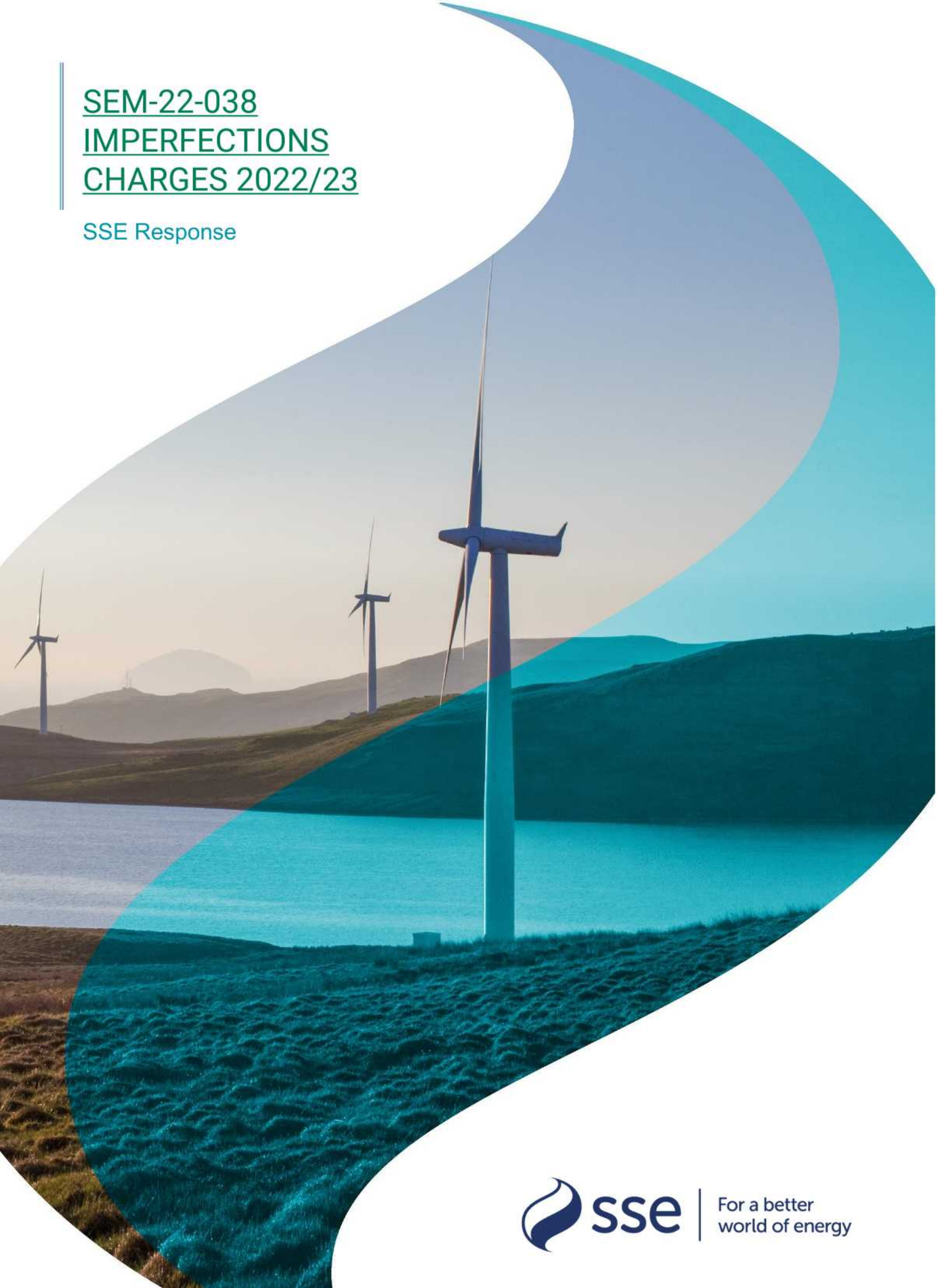
SEM-22-038 IMPERFECTIONS CHARGES 2022/23

SSE Response



For a better world of energy

INTRODUCTION

SSE welcomes the opportunity to respond to this consultation seeking views on the proposed increases in imperfections tariffs that the TSOs are proposing for tariff year 2022/23.

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 will be seeking a more ambitious climate change agreement. We look forward to continuing to work with governments and agencies in the jurisdictions we operate, to realise the ambitions of the United Nations Climate Change Conferences.

