



- 1) SEM-24-019 CRM T-4 2028/ 2029 Capacity Auction Parameters Consultation Paper**
- 2) SEM-24-024 Proposal to introduce Early Delivery Incentives into the CRM Consultation Paper**

SSE Response

INTRODUCTION

SSE welcomes the opportunity to respond to SEM-24-019 Capacity Remuneration Mechanism T-4 2028/2029 Capacity Auction Parameters Consultation Paper and to SEM-24-024 Proposal to introduce Early Delivery Incentives into the CRM Consultation paper. For the avoidance of doubt, this is a non-confidential response.

We have combined both responses in one document, noting that the aspects in both relate specifically to the CRM 2028/29 Auction approach.

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 €9 million 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 showing that a shortfall in generation capacity was a significant risk this coming winter and 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 have over 5 GW of zero and low carbon thermal under active co-development in 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 state, Regulator and TSO provides an appropriate investment landscape to unlock such developments.

SSE RESPONSE TO SEM-24-019

Introduction

We welcome the Decision of SEM Committee to hold a T-4 2028/2029 auction, with incentives for early delivery of new capacity in the capacity year 2028/2029, in place of the proposed T-3 CY2027/2028 auction. Although we are supportive of many of the changes proposed in this auction, it is our view that enduring changes to the CRM are preferable to one-off measures, which we believe could prolong future capacity procurement challenges and erode investor stability.

Also, with the Capacity year for this Auction close to 2030, the adjustments to the parameters still lack any amendment that could help to ensure that although capacity has a stronger chance of delivery to meet the current capacity shortfall, incentives should be introduced for carbon abated projects in order to meet 2030 targets and beyond.

The separate consultation on Intermediate length Contracts is referred to as one of the possible policy changes for the T-4 2028/ 2029 Auction. As we have said in our previous response, intermediate contracts are useful for projects which are retrofitting or converting from one fuel to another, i.e. projects where most of their investment cost is covered in their multi-year original New Capacity contract. The Auction Price Cap, Best New Entrant and Existing Capacity Price Cap need to provide suitable investment support for this type of project.

Response to Parameters:

The following is SSE's response to proposed parameters in the Consultation:

a) De-rating Curves, defining De-rating factors by Technology class

This is to be determined by the System Operators prior to the publication of the IAIP. Concerns have been expressed about derating factors being applied equally across all ages and efficiencies of technologies based on historic performance, even to new technologies, in auctions to date. The downward trend of derating factors based on historical performance is likely to have been a hindering factor in previous auctions. We hope this is not the case in this auction.

We also have a concern about the de-rating methodology, which we believe should be revised for both new and existing technologies. As explained under the INCTOL heading below, the proposal for a non-zero INCTOL does not fix the underlying problem.

b) Capacity Requirement / Auction Volumes

The paper proposes that the Capacity requirement is the derated capacity required to satisfy the SEM security standard for a specific Capacity year to be used in the auction, to be determined prior to the publication of the Initial Auction Information Pack.

Auction participants require as much clarity as possible on the Capacity requirements for an auction as soon as the information is available. This should include indicative values for the LCC requirements as well as the overall Capacity requirement. If any updates to these occur prior to the Final Auction Information pack, these should be promptly published with rationale for any differences included.

c) Indicative Demand Curve / Auction volumes

We note that the Indicative Demand Curve is similar to the details for the last Auction. We would appreciate better transparency on the derivation of this Demand Curve methodology, to give insight as to how it will evolve over time.

The APC line is proposed to slope down to 92.5%. We would question why this is not continued down to 100% of capacity requirements to maximise the volumes to be procured in this Auction.

The Demand Curve should provide clarity and guidance on the capacity requirements for the auction. Previous auctions have provided a Demand curve without any indicative volumes or in some cases prices. This does not meet the defined requirements for the Demand curve as included in the Capacity Market Code and the Regulators and System Operators should ensure that participants are given the closest indicative information in the IAIP on volumes, prices and Price/Quantity points in the Demand Curve.

d) Proposals for Auction Price Caps APC for New Capacity

We welcome SEMC's response to the feedback received at the January 2024 Senior Stakeholder Forum and the recent Consultation on a potential increase to the Auction Price Cap. We appreciate that there is insufficient time to recalculate Net CONE before the next auction, so it is proposed to increase the APC by applying a higher multiplier to Net CONE. However, we are concerned with the frequency of exceptional adjustments of APC, as it implies that the Best New Entrant is not suitable for setting an appropriate level of Auction Price Cap. This needs to be addressed for future Auctions.

