CAPACITY MARKET CODE WORKING GROUP 23 – MODIFICATIONS CONSULTATION PAPER

SSE RESPONSE

For a better world of energy

INTRODUCTION

SSE welcomes the opportunity to respond to the Capacity Market Code Working Group 23 Modifications Consultation Paper issued by the SEM Committee (SEMC) on 11 March 2022.

For the avoidance of doubt, this is a non-confidential response.

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 have been a Principal Partner for COP26 – the 26th United Nations Climate Change Conference of the Parties – where world leaders sought 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.

SSE RESPONSE

We welcome the proposal made by Bord na Móna (BnM) to allow participants to combine multiple interdependent generating units, located on the same site and above the De Minimis Threshold, as a single Capacity Market Unit. SSE also welcomes the proposals from Energia for a reciprocal delay to the capacity auction timelines in the case of a delay/failure of the publication of a Final Auction Information Pack (FAIP) or of the Qualification Results.

As Capacity Market participants, it is a priority for us to ensure that the CMC enables arrangements to secure generation adequacy and capacity to meet the demands of consumers efficiently. Broadly, we are in favour of all three modifications due to the positive impact they could have on Capacity Market auctions. SSE is also of the view that these proposals have the potential to enhance competition, transparency and encouraging of new capacity that can provide flexibility at a time of risks to security of supply and fuel security.

CMC_01_22: NEW INTERDEPENDENT COMBINED UNITS

We understand that BnM propose that participants combine multiple interdependent generating units as a single Capacity Market Unit. This would have the benefit of allowing multiple units on the same site to qualify together on the basis of shared infrastructure. In our view the benefits of this proposal are in providing an opportunity to manage risks of disorderly exit appropriately, as well as aligning to future scenarios of co-located, hybrid, flexible generators providing much needed system support as wind penetration increases. Both of these are significant problems that the Regulatory Authorities (RAs) are currently seeking to solve, and this modification would likely support this work directly.

We note that currently, if two interdependent units apply separately but only one is successful, then the one successful unit may not recover the total new infrastructure investment costs, which could prevent these interdependent units from being commercially viable. If each generator unit must bid separately, then the participant is subject to significant price risk if economies of scale were to be reflected in their bids i.e., with lower bids (which reflect only the unit share of the infrastructure cost), as they cannot then guarantee that all ‘units’ will clear the Capacity Auction. Participants would therefore be strongly incentivised not to pass through the benefits of economies of scale, associated with common infrastructure/operation, in their higher, and less market efficient, Capacity Auction bids. This can result in reduced competition, and potentially higher costs to the consumer.

It is important to note that our reading of this modification could result in the opportunity for co-located flexible and hybrid units to compete in the Capacity Market, as mentioned above. We would urge the SEMC to be mindful of some of the current issues that are facing the deployment of co-located and hybrid units, in particular that co-located technologies cannot dynamically share Maximum Energy Capacity (MEC) in the I-SEM. Given the challenge to support increased wind penetration and the needs for system services to provide innovative and flexible system solutions, any proposal that will encourage entry of co-located flexible and hybrid sites to the market, can only be welcomed.

We would consider that the only method by which such units could be encouraged to market, as discussed through responses to the System Services Future Arrangements, is where both Capacity Market and system services revenues are possible for these generators (as is the case for existing units on the system). Allowing for co-located and interdependent units at the same site, could encourage this type of investment.

We note that the RAs are of the view that ‘it could be problematic, when seeking board approval…when a participant has a complicated investment proposition that is sharing substantial infrastructure and connection.' However, we would argue that every commercial business has its own method of approval for investment decisions, complicated or otherwise. We do not see internal commercial processes as being a valid reason for reluctance to approve such a modification. We would also like to think that participants should be provided with the opportunity to adapt to such issues as part of their commercial processes, as they have adapted when this new Capacity Mechanism when it was established in 2017, or when the new trading arrangements were implemented. We do not see this as a concern large enough to deter from BnM's proposal.

The System Operators (SOs) expressed concerns regarding applicability of this proposal, for example, where they receive two applications that relate to a shared new infrastructure, in the instance where one is eligible to participate in the capacity market and another is not. We agree with BnM that it is reasonable for the SOs to request a set of criteria to allow for the determination as to whether the requirements have been met in a given application. The criteria that BnM have already offered can form a draft from which the final conditions can be built upon.

We understand and agree with the SOs that a clear definition of 'shared infrastructure' is warranted, which can remove ambiguity, address concerns of market power (which presumably relate to bundling of units in more flexible ways), and mitigate any potential consequences. Therefore, we would support that this modification is revisited at a future CMC workshop, where the definition can be discussed and form part of a "version 2" proposal.

At a minimum, shared infrastructure should consider the context of facilitating hybrid, co-located and flexible generation to participate in the Capacity Market and removing any current barriers to their participation. We also would view that a suitable definition can allow for existing units to participate along this basis as well, otherwise, we would be approving a modification that may create undue discrimination of existing units. Existing units should also have a root to repowering, which could contribute to meeting climate change ambitions. This modification in principle could support this ambition as well.

