SEM-22-033 WG25 CONSULTATION PAPER

SSE Response

INTRODUCTION

SSE welcomes the opportunity to respond to this consultation seeking views on proposed modifications to the Capacity Market Code, as tabled at Working Group 25.

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

CMC 04_22 NEW REFERENCE RATES FOR DEFAULT INTEREST

We agree that there is a need to update reference rates. Therefore, we support the SEMC's minded to position, to approve.

CMC 06_22 NEW INTERDEPENDENT COMBINED UNITS

We note that the legal drafting for this modification as below, appears to be seeking to allow for the combining of any candidate units (DSU or otherwise). On the basis that this change will facilitate **any** candidate units to consist of combined units, we would be in favour. The basis of our objections in the past was due to the implication of these modifications as carving out of specific treatment only for the benefit of DSUs, rather than furthering a level playing field for all participants. It is our view that the vision of the Capacity Market and State Aid approval was to be as technology agnostic as possible.

E.7.6.4 Where the Candidate Units to be combined meet all of the conditions set out in E.7.6.1 with the exception of E.7.6.1(i), then the System Operators shall not reject the application. When participating in Capacity Auctions, the Capacity Market Unit will be bound by the restriction that the total quantity offered in respect of price-quantity pairs that are Inflexible shall not exceed the Gross De-Rated Capacity (Total) of the largest Candidate Unit which comprises the Capacity Market Unit.

However, we would note the recent Mod_01_22 is setting an aggregation threshold. It is not clear if this proposal from DRAI even envisaged an aggregation threshold, which would apply to new capacity. It would be worth this interaction being clarified.

CMC 07_22 MODIFICATION TO PROVISIONS FOR MARKET REGISTRATION OF DEMAND SIDE UNITS – VARIATION IN MIX

We note that this modification proposes that DSU aggregators be allowed to vary the Mix of IDSs within their portfolio, to provide the physical backing that is delivering on their Reliability Obligation. This is a revised version of Proposal 2 from the previous CMC10_21.

We note that this modification proposes to allow the full flexibility capability of the Individual Demand Sites (IDS) that make up a DSU aggregators portfolio to be realised. As per the decision paper from Working Group 19 and the responses from the consultation, we are not supportive of this modification, for the following primary reasons:

- SSE consider that this modification creates an unfair approach between other candidate units and those that are DSUs
- It is our view that the Capacity Market should be technology agnostic and with as few carve outs for specific generation as possible
- how DSUs are incentivised in the SEM should be reflected on before additional flexibility only for their benefit, should be provided

We appreciate that there are some practical process differences that are needed for DSUs to better participate in the CRM, e.g., delivery timeframes. As listed above, our concerns remain relevant for the revised proposal CMC 07_22. Added to these concerns, we are unclear how this modification will manage the fact that there is currently an insufficient regulatory framework for aggregators in the SEM. We would also have issues about the impact to the settlements process from this modification (i.e., we agree with comments raised on this topic at the working group). Finally, we would also be concerned about the locational aspect, where DSUs may seek to aggregate DSU sites that are not locationally proximate.

We note that there is a requirement to ensure that DSUs can participate more fully in the SEM and the CRM, as highlighted by the recent consultation on DSU energy payments. The outcome of this consultation particularly with respect to DSU performance and incentives for responsiveness and participation, should be an important precursor to inform this proposed modification. Therefore, at this stage, we would consider this modification is at risk of pre-empting some significant decisions around broader DSU participation.

We note that the SEMC is minded, to reject this modification. Based on the above comments, we would strongly agree with this minded to position.

CMC 08_22 LOCATIONAL CAPACITY CONSTRAINTS MAXIMUM QUANTITIES

This modification seeks to introduce a maximum limit applicable to Locational Capacity Constraint Areas (LCCAs). The modification appears to be seeking to address an issue where more capacity applies to qualify in a specific constraint area. For the most recent capacity auction, the constraints in place are Dublin, Rest of Ireland and Northern Ireland.