SSE RESPONSE

We have provided general comments surrounding the imperfections framework as well as providing responses in line with the consultation questions outlined in the paper.

As the SEM Committee will be acutely aware, suppliers across the market are under pressure relating to end customer tariffs. It is therefore imperative that imperfections charges are reviewed through the lens of mitigating upward pressure on tariffs as much as possible. As such, SSE welcomes the work undertaken by the RAs which is aimed at providing counterfactual methodologies with the effect of seeking to lower the imperfection charge that is proposed by the TSOs. As outlined below, we have offered and noted options and accompanying solutions that we feel will have a positive impact on end customer tariffs.

With current market volatility seen across the market we also welcome proposals for the volatility of the k-factor to be addressed. Domestic and business customers' ability to be able to absorb year-on-year swings in tariffs is limited, and therefore work to smooth the effects from year to year is welcomed.

QUESTION 1: WHETHER THE TSOS' FORECASTS OF COSTS AND ASSUMPTIONS FOR TARIFF YEAR 2022/23 ARE REASONABLE (SEE SECTION 5.1)

A significant contributor to the increase in imperfections is commodity prices, which is driving a review by the SEMC of the calculation of imperfections and the k-factor. However, another contributing factor is the continuing and increasing volumes of curtailment and constraint. As we outline in other parts of the paper, this element of imperfections could be directly addressed via incentives and meeting of EU obligations for their reduction.

As far as we can see from Annex 1 of the paper, the imperfections charges do not include:

- Costs associated with high interconnector trades actioned by the TSO, where the TSO has the option of only one counterparty and one cost per trade offered. We provide some further comments on this in later consultation questions, but this would mean potential underestimated imperfections charges being forecasted
- Costs related to implementation of Clean Energy Package. Whilst we can appreciate a large degree of Articles are still to be consulted on, the decision of SEM-22-009 provides clarity on the fact that certain aspects of compensation are seemingly due to start imminently. This is compared to delivery milestones being also outlined in SEM-22-009 where compensation has been delayed, i.e., curtailment compensation will only commence in tariff year 2024/25. As far as imperfections tariff year 2022/23, we would have expected some degree of volumes related to Clean Energy Package implementation. Therefore, another case where the forecast costs have been underestimated
- Clear apportionment of costs related to TSO management of activities that result in imperfections charges
- How the TSO is forecasting to meet incentives and legislative requirements to mitigate and reduce constraints and curtailment where some of these requirements are already in force.

Therefore, without this clarity it is difficult to be confident about the TSO forecasts. However, we do also welcome the peer review that was undertook with an additional analysis of charges by consultants.

QUESTION 2: IF THERE ARE ACTIONS THE TSOS COULD TAKE TO MINIMISE IMPERFECTIONS CHARGES (SEE SECTION 5.1)

We believe that there are methods by which TSOs could minimise imperfections charges, which are outlined below:

1. Dispatch Balancing Costs are made up of costs related to constraint and curtailment. As we have mentioned before in relation to the Clean Energy Package, there is a direct requirement under Article 13(4) to actively reduce the degree of redispatch. This requirement came into force in January 2020 and therefore, a degree of time has passed where the TSO could have been actively minimising imperfections through reduction of constraints and curtailment. We appreciate that to do so, it would require investment in other areas such as system services, flexible generation, system solutions to mitigate constraints and curtailment, and grid build-out.
2. It is our view that a large degree of the increases in imperfections likely relate to the high-priced interconnector trades we have seen and the impacts of imported prices from GB where capacity margins are tight. It is difficult at present, for price competition in interconnector trades as there is only one counterparty engaged in providing this service to the TSO. It would be better for the market if a range of counterparties could be engaged by the TSO, therefore providing some choice in price, and forcing a downward price effect on interconnector trades. The benefit of this will be seen in reduced imperfections charges as well as reduced impacts on consumers.

The increase of imperfections is also related to how efficient the TSO is being in utilising system functions in a smart and cost-efficient manner. In this vein, we would prefer more targeted and effective incentives on the TSO to meaningfully address, with a whole system approach, the reduction of certain key activities that contribute to imperfections (e.g., constraints and curtailment, efficient dispatch and balancing). We have previously signalled that a blunt incentive to reduce imperfections is not detailed or targeted enough to ensure that meaningful measures are taken, without stifling some aspects that will reasonably lead to increases in imperfections in the medium term, e.g., increases to SNSP.

