relevant Capacity Year.
- (b) *CPERIOD* is the duration of the period, in years, beginning when a New Capacity contract is awarded and ending at the beginning of the relevant Capacity Year.