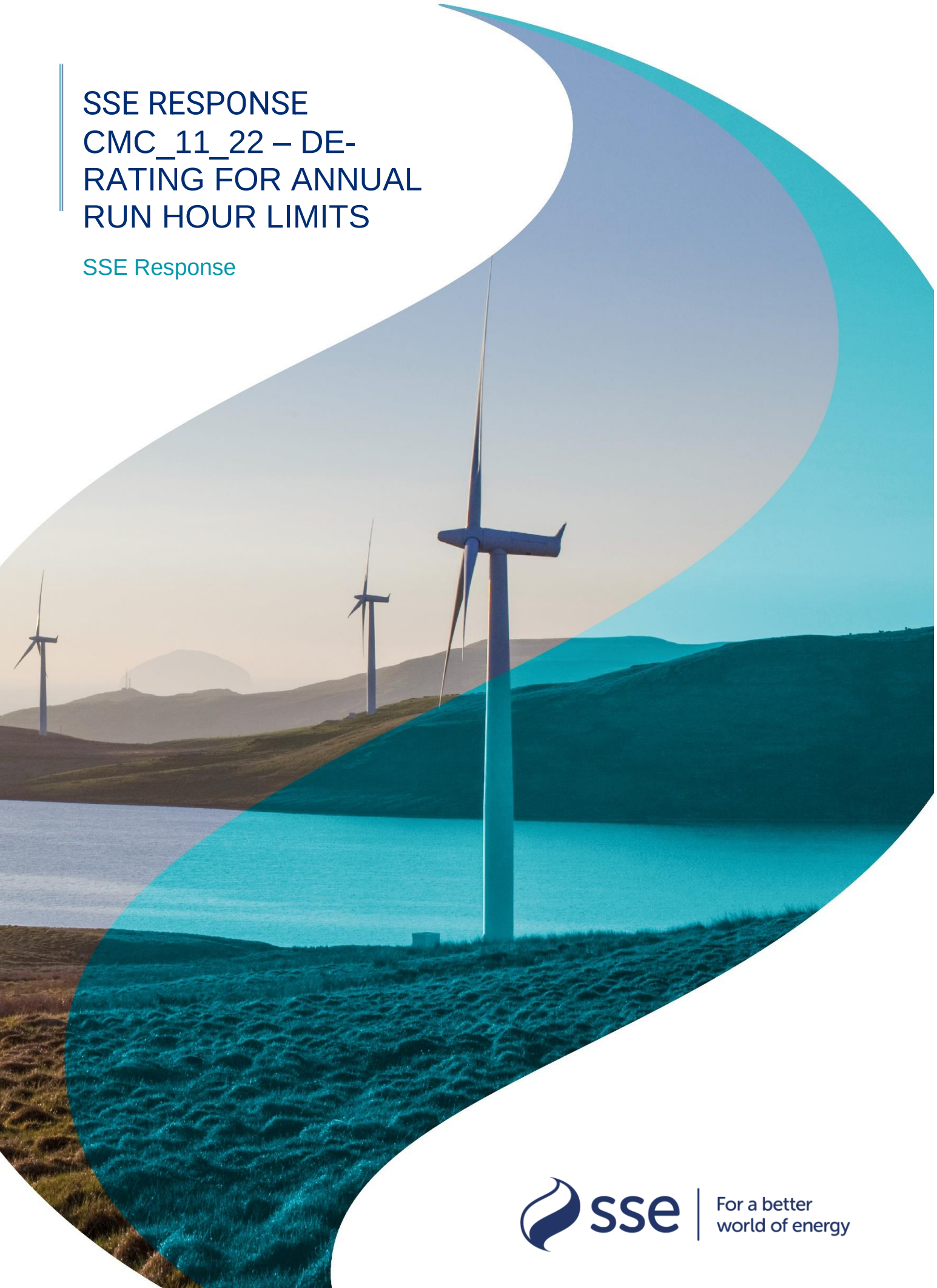
SSE RESPONSE CMC_11_22 – DE-RATING FOR ANNUAL RUN HOUR LIMITS

SSE Response



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INTRODUCTION

SSE welcomes the opportunity to respond to this consultation seeking views on CMC 11_21 which seeks to implement annual run hour limits to the forthcoming T-4 auction.

