



An Coimisiún
um Rialáil Fónais
**Commission for
Regulation of Utilities**

An Coimisiún um Rialáil Fónais
Commission for Regulation of Utilities

Security of Supply: Generator Financial Reporting Obligations

Decision

Decision

Reference: CRU/22/11	Date Published: 11/02/2022	Closing Date: n/a
-----------------------------	-----------------------------------	--------------------------

www.cru.ie

The Exchange, Belgard Square North, Tallaght, Dublin 24, Ireland
T +353 1 4000 800 | F +353 1 4000 850 | www.cru.ie

CRU Mission Statement

The CRU's mission is to protect the public interest in Water, Energy and Energy Safety.

The CRU is guided by four strategic priorities that sit alongside the core activities we undertake to deliver on the public interest. These are:

- Deliver sustainable low-carbon solutions with well-regulated markets and networks
- Ensure compliance and accountability through best regulatory practice
- Develop effective communications to support customers and the regulatory process
- Foster and maintain a high-performance culture and organisation to achieve our vision

Public/Customer Impact Statement

Ordinarily, a generator that wishes to close will give three-years notice, as required by the Grid Code, and will close in an orderly manner. This is important as it allows time for EirGrid to assess any potential system issues caused by the generator exit and to put in place any appropriate measures which may be necessary to protect security of supply.

The current market arrangements are aimed at giving generators adequate foresight of their future revenues and providing exit signals to inefficient and expensive generators, which in turn reduces costs to consumers and facilitates the entry of new more efficient generators and flexible providers.

There may be exceptional instances, where due to its financial circumstances, a generator may not be able to provide this three-year closure notice and may need to close in a shorter space of time. This raises the possibility of a disorderly, and immediate, exit from the market, leading to security of supply issues, because there has not been sufficient time to assess the security of the network and put in place any necessary mitigation measures.

To reduce the risk of such circumstances occurring, the CRU has decided to require generators to provide financial reporting and assurances on an annual basis. This will allow the CRU to identify potential generator closure risks at an early stage, so that appropriate measures can be developed, where necessary, to protect security of supply. The purpose of the reporting outlined in this paper is to facilitate a managed approach to generator exit and provide sufficient time for the market to work in the first instance.

Executive Summary

This paper sets out CRU's decision on generator financial. The CRU's decision requires certain generators to provide additional financial reporting to the CRU on an annual basis to help mitigate the risk of a future disorderly exit. The objective of introducing additional financial reporting requirements for generators is to identify potential vulnerabilities which could impact the market and pose a risk to local security of supply, specifically a potential disorderly exit.

In coming to this decision, the CRU published consultation paper CRU/19/041 in April 2019 seeking comments on CRU's initial proposals for additional reporting and the approach to TSO system planning. At that time, CRU envisaged that it would next publish a proposed decision on the matter. After taking the consultation responses into consideration, the CRU has decided that a proposed decision is not required and has set out its decision in this paper.

The CRU decision is that conventional generating units with nameplate capacity of 50 MW or above be subjected to additional financial reporting obligations. Each such generating unit will self-certify their compliance with the grid code, in particular PC.4.5 relating to the requirement for a three-year closure notice, based on their own assessment over a five year forecasting period. The CRU expects generators to consider, but not limited to, the following factors while making their assessment.

- Financial e.g., Ability to secure capacity contracts, system services contract
- Environmental e.g., ongoing planning permission, Clean Energy Package, other EU and National legislation etc
- Operational e.g., age of equipment
- Any other exceptional occurrence that could impact financial viability

The CRU will develop a financial reporting template, which will set out specific scenarios for assessment, to support the generator submissions.

In terms of system planning, the CRU decision is that the TSO will report on the potential system impact of any unit that the CRU deems may be at risk. Statements submitted by generators informing the CRU of their compliance will assist in this process.

The CRU considers it appropriate that units in the Demonstrable, Material and Imminent Likelihood of Closure (DMILC) process have separate reporting arrangements. By entering the DMILC process these units have shown that they are at risk of a disorderly exit. The CRU decision is that such units provide financial reports every six months, including their plan, with relevant milestones, to return to commercial viability. It is expected that DMILC generators, through their reporting demonstrate that,

1. There has been improvement in terms of the financial position of the parent company or companies and generator(s), such that a market shock would not affect the unit's ability to discharge and meet its market obligations, in particular, the three-year closure notice period.
2. Where multiple units are located on the same site and are operated effectively as a single business, the relevant company or companies will demonstrate that the units can separately discharge their market obligations, for instance, in the case of the discharge of separate Reliability Option obligations on each unit.

