SEM-25-001 CMC Modifications Workshop 40

SSE Response

INTRODUCTION

SSE welcomes the opportunity to respond to the SEM-25-001 Capacity Market Code Modifications Workshop 40 Consultation paper. 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 €1.3bn to the State's economy over the past three years. We have also awarded over €11.3 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 CONSULTATION

Introduction

We welcome the opportunity to respond in this consultation to the proposal under CMC_12_24. This is a non-confidential response.

CMC_12_24 Proportion of Delivered Capacity in respect of Incremental New Capacity

This modification seeks to amend the parameters used to calculate the proportion of Delivered capacity in respect of Awarded New Capacity where the unit has been awarded a combination of Existing and New Capacity for the same Capacity Year in different Capacity Auctions. This proposal is being recommended by the proposer on the basis that de-rating factors are uncertain and changeable from auction to auction.

SSE supports the principle and logic of this modification. We agree with the principle that where there is incremental new capacity being bid into a separate auction from the original new capacity, there can be a high impact and disincentive given how the de-rating factors are currently set. We would support that where there is a project already in place (existing) or underway (new), there should be a consistent and fair approach to incremental capacity. We list the two reasons for this view, below.

Efficiency and support of new incentives

This modification and and other past modifications relating to the parameters of the CRM are a product of the flawed and unworkable de-rating factors calculation and the constant recalculation of de-rating factors. It cannot be assumed that more efficient new capacity has the same reliability as an existing aging fleet. The derivation of de-rating factors should take account of what is being procured and required; newer, more efficient, more reliable, new capacity.

Constant variability of de-rating factors and the methodology for their calculation being based on aging fleet works against new more beneficial incentives in the CRM like intermediate level contracts and early delivery incentives. For example, intermediate level contracts were outlined as being a solution for refurbishment of existing units, improvements in availability or efficiency and/or transitioning an existing unit to a lower carbon technology. This suggests an expectation from this new CRM contract incentive for a more efficient unit to be delivered. However, such a contract is still being assessed at auction against de-rating factors using historic availability. There is no incentive to improve on efficiency if the de-rating factor for a unit remains as it was prior to the work.

The same applies for over-installation at an existing site to positively optimise what a site can offer the system. The CRU recently removed the over-installation limit, which is hugely welcome, but this optimisation potential cannot be realised with the current approach to de-rating factors and a lack of recognition of how to treat incremental capacity.

Investor certainty and ambition

De-rating factors should consider investor certainty. Bid and auction outcomes as well as treatment of existing capacity units are strong factors when considering an investment in the CRM. Changes to de-rating factors auction to auction mean they are not predictable and remain a risk for investment in the current approach. It could be assumed that de-rating factors become more punishing over time, since they are based on an aging fleet whose unavailability is disimproving. But this demonstrates to an investor a lack of value in the CRM for newer high efficiency and more reliable technology.

Until the de-rating factors are more fairly and transparently applied based on actual efficiency, there will continue to be modifications like this, aimed at remedying clear implementation issues in the CRM. Currently, de-rating factors can depress the true value of more efficient new technology and coupled with price caps based on a Best New Entrant of an OCGT, fail to provide a signal for investment in greener or more large-scale single site capacity.

As per the workshop, we would be in favour of a wider review of this issue in terms of process, methodology, treatment of incremental capacity and consideration of setting a non-zero INCTOL. Change in approach to INCTOL was previously proposed by the SEMC and received industry support. It would be an interim solution to alleviate some of the impacts. Lastly, given that the CRM is due for State Aid renewal, this is a significant area that must be addressed as part of the review of the CRM.