



SEM-23-012 CRM 2027/28 T-3 Capacity Auction Parameters Consultation

SSE response

Introduction

SSE welcomes the opportunity to provide feedback to SEM-23-012 CRM 2027/28 T-3 Capacity Auction Parameters Consultation. For the avoidance of doubt, this is a non-confidential response.

Who we are

SSE is the largest renewable energy developer, operator, and owner in Ireland's all-island Integrated Single Electricity Market. Since entering the Irish energy market in 2008, SSE Group has invested significantly to grow its business in Ireland, with a total economic contribution of €3.8bn to the State's economy over the past five years. We have also awarded over €9m to communities in the past 10 years as part of our community benefit programme.

SSE is building more offshore wind energy than any other company in the world right now. We are currently constructing the world's largest offshore wind energy project, the 3.6 GW Dogger Bank Wind Farm in the North Sea, a joint venture with Equinor and Eni. This is in addition to Scotland's largest and the world's deepest fixed bottom offshore site, the 1.1 GW Seagreen Offshore Wind Farm in the Firth of Forth, a joint venture with TotalEnergies, which reached first power in recent weeks. In the most recent Scotwind process, SSE Renewables was awarded the rights, along with partners Marubeni Corporation (Marubeni) and Copenhagen Infrastructure Partners (CIP), to develop what will become one of the world's largest floating offshore wind farms off the east coast of Scotland.

We plan to bring our world-leading expertise in offshore wind energy to Ireland with plans to deliver over 3 GW of offshore wind energy in Irish waters, starting with our Arklow Bank Wind Park Phase 2 project off the coast of Co. Wicklow. Through our SSE Thermal business, we continue to provide important flexible power generation. SSE's power station Great Island is Ireland's newest Combined Cycle Gas Turbine (CCGT) power station and one of the cleanest and most efficient on the system, generating enough electricity to power half a million homes.

The acute need for flexible generation in Ireland has been demonstrated over the last twelve months, with EirGrid's most recent Generation Capacity Statement indicating that a shortfall in generation capacity was a significant risk this winter and will continue to be for a number of winters to come, resulting in emergency measures being implemented by the CRU and Government.

While existing power stations continue to play a critical role on the system, SSE view the future of dispatchable thermal generation as being abated thermal, with Carbon Capture and Storage, hydrogen or other low-carbon fuels being the primary options. SSE has over 5 GW of zero and low carbon thermal plant under active co-development across the UK.

We will continue to evaluate opportunities to bring our expertise and investment in decarbonised flexible generation to Ireland, but it is vital that the Government, CRU and EirGrid provides an appropriate investment landscape to unlock such developments.

SSE Response

Our high-level position on this extraordinary capacity auction is that it is insufficient for the degree of challenge faced by developers who have been consistently demonstrating that the Capacity Remuneration Mechanism (CRM) design is not supporting commercial delivery or is struggling to mitigate security of supply risk. We have also provided our perspective on the individual proposals as set out below.

We appreciate the intention to seek to recover the loss of capacity that failed to compete at the T-4 auction for this same delivery year. However, where the current concerns relating to CRM parameters, milestones and external challenges all remain unaddressed, a shorter timeframe for delivery simply reduces the opportunity for multiple entrants since this auction is most likely viable for projects already in flight.

New Capacity: yet to be commissioned

The paper states that New Capacity *yet to be commissioned*, could have an option in this auction to secure a new contract. In our view this supports our view above that T-3 is most likely only an option for projects already in progress. What has not been made clear is, how an existing awarded contract is treated if a new contract has been awarded, and what is meant by "commissioned" in terms of timeframe.

Specifically, is the intent from the SEMC relating to either:

- not commissioned before the T-3 auction, or
- not commissioned before 2027, or some other time.

Clarity in this regard is required.

Incentives for carbon abated development

The Capacity Year for this auction is 2027. The approach to the parameters adjustments lacks any amendment that could help to ensure that whilst the capacity that arrives has the strongest chance of delivery for security of supply to meet the serious capacity shortfall, it is also sufficiently incentivised to be a carbon abated project to meet 2030 targets.

We recognise that there has been a separate consultation on possible intermediate contracts in the CRM. As we have recommended, intermediate contracts are useful for projects that are simply retrofitting or converting from one fuel to another (in some cases), i.e., projects where the majority of their investment cost in a turbine capable of future carbon abatement is covered in their multi-year original New Capacity contract. The Auction Price Cap (APC), Best New Entrant (BNE) and Existing Capacity Price Cap (ECPC) as currently cast, do not provide a suitable investment horizon or immediate term support for such an endeavour at scale.

SEMC Senior Stakeholder T-3 event

We have included our reflections from this event, the content of which has been summarised in SEM-24-011. SSE and other industry members were clear and importantly in agreement on the following:

1. A T-3 would have a strong and inappropriate impact to the forthcoming T-4 auction where it would compress the delivery schedule for both these auctions to essentially only three years each. Therefore, there is a strong risk of continued capacity shortfall or high levels of auction attrition.
2. De-rating factors are punishing, SSE discusses this in further detail below.
3. Price caps are a problem. SSE acknowledges that this paper is considering resetting the APC only, we discuss this in further detail.
4. Indexation was conspicuously absent where supply chains are challenging. In SSE's view it cannot be ignored that lack of indexation may have been a contributing factor to consistent termination of capacity contracts across various auctions. Ireland is a small market from the perspective of manufacturers and OEMs. Developers can suffer from this with respect to supply chain procurement either with costs or timelines.
5. Industry was clear that where there is no appreciable change in the speed and process for grid connection delivery and planning approval, these are enduring factors that impact project delivery and need more time rather than less time¹, to ensure they do not affect project energisation by the Capacity Year. (This was the rationale why industry proposed a T-4 auction held earlier or proposed the concept of a T-5).