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

WHO WE ARE

At SSE we are 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

As previously stated in response to the consultation on Annual Run Hour Limits, there are several principles-based concerns that equally apply for this modification. In addition, there are various process related questions that relate to the consequences of implementation of this modification. None of these process gaps have been addressed and materially affect how we can understand this change. These are all detailed below.

PROCESS CONCERNS

Whilst the proposed legal drafting as presented at the modifications workshop is reasonable in terms of seeking to provide the correct insertions into the Code, the modification is limited in addressing the process and consequential issues arising from the change. In terms of process, the modification and the discussion on the modification failed to address the following:

a. Which prevailing legislation should be used as the guiding framework for a unit deciding its initial derating
b. How units will be treated that take remedial action to positively impact their run hours before qualification/as part of the project

c. How annual run hours plant are going to be identified to apply this derating
d. How the modification will deal with the lack of concrete banding of units because final decisions on turbine procurement and EPA licensing are not completed yet
e. Whether the RAs have considered the commercial impact of setting of additional residual MW as existing capacity in a future auction
f. How borderline cases will be addressed

PRINCIPLES-BASED CONCERNS

Ultimately, this change has not been fully demonstrated as being urgent. Furthermore, the rationale to insert this change for this T-4 auction has not been demonstrated objectively and ahead of first setting out the market signals to encourage what should be offered to replace these units, i.e., price caps and Best New Entrant adjustments. In the current order of things, market participants are left in a vacuum of seeing the impact of this modification to their business case without understanding the updated market framework in which this change sites. Additionally, where the RAs are careful to illustrate an awareness of the exit signal this would present to Existing Capacity, they fail to demonstrate equal awareness of impact to New Capacity when not confirming how this loss will be recovered. At a time when the Capacity Market design is still struggling to deliver New Capacity to the system.

We note that there is mention of a review of the Best New Entrant with no indication of when this review will complete and if the Best New Entrant in any way will complement the vision that emissions legislation should feed into capacity procurement and therefore incentivise alternatives (e.g., carbon neutral or carbon abated technology, or other alternatives). The existing price caps and Best New Entrant currently signal the best reference plant as being a run hour limited unit. Therefore, taking action to introduce this derating before addressing the underlying signal of the Best New Entrant is not the optimal approach.

The proposals still fail to realise that annual run hour limited plant will be the unit of choice when wind penetration increases or that the capacity market design is signalling the units that are being offered at auction. The investment case for an all-year/mid-merit plant to run on in market when it will only be called to support renewables intermittency, is currently not built into the CRM framework.

the TSO considering that run hour limited plant are a risk to security of supply is failing to see the support such units will provide to efforts to increase SNSP and wind penetration on the system.
It would be our preference for the RAs to consider a mechanism to account for the dynamism of capacity within the Capacity Requirement methodology. This would allow for the function of protecting security of supply being correctly attributed to the RAs and TSOs to mitigate within their signal for procurement of capacity.

It is unclear why the multiplier for DSUs is being bundled into this change since technically DSUs are demand response/interruptible contracts. Their emissions would be based on customer emissions and choice of fuel which the DSUs have no control over. It makes little sense to be attaching de-rating where DSU incentives have not currently worked to improve on demand responsiveness and where fuel choice is not up to the DSU.

Finally, as mentioned previously, the principle that this is to prevent saturation of run hour limited plant on the system, is a failed logic. Issues with dispatch of run hour limited plant is due to system limitations or coordination. The market is designed to encourage capacity to arrive, as per the high-level design of the CRM. Capacity is motivated to maximise its offering since it is seeking to fund the delivery of a project which irrespective of run hour limits, will still cost the same amount. Therefore, derating is depressing the investment signal on New Capacity at time when we have an overall capacity shortfall that will continue and when the

TSO is signalling the emergency generation must be procured. We struggle to see how the RAs are comfortable risking further lack of capacity delivery at a critical time for procurement to meet the capacity shortfall and replace emergency generation.