CONSULTATION ON IMPERFECTIONS CHARGE OCT 2021 – SEP 2022 AND REFORECAST REPORT OCT 2019 – SEP 2020 SEM-21-053

SSE Response

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INTRODUCTION

SSE welcomes the opportunity to comment on the "Imperfections Charge October 2021 – September 2022 and Reforecast Report October 2019 - September 2020" consultation. For the avoidance of doubt, this is a non-confidential response.

As both a registered Supplier and Generator we have provided comments with regard to the market impacts of this consultation.

WHO WE ARE

At SSE we're proud to make a difference. From small beginnings we've grown to become one of Ireland's largest energy providers, supplying green electricity and natural gas to over 700,000 homes and businesses on the island. We are driven by our purpose: to provide energy needed today while building a better world of energy for tomorrow.

Since entering the Irish energy market in 2008 we have invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years. We own and operate 890MW of onshore wind capacity across the island (including Northern Ireland's largest, Slieve Kirk Wind Park), offsetting over 700,000 tonnes in carbon emissions annually. Our portfolio includes Ireland's largest onshore wind farm, the 174MW Galway Wind Park, which was jointly developed with Coillte. We also own and operate the Great Island Power Station, Ireland's newest gas station and a strategic asset for Ireland's security of electricity supply.

As a leading developer of offshore wind energy in Great Britain, we believe offshore wind has the potential to transform Ireland's response to climate change. SSE is currently progressing the development of a consented offshore windfarm off the coast of Co. Wicklow - Arklow Bank Wind Park Phase 2. We also have plans to progress projects at Braymore Point and in the Celtic Sea.

SSE are proud to be a Principal Partner for COP26 – the 26th United Nations Climate Change Conference of the Parties – where world leaders will be seeking a more ambitious climate change agreement. We look forward to continuing to work with the UK government and other stakeholders to support the delivery of a successful and impactful COP in Glasgow next November.

SSE RESPONSE

SSE is particularly concerned with the relative increases associated with dispatch balancing costs. SSE expect both CRU and UR to address the network development appropriately. The EU's Clean Energy Package sets out requirements to reduce the level of dispatch down (both constraints and curtailment) below the current levels being experienced in SEM today.

With respect to the proposed imperfections charge of €9.19/MWh for 2021-22 SSE is disappointed that this continues to increase since 2018. We would ask the Regulatory Authorities to be more ambitious in addressing the network issues (such as constraints) which are contributing to these high imperfection charges. The respective climate targets of Ireland and Northern Ireland will require significant investment in additional renewables, it is essential that the network constraints are resolved to minimise any potential future barriers to entry.

Our response provides specific comments in relation to the following areas:

- Imperfections charges modelling
- Demand forecast
- Dispatch balancing costs

Imperfections Charges inputs

We are supportive of the SEM Committee disallowing a large amount of costs associated with the supplementary modelling submitted by the TSOs. Whilst it is acknowledged that there may be some variations between the Plexos modelling carried out and out-turn of dispatch balancing costs, the assumed level of €181m provided by the TSOs does not appear credible.

SSE is concerned around the lack of transparency from this consultation in respect of the proposals for the supplementary modelling constraints. The consultation fails to set out the rationale behind the RA's proposal of €56.6m for constraint costs as well as a provision of €0.59m for secondary fuel costs. Additionally, the consultation does not provide sufficient detail as to the introduction of €10m of Interconnector counter trading costs. Therefore, we are not in a position to support or reject the consultations proposals and would recommend that the RA's provide further information to this effect.

Demand forecast

With reference to the Generation Capacity Statement 2020-2029 SSE is concerned that the demand forecast being assumed is not consistent with any of the scenarios that were provided as part of the All-island Generation capacity statement for 2020-2029. The supporting narrative indicates that the source of this is the All-island generation capacity statement for 2021 however this is not yet in the public domain. Given the concerns already raised in relation managing demand associated with connection of new data centres it is difficult to understand why the demand forecast is so low. Therefore, we fail to see a justification to support the reduction in the demand forecast form the median scenario presented in 2020-2029 generation capacity statement.

The burden of the increased Imperfections Charge would also be reduced if the demand forecast were increased to more realistic levels. This would be of benefit to consumers.

The reduction in demand instead succeeds in suggesting that a greater proportion of costs can be extracted from the market for activities that we consider the TSO should be bearing or seeking to reduce through proactive efficiency.

Dispatch Balancing Costs

SSE is concerned about the worrying trend in dispatch balancing costs having risen from €163m in 2015/15 to €341m this represents an increase of over 100% in 6 years and since the introduction of the new SEM trading arrangements these costs have increased by almost 80%. This has occurred with very little explanation or evidence to justify this increase.

The significant change in dispatch balancing costs appears to indicate that the new trading arrangements are either not fit for purpose, or that dispatch balancing has not been made more efficient through the introduction of this new market. We would urge the regulators to scrutinise this area and consider how to ensure efficient reduction of these costs. This is particularly important given the expected pressure on dispatch balancing created by the implementation of EBGL and aspects of the Clean Energy Package.

It is concerning also that dispatch down levels for renewables remain persistently high peaking at over 12% in 2020. This is demonstrated through dispatch down reporting published by the TSOs. Further work is required to meet the requirement of the Clean Energy Package to reduce dispatch down to below 5%. SSE would encourage both CRU and UR to ensure the price control frameworks for both EirGrid and SONI are sufficiently able to incentivise reduction in constraints and therefore dispatch down.

Whilst we acknowledge that the RA's have chosen not to allow provision for costs associated with the implementation of Article 13 there is a clear imperative to work towards reducing dispatch balancing costs both now and going forward. We would also not support the logic that costs are reduced by virtue of applying the RA's proposed (but unapproved) approach for implementation of Article 13. This suggests a foregone conclusion relating to a policy that has yet to be finalised or outlined clearly insofar as methodology.

This will be necessary to ensure the market is able to support the level of investment that is likely to be required to facilitate both the climate action plan in Ireland as well as the Energy Strategy in Northern Ireland.