For this Auction, in the absence of a change to the current BNE, SSE is supportive of an appropriate increase in the 1.5 multiple to set APC. Also APC should ideally be set to a level which would encourage the future delivery of projects to refurbish or retrofit their unit to a decarbonised technology, as the delivery year for this auction is so close to 2030. This is one way to encourage carbon abated projects, although there are others including an additional separate capacity award for low carbon capacity projects.

SSE agrees with the application of indexation to address inflation. Ireland is a small market for investors and Original Equipment Manufacturers. Developers can be impacted by costs and timelines with challenging supply chain procurement.

However, SSE has a strong preference for an Enduring Indexation mechanism for future auctions to provide a lasting signal to investors. Enduring changes to the CRM are preferable to one-off measures.

e) Proposals for Auction Price Caps for Existing Capacity

SEMC proposes to continue to set ECPC at 0.5 times Net CONE. Previous responses have argued that this ECPC is understated. With a proposed increase to the APC, a similar aligned adjustment should be applied to the ECPC to reflect appropriate differentials between the revised APC and ECPC.

Cost inflations in the market impact both new units for construction costs and existing units for operation, maintenance and improvement costs. In addition, reduced energy and reduced DS3 /unknown system services (SSFA) revenues should also be reflected in the multipliers. It should be sufficient to allow generators to cover their Net Going forward costs to reduce the risk of unplanned exits.

While SSE appreciates that ECPC is seen as a parameter which prevents market abuse, it also represents a parameter which new capacity projects can look to in future auctions as they become existing units. This level of ECPC is not a realistic investable price for a developer, particularly where it is hoped to invest in repowering or redeveloping a site. Additional costs are incurred with novel technologies which are required to meet the Climate Action Plan. Any increase to the multiplier factors for the auction caps should not undermine the role that existing efficient units have in the decarbonisation transition as well as for security of supply.

j) Increased Tolerance INCTOL

In our view, the main concern to be addressed is the de-rating methodology, which we believe should be revised for both new and existing technologies. INCTOL does not fix the underlying problem.

From an investment perspective, once off/ exceptional 'sticking plaster' changes to the CRM such as this do not provide a clear, enduring, and stable environment for an investor. It appears the intention is to only increase the INCTOL in the context of a specific auction where circumstances dictate that this is needed, rather than a pragmatic solution for more efficient units in all auctions.

However as this is the method currently in use, SSE is in favour of a non-zero INCTOL to help mitigate the impact of derating factors. Our understanding is that INCTOL is included in the determination of an individual unit's gross derated capacity. As INCTOL is calculated per unit, we assume there would be differing values of INCTOL for new and existing individual capacity units and for different technologies.

New units

A key concern is that derating performance based on historic performance are being applied equally to all ages and efficiencies of technologies. New units are likely to be more efficient in their first decade of operation.

Newer assets have been faced with inappropriate downward derating factors in previous auctions. For reference, although there are differences between the rules of the 2 capacity markets, the changes in de-ratings between auctions in the GB Capacity market are not as substantial as in the ISEM market. These GB de-ratings are much lower and more stable.

It is difficult to propose actual INCTOL numbers without knowing the actual de-ratings for this auction yet. We support having a different metric to treat New Capacity, as the de-rating methodology based on an ageing fleet is not indicative of what a new unit could provide. However we would not support a unit specific de-rating capacity. It would be hard to ensure that all participants would provide the same type of evidence/metrics to prove that the unit can achieve a higher de-rating. Our preference would be a new de-rating methodology, especially for new builds.