It is concerning that where industry is coherent and consistent in matters of impact and detriment, it did not appear to be taken on board. Industry has been demonstrating for some time that there are systemic dysfunctions in CRM implementation and administration. Some of these views were echoed in the recent McCarthy report.

In our view, this is not a top up auction in the sense of a T-1 since it is trying to recover a significant shortfall in auction volumes expected from the previous T-4. Providing a three-year delivery timeframe is wasting valuable time squeezing in a reactionary auction and risking further capacity shortfall, rather than

¹ In the Ernst and Young review of the CRM, they were clear in their recommendations that delivery timeframes were too short.

focussing on providing pragmatic and deliverable auction timeframes that, as industry have all stated, should be longer.

SEM Committee Proposals

Proposal 1: A change to APC

SSE is supportive of APC being increased. However, we are concerned with the frequency with which the APC is being exceptionally adjusted, which simply continues to clarify that the BNE is not fit for purpose. We have no suggestion for the level of multiplier, since the SEMC is unclear what the APC is expected to achieve. The APC set to a level simply to encourage entry, will not remove the supply chain risks, planning and connection offer delivery risks which all impact actual, real delivery of the capacity. APC not set to a level to encourage projects that may in future be able to refurbish or retrofit their unit to hydrogen or CCS, is also a serious consideration since the delivery year for this auction is 2027, extremely close to 2030. (Though we acknowledge that carbon abated projects could be encouraged to the CRM with the establishment of an additional separate capacity award for evidenced carbon abated/net zero projects, incorporated into their overall RO exposure).

ECPC appears in the executive summary of the consultation to be under consideration for adjustment. However, the SEMC is at pains to outline in the paper why they consider this is not appropriate. SSE has been clear in past CRM consultation responses, that the ECPC is set too low. Whilst we appreciate that an ECPC may be seen as a parameter to prevent market power abuse, it also represents the value that a new capacity project can look forward to in future auctions they apply for when they are existing units. The level that ECPC is set at, does not illustrate a realistic and investable picture to a developer. This is particularly the case for a developer of higher efficiency new units or a developer that is repowering or redeveloping their site. Such developers are incurring costs associated with novel technologies, which in alignment with the Climate Action Plan are desperately needed for Ireland.

Proposal 2: a change to INCTOL that is non-zero

We are in favour of the approach for INCTOL to help mitigate the impact of de-rating factors. We have provided a proposed level of this value below. Having reviewed the code, INCTOL appears in the determination of an individual unit's gross de-rated capacity. It also seems clear in code and policy documents that units must demonstrate that they should have INCTOL applied. We would suggest since it is also calculated unit by unit, this gives the opportunity for a different value of INCTOL new and existing capacity, or per technology type.

SSE is concerned that this is the only auction where the SEMC has felt it has been necessary to amend the INCTOL, as more use of this parameter could have helped to better acknowledge the value of higher efficiency New or Existing Capacity in previous auctions.

From an investment perspective, once-off "sticking plaster" changes to the CRM (e.g., extraordinary auctions, exceptional indexation rather than enduring, exceptional changes to price caps), provides no clear, enduring, and stable landscape for a developer. It is concerning that it appears the intention is only to adjust the INCTOL in the context of an extraordinary auction where the circumstances are in dire need, rather than pragmatically considering this fact in previous auctions where other more efficient plant were entering. It cannot be underestimated that the derating factors had a contributing role in the degree of terminations or auction attrition to date.

Our major concern is that derating factors based on historic performance, are being applied equally to all ages and efficiencies of technology, especially new capacity which is by definition likely to be more efficient. Having derating factors more appropriate and granular would likely have resulted in more efficient treatment of units that are run hour limited. The downward pressure of derating factors that is based on historic performance yet borne by newer efficient capacity seeking to enter the market, is likely to have been a strong hindering factor in previous auctions.

We have reviewed the derating factors over the past T-4 auctions and in our view, new assets should receive a 15% INCTOL. We consider it is inappropriate that newer assets should be subject to derating

factors based on historic performance of existing units therefore, they should receive a relative increase via the INCTOL that can release the efficiency value of these assets.

It is our view however, that this should not be isolated to this particular auction, since newer assets have been faced with inappropriate downward derating factors for some time, which has stifled entry and contributed to the capacity shortfall currently being experienced. To avoid this reoccurring in a future auction, INCTOL must be non-zero for future auctions to avoid this continuous cycle of extraordinary auctions due to project attrition, resulting from CRM design issues.

In addition, DSUs should receive no INCTOL values since INCTOL is based on generator parameters, i.e. efficiency of technology and performance of generation. DSUs are essentially interruptible contracts and therefore, are non-technology measures. Their performance measure is based on how responsive they are to reduce demand, not support supply. Therefore, we can see no possibility for demonstration of higher efficiency.

For existing assets, we would be supportive that there must be evidence to support application of INCTOL but that efficiency adjustments should be encouraged and appropriated remunerated. Existing units should therefore have the opportunity to signal a percentage increase tolerance up to 15% with evidence to support this adjustment to their capacity contract value. This is likely to have a positive impact on the ambition to encourage refurbishment and repowering via intermediate contracts, if INCTOL values can ensure these efficiency measures can be remunerated.

Summary

In summary, it is our view that foresighted and enduring changes to the CRM are preferable to once-off measures where we are concerned that they will simply delay future capacity auction procurement challenges. To date, no measures in the CRM have sought to consider the emissions targets of the system, even as this auction is delivering for 2027. Notwithstanding that, we are supportive of the changes proposed, but are not supportive that they are only made for this single auction since both parameters would have had a positive impact on past auctions and likely have assisted in mitigating the risks of project terminations or auction attrition.