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Dear SEM Committee,

This response to the consultation paper 'Options for Decarbonisation of the existing CRM design' is on behalf of Mutual Energy Limited ("Mutual Energy").

Mutual Energy own the Scotland-Northern Ireland gas pipeline and much of the onshore gas transmission network in Northern Ireland via three subsidiary companies who are licenced as gas TSOs by the Utility Regulator: Premier Transmission Limited ("PTL"), Belfast Gas Transmission Limited ("BGTL") and West Transmission Limited ("WTL"). Mutual Energy also own and operate the Moyle Interconnector between Scotland and Northern Ireland.

We are generally supportive of the introduction of incentives that will encourage a reduction in emissions while ensuring sufficient dispatchable plant is available in the SEM. Improvements in the efficiency of existing gas plant and the introduction of renewable gases as a fuel source should be encouraged to decarbonise whilst utilising existing assets such as the gas transmission network. We have provided responses to specific consultation questions more relevant to us in the section below:

Consultation questions regarding the Green Bonus

1. Would the Green Bonus create an incentive that market participants can respond to within the timeframe of the remaining auctions under the existing CRM?

No response.

2. Where should the CO2 emissions threshold be set to incentivise higher efficiency gas plant as well as lower carbon technologies? Please provide appropriate evidence and rationale to support.

No response.

3. Is one year the appropriate additional contract duration?

An additional contract duration of one year appears to provide quite a weak incentive and a longer duration may be more appropriate particularly if the emissions threshold is set at a lower level and significant investment is required to meet it. Although the green bonus would give the certainty of an additional year of capacity remuneration payments for a unit,

in many cases the promotor may anticipate that they will receive further contracts via participation in future auctions, so the real and perceived marginal benefit of the green bonus may not be material.

4. Is the definition of blended hydrogen-readiness appropriate i.e. that the unit must incorporate combustion equipment that is capable of burning a blend of up to 30% hydrogen? Should a higher/lower percentage blend be applied for the blended hydrogen-readiness definition?

In the absence of NI hydrogen policy, and a decision from DESNZ on hydrogen blending in the GB gas transmission system, it does not seem appropriate that gas units would commit to being capable of burning a blend of up to 30% hydrogen. Significant investment would be required for the combustion equipment and the pipeline systems conveying gas to the combustion equipment to facilitate a hydrogen blend and this would come at a material cost, ultimately borne by consumers. For units in NI it would seem more appropriate to incentivise and reward such readiness when a hydrogen strategy is in place which supports these types of solution rather than before.

In addition, we do not follow the logic behind a hydrogen blend of 30% as an appropriate level as DESNZ current minded to position is to blend up to 2% in the gas transmission network. [1]

We consider that a requirement on gas units for hydrogen blending readiness must be considered in light of GB and ROI decisions taken on the appropriate level of hydrogen blending on the transmission network so that gas units are only incurring costs on equipment and upgrades that are necessary.

Consultation questions regarding the Green Scalar

5. Would the Green Scalar create an incentive that market participants could respond to within the timeframe of the remaining auctions under the existing CRM?

No response.

6. What are the appropriate CO_2 emissions thresholds that should apply for the Green Scalar? Please provide appropriate evidence and rationale to support.

No response.

[1] https://www.gov.uk/government/consultations/hydrogen-blending-into-the-gb-gas-transmission-network/hydrogen-blending-into-the-gb-gas-transmission-network-consultation-document

7. Should the Green Scalar be a continuous or stepwise function?

We do not have a strong preference between these approaches, if a stepwise function is more simple and economical to implement it is likely to be as effective as a continuous function as long as the steps are sufficiently granular that the incentive is effective in encouraging units to continue to reduce emission intensity further.

Consultation questions relevant to both the Green Scalar and Green Bonus

8. Which of these two options – the Green Scalar or the Green Bonus – do respondents consider is likely to be more effective within the timeframe of the remaining auctions under the existing CRM?

We do not comment on a units ability to respond to each incentive within the timeframe and the extent to which they can reduce emissions but intuitively it would appear that the green scalar would create a stronger incentive for units to reduce the carbon intensity of emissions further than the green bonus as the incentive is sufficiently targeted and scaled directly to the carbon intensity level rather than just one threshold to meet with no further incentive to reduce emissions.

Depending on the level of the green scalar it should provide a stronger investment signal to gas plant to invest in technology that would significantly reduce emissions instead of reducing them to the extent required to avail of the green bonus.

The hydrogen blending readiness requirement may also not be necessary if a green scalar is in place as the scalar should provide sufficient incentive to increase the hydrogen blend percentage they can accommodate if it is commercially beneficial.

Given the limited nature of the timeframe specified biomethane is likely to be the more readily accessible low carbon alternative fuel for gas plant therefore we would consider that the incentives should be set at an emissions level that encourages the use of biomethane.

9. What technologies could be expected to benefit from the Green Bonus or the Green Scalar in the specified timeframe? For each technology referred to, what is the associated scale of and timeframe for investment for an existing or a new plant?

We do not provide further information on this but we seek clarity on whether such incentives would be applicable to interconnectors or storage solutions that are not directly generating emissions but are likely to be contributing to a reduction in the emission levels in SEM (based on the real time fuel mix emissions of the sending jurisdiction or fuel mix when charging).

In addition, long duration energy storage should benefit from these incentives given the extent to which they can provide dispatchable low carbon generation (e.g. pumped hydro).

10. What is the expected commercial running pattern for each technology and are there constraints on its flexibility?

No response.

11. What verification process should apply to ensure compliance with the emissions thresholds for either measure?

It will be important that a verification process is thoroughly considered to ensure that units that are availing of these incentives are truly contributing to decarbonisation. A certification scheme would be required to prove the carbon content of a unit's fuel source and a process should be established for how emissions levels are attributed to other technologies such as batteries and pumped hydro.

12. Do you agree with the proposal to publish the carbon emissions data submitted at qualification by successful units, and where relevant, ex-post data provided by successful units?

We agree that this would be a positive measure to increase transparency and ensure units that have qualified for the incentives are actually meeting the required targets but we are aware there are an increasing number of emissions reporting requirements so alignment of these should be carried out where possible to prevent any undue administrative burden on participants.

13. How effective do respondents consider the proposed "Decarbonisation Declaration" would be?

We consider that the effectiveness of such a declaration would depend on the detail of the required commitments and how actively the performance of any commitments will be measured and reported on. Without such active monitoring the effectiveness of this measure may be very limited.

14. Is the proposed content of the "Decarbonisation Declaration" sufficient? Could other elements be included e.g. feasibility study, interim targets?

As noted in response to Q13, in order for such a declaration to be effective there would need to be some measurement against the commitments made.

15. Do you consider that any of the other measures discussed in the accompanying AFRY Assessment Report, or any measures to achieve decarbonisation that not identified by AFRY, should be considered further by the SEM Committee? If so, please state clearly if

your view relates to the timeframe of the present workstream (lifetime of the existing CRM) or longer-term CRM development. If so, please provide supporting evidence.

We agree the most appropriate measures have been considered given the timeframe available.