The DMILC process is intended as a temporary measure to mitigate the risk of the closure of a generator. Therefore, it is expected that the units will eventually exit the DMILC process and return to normal operations

Following the publication of this decision paper, the CRU will develop and publish a financial reporting template to support generator submissions.

The CRU will notify the impacted generators of the date when this decision takes effect and when the first annual submissions will be required by. Submissions will not be requested before Q3 2022.

Table of Contents

CRU Mission Statement	1
Public/Customer Impact Statement	2
Executive Summary	3
Table of Contents	5
Glossary of Terms and Abbreviations	6
1. Introduction	7
1.1. Background to Financial Reporting	7
1.1.1 April 2019 Consultation on Financial Reporting	7
1.1.2 Underpinning legislative requirements and compliance obligations	8
1.2. Related Documents	8
1.3. Structure of Paper	9
2. CRU Decision for Generator Financial Reporting	10
2.1. Approach to Generator Financial Reporting	10
2.1.1. Objectives.....	10
2.1.2. Principles.....	10
2.2. Application Criteria	11
2.3. Option selected by CRU	11
2.4. TSO Assessment of Generator Exit Risk on System Planning	12
2.5. Reporting for units in the Demonstrable, Material and Imminent Likelihood of Closure (DMILC) Process	13
3. Next Steps	15

Glossary of Terms and Abbreviations

Abbreviation or Term	Definition or Meaning
CRU	Commission for Regulation of Utilities
TSO	Transmission System Operator – EirGrid
CRM	Capacity Remuneration Mechanism
DMILC	Demonstrable, Material and Imminent Likelihood of Closure
LRSA	Local Reserve Services Agreement
DSU	Demand Side Unit

1. Introduction

1.1. Background to Financial Reporting

In December 2017, the CRU published an information paper titled 'Regulatory Approach to Maintaining Local Security of Supply in Electricity' (CRU/17/346). This paper set out the CRU's objectives, principles and intended approach to maintaining local security of supply in response to significant demand growth or in the event of a generator exiting the market. Specifically, CRU/17/346 outlined how the CRU may intervene to maintain security of supply in the event of a potential disorderly exit of a generator.

The paper set out CRU's approach to dealing with the potential exit of a generator in constrained areas such as Dublin. Ordinarily, a generator that wishes to close will do so in two ways.

1. The generator will give three-years notice, as required by the Grid Code, and will close in an orderly manner by meeting its obligations until the closure date.
2. Generators that are unable to meet this requirement and wish to close in advance of this notice period, will submit a closure notice and will seek a derogation from the Grid Code notice period requirement from EirGrid.

The submission of a formal closure notice begins a concurrent process regarding the termination of the relevant unit's connection agreement; therefore, submission of a closure notice is considered a valid request for entry into this process and cannot be revoked. There may be exceptional circumstances where a formal notice of closure may lead to a disorderly, and immediate, exit from the market (DMILC), the process for which is outlined in CRU/17/346.

In Oct 2018, the CRU published an information paper titled 'Dublin Security of Supply: Measures to mitigate the risk of disorderly exit' (CRU/18/228). This paper outlined a range of measures that the CRU has decided to progress to maintain local security of supply in response to significant demand growth or in the event of a generator exiting the market. One such measure is generator financial reporting to mitigate any future disorderly exit, and in particular, reduce the risk of another DMILC process occurring.

1.1.1 April 2019 Consultation on Financial Reporting

In April 2019, the CRU published consultation paper CRU/19/041 and held a consultation from 12 April 2019 to 29th May 2019 seeking comments on CRU's proposals for additional reporting and the approach to TSO system planning. At that time, CRU envisaged that it would next publish a proposed decision on the matter. After taking the consultation responses into consideration, the CRU has decided that a proposed decision is not required and has set out its decision in this paper.

The CRU received 9 responses to the consultation paper from the following entities:

- Electricity Association of Ireland
- Aughinish Alumina Ltd.
- SSE
- EirGrid
- Bord Gáis Energy
- ESB Generation and Trading
- 3 confidential responses

These responses informed the CRU's decision set out in this paper.

The CRU would like to refer readers to CRU/22/11a, published along with this decision paper for the CRU response to the comments and feedback received on this consultation. The non-confidential responses are also published alongside this paper.