This is at the same time as this proposal has been tabled, that the following has been signalled:

1. an ambition for all year units to enter the market, through creating "space" via depressing of capacity contract values for limited run hour plant and creating an exit signal for this type of generation (T-4 2026/27 parameters paper)
2. an emergency piece of legislation which has been through government to allow for emergency generation to be procured to run until a minimum of 2027, or 2028 due to combined issues including failure of capacity delivery and uncertainty around delivery
3. a security of supply update from the CRU which has reiterated the need for 450MW of emergency generation, continued operation of existing and aged heavy fuel units on the system (locationally relevant sites) **and** the need for large volumes of new gas fired generation to enter the market
4. EirGrid's updated Shaping our Electricity Futures (SOEF) which supports the fact that there is a capacity shortfall caused in part by: new capacity not arriving, uncertainty around delivery of capacity accompanied by an explosion of demand.

When we overlay the apparent urgent need for capacity, with the signal that this modification is suggesting, i.e., oversupply in constraint areas, which includes Rest of Ireland, this leads to significant mixed messages and conflicts.

In considering these conflicts, SSE concludes that the TSO is proposing this modification in order to use the market to solve what is a transmission issue. The transmission issue being that networks are unable to handle the additional capacity offered to address a constraint, specifically because the constraint exists and is not being mitigated, reduced or addressed (through more infrastructure and system services). It is not a generator's commercial or operational risk whether capacity arrives in sufficient or surplus volumes in a specific capacity constraint area. This is a risk for the TSO. This should not therefore be addressed in an auction for new and existing generation capacity.

Our understanding is that the intention for inclusion of constraints was to ensure that key regions never suffered from too little capacity procurement in capacity auctions. A minimum volume in an LCCA is therefore, an important signal to ensure that minimum "must run" capacity is always encouraged to participate. To date, we have not seen a significant delivery of new capacity through capacity auctions in any of the constraint regions. Therefore, it is reasonable to assume that the modification is not seeking to modify the code to address a live and active concern of having to deal with over procurement in an LCCA, but rather a probability. We would encourage the TSOs to demonstrate the need and impact of not introducing this modification, at a future modifications workshop.

It is otherwise our view as above, that the CMC is being utilised as a method to address what is a transmission issue. As has been outlined in the CMC workshop minutes, this modification has the potential to significantly displace existing units because multi-year contracts are not possible for those units behind a constraint. Coupled with proposed treatment of limited run hour units in the forthcoming T-4 2206/27, we consider these both produce a strong exit signal in constraint areas (which includes the Rest of Ireland). Given that there is a Rest of Ireland constraint in place, modification also has the potential to impact all units where there is no way to avoid a constraint.

As the TSO itself has stated in SOEF, it cannot be sure of capacity arriving and there is uncertainty around delivery. Therefore, how is it possible to be sure enough of the oversupply of capacity in specific constraint regions that is tied to qualification, when delivery is so uncertain. We are therefore not clear how the TSO can be sure enough to feel the need to propose this modification.

Furthermore, if the market signal of single year contracts applying to constraint areas is working appropriately, then oversupply should not be occurring. Units should be successfully deterred from entering a constraint region if they can avoid it, in order to maximise their contract award term. The only units who cannot avoid entering a constraint area, are those already situated in these areas as existing units providing minimum capacity to support reliability of supply. All of these factors support our view that this modification is seeking to address a network problem, not a market problem.

We note the SEMC are minded, to approve a **version** of this mod. As above, we are not supportive of the principle of the modification since it appears to be solving something that should be addressed elsewhere. We have also noticed that the most recent SEMC decision on CMC 01_22, 02_22 and 03_22 published amended versions of these modifications. These updated versions of the modifications were not previously consulted on. On our opinion, that in order to promote fair governance and transparency, different versions of a modification are given equal opportunity for public consultation and feedback. The market has no option but to rely on the regulatory functions of public accessibility, transparency and fair governance to ensure disclosure and opportunity for comment of any amended modifications. Without this additional round of consultation, we cannot support an intended position to approve an alternative version of this modification.

CMC 09_22 SECONDARY TRADE APPROVAL NOTIFICATION

Note that the SEMC are minded, to approve this proposal. We are supportive of this step to aid clarity and remove ambiguity for market participants. We are hopeful that the result will be better understood process and more engagement with the secondary trade facility as a key element of CRM market design.