SSE RESPONSE

SSE Response

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INTRODUCTION

SSE welcomes the opportunity to respond to SEM-22-092 Capacity Market Code Working Group Modification Consultation Paper.

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

WHO WE ARE

SSE is the largest renewable energy developer, operator, and owner in Ireland's all-island Integrated Single Electricity Market. Since entering the Irish energy market in 2008, SSE Group has invested significantly to grow its business in Ireland, with a total economic contribution of €3.8bn to the State's economy over the past five years. We have also awarded over €9 million to communities in the past 10 years as part of our community benefit programme.

SSE is building more offshore wind energy than any other company in the world right now. We are currently constructing the world's largest offshore wind energy project, the 3.6 GW Dogger Bank Wind Farm in the North Sea, a joint venture with Equinor and Eni. This is in addition to Scotland's largest and the world's deepest fixed bottom offshore site, the 1.1 GW Seagreen Offshore Wind Farm in the Firth of Forth, a joint venture with TotalEnergies, which reached first power in recent weeks. In the most recent Scotwind process, SSE Renewables was awarded the rights, along with partners Marubeni Corporation (Marubeni) and Copenhagen Infrastructure Partners (CIP), to develop what will become one of the world's largest floating offshore wind farms off the east coast of Scotland.

We plan to bring our world-leading expertise in offshore wind energy to Ireland with plans to deliver over 3 GW of offshore wind energy in Irish waters, starting with our Arklow Bank Wind Park Phase 2 project off the coast of Co. Wicklow.

Through our SSE Thermal business we continue to provide important flexible power generation. SSE's power station Great Island is Ireland's newest combined cycle gas turbine (CCGT) power station and one of the cleanest and most efficient on the system, generating enough electricity to power half a million homes. The acute need for flexible generation in Ireland has been demonstrated over the last twelve months, with EirGrid's most recent generation capacity statement showing that a shortfall in generation capacity was a significant risk this coming winter and for a number of winters to come, resulting in emergency measures being implemented by the CRU and Government.

While existing power stations continue to play a critical role on the system, SSE view the future of dispatchable thermal generation as being abated thermal, with Carbon Capture and Storage, hydrogen or other low-carbon fuels being the primary options. SSE have over 5 GW of zero and low carbon thermal under active co-development in the UK.

We will continue to evaluate opportunities to bring our expertise and investment in decarbonised flexible generation to Ireland, but it is vital that the state, Regulator and TSO provides an appropriate investment landscape to unlock such developments.

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The SEM Committee has issued SEM-22-092 Capacity Market Group Urgent Working Group Modification Consultation Paper. This follows a Working Group meeting on 17th November 2022 at which the 4 proposed mods which are the basis for this Consultation were discussed.

We can see the rationale of the RAs combining the modifications into a single proposal to take them forward. The 4 mods are similar in nature and intent, and it makes sense to develop a single mod to pull them together. We can acknowledge their urgent nature as the matters raised are necessary to prevent any undue delay to capacity projects contracts awarded in forthcoming auctions and delivering capacity during a critical period for capacity (as per the Generation Capacity Statement 2022, EirGrid have been clear capacity shortfall will be critical out to 2030).

It is important that potential termination of future contracts is addressed to ensure that security of supply is addressed. Potential investors in new capacity may be deterred from engaging in the sector if there is an external risk to capacity delivery milestones. Many of the recommendations outlined in the recent review of the CRM market [1] are related to allowing for more time and permissive processes to take account of the challenges in planning and short turnaround for delivery in the current CRM design. Given these recommendations to maximise the opportunity for delivery of projects and mitigate any risk of termination of capacity, we consider that this Mod makes sense.

However, there are some issues which need to be addressed:

• The danger of retrospective action should be more clearly reflected in the legal wording. It is clear in the explanatory text that the intention is for the change to apply from T-4 2026/27. The legal wording is not standalone in confirming this application. If applied to previous auctions, for instance T-3 and T-4 auctions, this could undermine the confidence of market participants, both new and existing, at a time when new capacity is needed to plug the capacity shortfall projected by the TSOs.

• It is regrettable that the revised and consolidated mod does not consider the externally driven risks to developers of delays to grid and gas connections. We note that the concept of ensuring more clear and targeted apportionment of risk on those who can mitigate it is a common theme signalled by industry in various workstreams: Clean Energy Package, System Services. It is also considered by the Regulators with respect to application of Reliability Option Difference Charges, and Firm Access considerations. The issue of external risk is also mentioned by the CRM review of the market. Given policy positions on seeking to target risk in a fairer way, it would make sense that there is a fair treatment of delays to grid connections and gas connections where developers have capacity project milestones.
We are not convinced that this being potentially an issue between participant and provider is sufficient reason for there not being any attempt at mitigation of this issue, especially given: 1. the significant challenge the CRM design has had in delivering capacity since 2018 (~600MW) and the acknowledgement that improvements to project milestones needs to be made to make things easier, and 2. it is within the remit of the RAs to clearly target appropriate KPIs on TSOs which we believe should include better delivery of grid connections since this would tackle the significant impact on projects of securing a grid connection which has a knock-on effect on security of supply. Furthermore, if there was a conflict between participant and provider,

[1] https://www.semcommittee.com/publications/sem-22-054-call-comments-ey-review-performance-sem-capacity-remuneration-mechanism

the duration of the delay could be estimated and where this is in writing, it could be acknowledged as an external risk that should not directly lead to a project being terminated.
Overall, we are supportive of the principle of this modification. Without the modification participants in future auctions would be exposed to an undue amount of risk which is outside of their control, and this jeopardises the delivery of New Capacity which is detrimental to the objectives of the CMC. We also agree with the requirement for submission of proofs including documentary evidence, independent certificates and the proposed regular review of the extension.

We would also suggest the following additional measures:

• Ensure there are proper controls in place to manage any perceived risk of abuse of this provision,
• There would be merit in limiting the number extensions could be applied for under such third-party circumstances per project, given the impact it could have on the Long Stop Date. This would also ensure that where penalties need to be applied, they cannot be avoided.
• This proposal should be balanced along with the potential for better pre-qualification screening to ensure the projects with the best potential for delivery are those that compete for contracts. Therefore, any extensions required would be for projects with legitimate rationale for challenges faced during the CRM delivery process.
• Any extensions granted would be published to the market as it is significant information.