1.1.2 Underpinning legislative requirements and compliance obligations

CRU have a role in maintaining security of supply under Regulation 28 of SI 60 of 2005 which requires that “*The Commission shall take such measures as it considers necessary to protect security of supply*”. Section 9 of the Electricity Regulation Act 1999, as amended requires the CRU to have regard to ensuring security of supply.

Clause PC.4.5 of the Grid Code places an obligation on generators above 50MW to provide the TSO with three-year's notice prior to closing.

Condition 12 of the Electricity Generation Licence, granted by the CRU, requires the Licensee to furnish to the CRU, in such manner and at such times as the CRU may require, information that the CRU considers necessary for the performance of its functions under the Electricity Regulation Act. This information shall include any books, documents, records, accounts, estimates, returns or reports (whether or not prepared specifically at the request of the CRU) of any description and in any format specified by the CRU.

1.2. Related Documents

Documents related to this publication are as follows:

- Generator Financial Reporting – Consultation response paper CRU/22/11a
- Security of Supply: Generation Financial Reporting Obligations - Consultation Paper ([CRU/19/041](#))

- Dublin Security of Supply: Measures to mitigate the risk of disorderly exit – Information Paper ([CRU/18/228](#))
- Regulatory Approach to Maintaining Local Security of Supply in Electricity – Information Paper ([CRU/17/346](#))

Information on the CRU's role and relevant legislation can be found on the CRU's website at www.cru.ie

1.3. Structure of Paper

- Section 1 provides some background on the subject, relevant legislation and related documents.
- Section 2 highlights CRU's decision on generator financial reporting
- Section 3 outlines the next steps.

2. CRU Decision for Generator Financial Reporting

2.1. Approach to Generator Financial Reporting

2.1.1. Objectives

As noted in the consultation paper CRU/19/041, the objective of introducing additional financial reporting requirements for generators is to identify potential vulnerabilities which could impact the market and pose a risk to local security of supply, specifically a potential disorderly exit. The reporting will facilitate early planning and the development of appropriate mitigation and/or contingency measures, such as TSO system planning, should this occur.

The CRU's approach to financial reporting requirements will allow for greater foresight of potential security of supply issues and should aid in the development of potential mitigation and/or contingency measures, such as TSO system planning, in the event that the disorderly exit of a generator should occur. This is important for security of supply and is consistent with the objectives of CRU/17/346 by allowing efficient exit of generators through a managed process that gives time for the market to respond and for the TSO to update their planned transmission development.

2.1.2. Principles

In seeking to meet the above objectives, the CRU will have regard to the following principles as set out in CRU/19/041:

- It is the responsibility of generators to manage their businesses prudently to meet their license conditions and, in particular, their Grid Code obligations.
- Generators should be able to meet their obligations under possible adverse market conditions
- Where multiple units are located on the same site and are operated effectively as a single business, the relevant company or companies must ensure that the units can separately discharge their market obligations, for instance, where one or more of the units have not received a Reliability Option under the Capacity Remuneration Mechanism (CRM).
- Generator exit is a feature of efficient market mechanisms and generators should put in place measures to ensure the managed, and orderly, exit of their units.

- The TSO should take the potential for generator exit into account, particularly in areas at risk of local security of supply issues, when planning the development of the transmission system¹.

The CRU expects generators to have reasonable foresight of their business and to exercise prudence to ensure that they are able to honour their commitments under the Grid Code. If a generator decides to close, it is expected that the generator will put in place appropriate financial arrangements to ensure that the generator remains commercially viable over the three-year closure period and is able to exit in an orderly manner.

2.2. Application Criteria

With regard to the comments received on the consultation, the CRU is proposing that the reporting obligations apply to generation units which meet both of the following criteria:

- Conventional generation units
- Units with nameplate capacity equal to or greater than 50 MW

The CRU has taken a risk-based approach as to the type of units which might fall under these reporting obligations.

The CRU has set out separate reporting requirements for units in the Demonstrable, Material and Imminent Likelihood of Closure (DMILC) process – see section 2.5.

2.3. Option selected by CRU

In coming to this decision, the CRU has had regard to the fairness and proportionality of its proposed approach, balanced against the potential benefits to be gained.