Another issue is that use of INCTOL has previously been suggested to award New Capacity not yet commissioned to obtain an incremental capacity contract if it could deliver higher availability. However, given the consistently declining de-rating factors, there are no incentives for potential additional capacity in a further auction as it could be derated to a lower level than the original awarded capacity. This indicates that there is a problem with this methodology which should be addressed to ensure the best solutions for security of supply and decarbonisation.

Existing units

For existing assets, we agree there should be evidence to support application of INCTOL. Efficiency and refurbishment improvements should be encouraged and appropriately remunerated. So, existing units should have the opportunity to signal an increased tolerance with evidence to support this adjustment to their capacity contract value. This would also provide a positive incentive to encourage refurbishment and repowering e.g. via intermediate contracts.

Assets have been faced with inappropriate downward derating factors in previous auctions. To avoid a recurrence of this, for future auctions a new methodology should be considered as part of an improvement in CRM design. In the absence of this, INCTOL should be non-zero at an appropriate level for new and existing units.

k) l) Performance Securities and Termination Charges

The Performance Securities and Termination Charges were increased for last year's 2027/28 auction and these are being continued for this auction.

It is accepted that Performance and Termination charges need to be set at a level that will incentivise the delivery of awarded capacity. However, it is not clear why this increase was needed and if there is justification for an increase as we are not aware of any indication that the first increase of charges have not had the desired effect. Indiscriminately increasing charges could potentially hinder participation and new investment at a time of a shortfall of capacity. Participants entering an auction, particularly for large T-4 projects, already make a substantial financial commitment which should be sufficient to deter speculative bids,

m) Values for the Full Administered Scarcity Price and the Reserve Scarcity Price

SEMC requests views on any changes that could be made to the parameters of the Administered Scarcity Price function to encourage availability at times when system margins are tight. We do not believe that changes to the ASP parameters should be made when system margins are tight as this could result in further RO penalties.

Treatment of Constraints/ Locational Capacity Constraint Adjustments

SSE acknowledges the importance of solving locational Capacity constraints in the SEM. However, we would question the LCCA approach taken. LCCAs should not negatively impact on capacity providers which have cleared in an unconstrained auction.

Greater transparency and explanation should be provided for any changes to capacity requirements, to allow participants to identify future capacity needs. Changes to capacity requirements does not provide a consistent signal to the market and to developers planning projects for the future.

Summary

SSE is in favour of proceeding with a T-4 Auction instead of a T-3 27/28 Auction. Although we support some of the changes proposed, these are one-off measures. It is our view that enduring changes to the CRM are preferable to one-off measures, which we believe could prolong future capacity procurement challenges.

Also, to date no measures in the CRM have been proposed to consider the emission targets of the system, even though we are close to a 2030 auction and low carbon initiatives are referred to in many industry reports and proposals. Measures to incentivise decarbonisation should be addressed at this stage.

We have explained some changes we would like to see addressed, including to the BNE/ Net Cone, De-rating methodology and Capacity requirement.

SSE RESPONSE TO SEM-24-024

In addition to the response above on SEM-24-019 our comments on SEM-24-024 are detailed below.

SSE are supportive of early delivery incentives to apply for all auctions in future. For multi-year contracts in T-4 auctions it is reasonable to have a one year limiting threshold, and encourage the SEMC to ensure that the proposal is not overly complex. We would assume these incentives would apply for multi-year contracts in a T-1 auction.

Since early delivery incentives are being proposed to apply to multi-year contracts, these incentives should also apply for intermediate contracts for refurbishment that the SEMC is also considering for future auctions. We would suggest there is strong likelihood that

such projects would stand a good chance of early delivery. Confirmation of this would be welcome in the final decision paper.

Early delivery can only be facilitated if the project milestones are sufficiently flexible to allow for this to be recognised. Project milestones must be sufficiently flexible so that required deliverables outside the control of a project development are recognised. For grid connections specifically, early delivery is dependent on strong incentives on the TSO.

However, where in theory this proposal will be beneficial for customers and security of supply, we would expect that this benefit is realised through a reduced need and cost of emergency generation.

The potential for early T-4 projects should not impact how the TSO/RA access the capacity needs for a T-1 auction, i.e. the capacity requirement for a T-1 auction should not make provisions for potential early delivery of T-4 projects.