QUESTION 3: IF THE IMPERFECTIONS PRICE FOR TARIFF YEAR 2022/23 SHOULD BE DETERMINED BASED ON FORECASTS USING EITHER DAILY PROJECTED QUARTERLY FUEL AND CARBON COSTS AVERAGED OVER A 12-MONTH PERIOD, OR UTILISING THE K-FACTOR RUN RATE APPROACH (SEE SECTION 5.2)

In our view, neither of these options will adequately manage the unprecedented volatility of fuel costs, particularly where there is a focus on using historic data as a method to extrapolate. It is unfortunate that there is no clear outline in the paper of how the tariff price could land when either of these options are applied. As above we are very aware of the impacts to customers, so we are supportive of ways to help reduce impacts on end users.

We have provided comments on option 1 and 2, but in our view the following measures taken together, will also have a strongly beneficial effect if executed and delivered:

1. Diversity of counterparties for interconnector trades to encourage competition in interconnector trade prices offered,
2. Better, targeted incentives on the TSO to address imperfections charges, rather than a blanket reduction approach. For instance, as mentioned, better management and handling of activities that lead to imperfections, and reduction of constraints and curtailment in compliance with Clean Energy Package,
3. The proposed smoothing of the k-factor across multiple tariff years; and
4. Modification implemented to address over-recovery by the TSO as well as under-recovery

Option 1 relies on historic data which would not be appropriate when the goal is to try to extrapolate a reasonable forward curve to predict and mitigate commodity prices. The trends in commodity prices that can be seen do not even suggest that current prices may revert to historic seasonal trends. So, the use of historic data for extrapolation would strongly underestimate future impact of commodity prices on imperfections.

At the same time, Option 2 would also be less than ideal since monthly snapshots may still underestimate the current traded prices. The approach in principle makes somewhat more sense than Option 1, but again strongly relies on extrapolation forward, albeit across a shorter and therefore more predictable forecast period.

We are committed to ensure that impacts to customers are smoothed in these volatile times, but in truth a more complex solution may be needed, combining elements of both these options to be able to reliably mitigate a meaningful amount of impact on customers. This would be aside from the fact that the overall imperfections tariff may already be underestimated as mentioned above, due to no forecasted costs of Clean Energy Package implementation or high interconnector trade prices.

QUESTION 4: WHETHER THE K-FACTOR FOR UNDER OR OVER-RECOVERY FROM PREVIOUS TARIFF YEARS SHOULD BE SPREAD OVER MORE THAN ONE

SUBSEQUENT TARIFF YEAR AND, IF SO, OVER HOW MANY TARIFF YEARS (SEE SECTION 5.3)

This would appear a sensible approach to smooth the impact of the k-factor on customers and we would be supportive. However, it is important for industry to be engaged in how this will be achieved and implemented and how any additional volume will be accommodated year on year into the overall cross-tariff spread of the impact.

In terms of customer certainty, a longer time frame across which the k-factor is spread would reasonably make sense and is important as a driver to seek to reduce the volatility felt by customers.

QUESTION 5: THE MERITS OF IMPLEMENTING A BIANNUAL REVIEW OF THE COSTS COVERED BY IMPERFECTION CHARGES AND A PROPOSED MODIFICATION TO THE TRADING AND SETTLEMENT CODE TO ALLOW BIDIRECTIONAL ALTERATIONS TO THE IMPERFECTION CHARGE FACTOR (SEE SECTION 5.4).

We would not be supportive of a twice-yearly review of imperfection charges since it will introduce a degree of uncertainty mid-period. This has been raised previously and industry has been clear on all sides that it would introduce unhelpful uncertainty. Though we can appreciate that the starting point was likely with consideration of more real-time adjustments of charges for the benefit of customers. As our general thoughts above, we would be rather in favour of being able to support smoothing effect of the k-factor across multiple years.

We understand that the SEMC is also proposing to modify section F.12.1.4 to allow bidirectional (downwards as well as upwards) amendments to the Imperfections Charge Factor. We would be supportive of such a modification being made to the Trading and Settlement Code to ensure that over-recovery can be adjusted in the same way as under-recovery. We will wait to engage with this modification through the Trading and Settlement Code Modifications Committee.