Following consideration of the responses received to the consultation, the CRU decision is that each generating unit which meets the criteria outlined in Section 2.2 will self-certify their compliance with the Grid Code, in particular the three year closure notice under PC.4.5, based on their own assessment over a five year period. For the avoidance of doubt, the five-year assessment

¹ In accordance with EirGrid's Transmission System Security and Planning Standards <https://www.eirgridgroup.com/site-files/library/EirGrid/EirGrid-Transmission-System-Security-and-Planning-Standards-TSSPS-Final-May-2016-APPROVED.pdf>

should show that the generation unit expects to be in a position to continue to meet its PC.4.5 Grid Code obligation for the period of assessment.

The CRU expects generators to give regard to the following aspects while performing their assessment:

- Market Performance/Financial aspects e.g. Ability to secure capacity contracts, system services contract
- Environmental e.g. Planning permission, CEP, Other EU and National legislation etc
- Operational e.g. age of equipment
- Any other exceptional occurrence that could impact financial viability

This is a proposed, non-exhaustive list. Based on their own analysis, generators are expected to submit a statement to the CRU which certifies that they will be compliant with the grid code obligations, particularly the 3-year closure notice. Such statements must be executed by the relevant officers of the licensed entity in the manner prescribed by the CRU.

The CRU will develop a financial reporting template, which will set out specific scenarios for assessment, to support the generator submissions.

The CRU may request further information from specific units as it deems necessary.

The CRU may request generators to submit the details of their assessment. Where such a request is made, generators will be required to provide such information to the CRU within 14 days of the request.

2.4. TSO Assessment of Generator Exit Risk on System Planning²

In the event of a generator exiting the market, it is important that sufficient notice is given to enable the TSO to carry out system impact analysis and implement any necessary measures to protect security of supply. A disorderly generator exit may pose a security of supply risk especially where the TSO has had insufficient time to carry out a system analysis and put in place any necessary mitigations.

The CRU's approach for financial reporting requirements intends to aid the TSO in identifying potential security of supply risks due to generator closure by allowing for greater insight into the

² Previously titled "TSO System Planning".

financial health of units that may be at risk of closing. This is particularly the case for those units critical to security of supply and/or in constrained areas of the network. Therefore, the CRU decision is that EirGrid will report on potential system impacts of any unit that the CRU deems may be at risk of exit, based on the submissions received from generators. This will facilitate the development and implementation of appropriate mitigation and/or contingency measures should such an event occur.

2.5. Reporting for units in the Demonstrable, Material and Imminent Likelihood of Closure (DMILC) Process

Separate reporting requirements will be applied for units in the Demonstrable, Material and Imminent Likelihood of Closure (DMILC) process. The reporting requirements for such units include:

1. The generator's plan setting out their proposed approach to return to commercial viability by the end of the relevant period.
2. The plan should also contain relevant milestones which set out the generator's timelines and steps for returning to commercial viability.
3. Such units are required to submit such reports every six months.
4. A report containing information on any dividends paid out by the generating company over the term of the relevant reporting period.
5. The CRU is proposing to exclude any payments received under the LRSA as part of the generator's plan to return to commercial viability.

In general, the CRU expects that these reports should address the following principles:

- That there has been improvement in terms of the financial position of the parent company or companies and generator(s) such that a market shock would not affect the unit's ability to discharge and meet its market obligations, in particular, the three-year closure notice period.
- Where multiple units are located on the same site and are operated effectively as a single business, the relevant company or companies will demonstrate that the units can separately discharge their market obligations, for instance, in the case of the discharge of separate Reliability Option obligations on each unit.

By entering the DMILC process, it is demonstrated that the generating unit is at a potential risk of a disorderly exit. Therefore, the CRU considers it appropriate that such units demonstrate that they are, or will be, capable of meeting their market obligations at the end of the relevant period.

The CRU may ask EirGrid to assess the impact of generator closure once a DMILC risk is identified in line with the Generator closure process³. EirGrid will also consider possible solutions and their feasibility to solve network issues that may arise from the DMILC risks materialising. The generator can revert back to ordinary reporting as determined in 2.3. once the solutions as recommended by EirGrid have been implemented and the CRU determines that there no longer exists a DMILC risk.

³ EirGrid's Generation Plant Closure Process - [http://www.eirgridgroup.com/site-files/library/EirGrid/Plant-Closure-Process-\(20-December-2017\).pdf](http://www.eirgridgroup.com/site-files/library/EirGrid/Plant-Closure-Process-(20-December-2017).pdf)

3. Next Steps

The CRU will develop and publish a financial reporting template to support generator submissions. The CRU will notify the impacted generators of the date when this decision will take effect and when the first annual submissions will be required by. Submissions will not be requested before Q3 2022.