We understand the justification behind the RAs suggestion to increase the De Minimis Threshold for aggregation, as in the RAs view, this could provide the flexibility that the proposal is aiming for, in an assumed easier fashion. However, we note that adjustment of the De Minimis Threshold has been discounted in the past under other modification proposals, given that this threshold has been set at a specific level, with good reason. We see no justifiable reason for this change, when the proposal provided by BnM provides a suitable basis for a CMC change.

We note the brief comment relating to the difficulties of applying this proposal to existing units. As mentioned above, we do not see any inherent reason why existing units should not be allowed this opportunity so long as the modification is adequately specific and defined. In addition to the reasons previously set out, it is important to note that there has been a situation (2017/18) where commercial viability has been at risk due to the requirement for individual unit qualification despite being co-located at the same site. This had a far-reaching market impact in the implementation of bidding principles amongst other areas, which may have otherwise been reasonably avoided with a sensible and defined approach to qualification of interdependent units co located on the same site.

We have also seen, as per the recent CRU decision CRU/22/11, the risk of disorderly exit leading to disproportionate generator reporting requirements. This arose from the CRM disallowing the combining of interdependent units. It is our view that this modification addresses these issues directly using the capacity market as the appropriate mechanism.

We recognise Energia's and other participants' comments regarding how this proposal could not be utilised as part of the qualification process since the process has now closed for forthcoming auctions. Despite the significant body of work required to explore this proposal to allow for implementation for the next T-4 Capacity Auction we support BnM's position that it would be beneficial to press ahead with the proposal in order to have it implemented for future auctions. If significant time passes and it becomes clear that this proposal cannot be implemented to an adequate standard in time for the next T-4 auction, then the process can be re-assessed and be given additional time to complete.

In summary, we support CMC_01_22, but welcome an updated version with specific definition of 'shared infrastructure' to ensure specificity. We would also be happy to discuss an enhanced version that extends to existing units as it could mitigate the concerns raised in the CRU paper mentioned above relating to disorderly exit.

CMC_02_22: TIMELY PUBLICATION OF FAIP

Our understanding of this proposal from Energia is that if a Capacity Auction's Final Auction Information Pack (FAIP) is delayed, then the Capacity Auction should be delayed by an equivalent time period. We consider they have produced a robust argument for this proposal which we support. This is due to the FAIP holding key information for auction participants to formulate commercial bidding strategies, and delays mean insufficient time for analysis.

We appreciate that having several processes running in parallel can cause systematic delays to the publication of documents, as raised by the SOs. However, it is not acceptable that market participants are detrimentally impacted as a result of insufficient resources for SEMO. A process should be sufficiently and robustly developed with mitigations such as what is being proposed, so that all parties still receive the same length of expected time for analysis, preparation etc. Where the FAIP has been delayed in the past, there has been no commensurate time given to participants for preparation. Instead, our timescales are compressed. This change is being proposed after several delays experienced in subsequent auctions, including the delay of publication of key data including the FAIP. We support the conclusion that implementation of this proposal, coupled with CMC_03_22 would bring greater accountability and transparency to the CRM.

We note ESB's suggestion of potentially expanding timeframes associated with auction processes, possibly by starting the processes earlier. If this were considered as an alternative, we could be supportive of this.

Though we also appreciate that changing timings of one process will inadvertently impact another and that could lead to a cascade of impacts across various processes. It is SSE's view that this does not remedy the fact that from experience with the CRM auctions, timescales for delivery of key documentation and other deadlines, have been consistently missed by the SOs. Under the CMC presently, there is no oversight and there are no consequences for these delays. Therefore, we support the modification that Energia is proposing, to ensure material accountability.

CMC_03_22: TRANSPARENCY ON PUBLICATION OF QUALIFICATION RESULTS

We understand that Energia are proposing that if a Capacity Auction's Qualification Results are delayed, then the Capacity Auction should automatically be delayed by an equivalent time period. The proposal also refers to a previous notification where the SEMC had issued a direction to not publish Qualification Results for a certain Capacity Auction, and Energia highlight the importance of consistent publication without exception.

Our justifications regarding delay of the Capacity Auction in the case of delayed publication of key documents in CMC_02_22 also apply to CMC_03_22. Qualification Results contain necessary information to inform ours, and other participants' decisions in the Auction – we support the push for accountability in this process.

It was noted that the rationale for withholding the publication of Qualification Results recently related to competition concerns, the publication of these results supports participants in having free and transparent information about the competitors they will in fact face at auction. We support Energia's view of the actual impact of withholding these results from the market ahead of the auction. There are various mechanisms at the RAs disposal to directly address issues of unfair competitive advantage without disadvantaging the whole market. Failing to publish these results, disadvantages the whole market participating in auctions.

Pertinent to both CMC_02_22 and CMC_03_22, we appreciate that the SOs are keen to streamline auction processes in the coming months and we welcome engagement on this workstream directly. We understand the justification as to why the SOs and SEMC may want to make amendments to the process without modifying the entire CMC, however, this does not address the fundamental need for consequences and accountability, which a CMC change would help to codify. There are no specific incentives under the price control directly related to the issue at hand, since it is a process driven issue which is best served by the CMC and amendments to it. Therefore, we welcome a review of the process, but this does not promote transparency or accountability alone. We would therefore strongly recommend that this proposal be accepted by the SEMC, alongside a fuller review of the process.