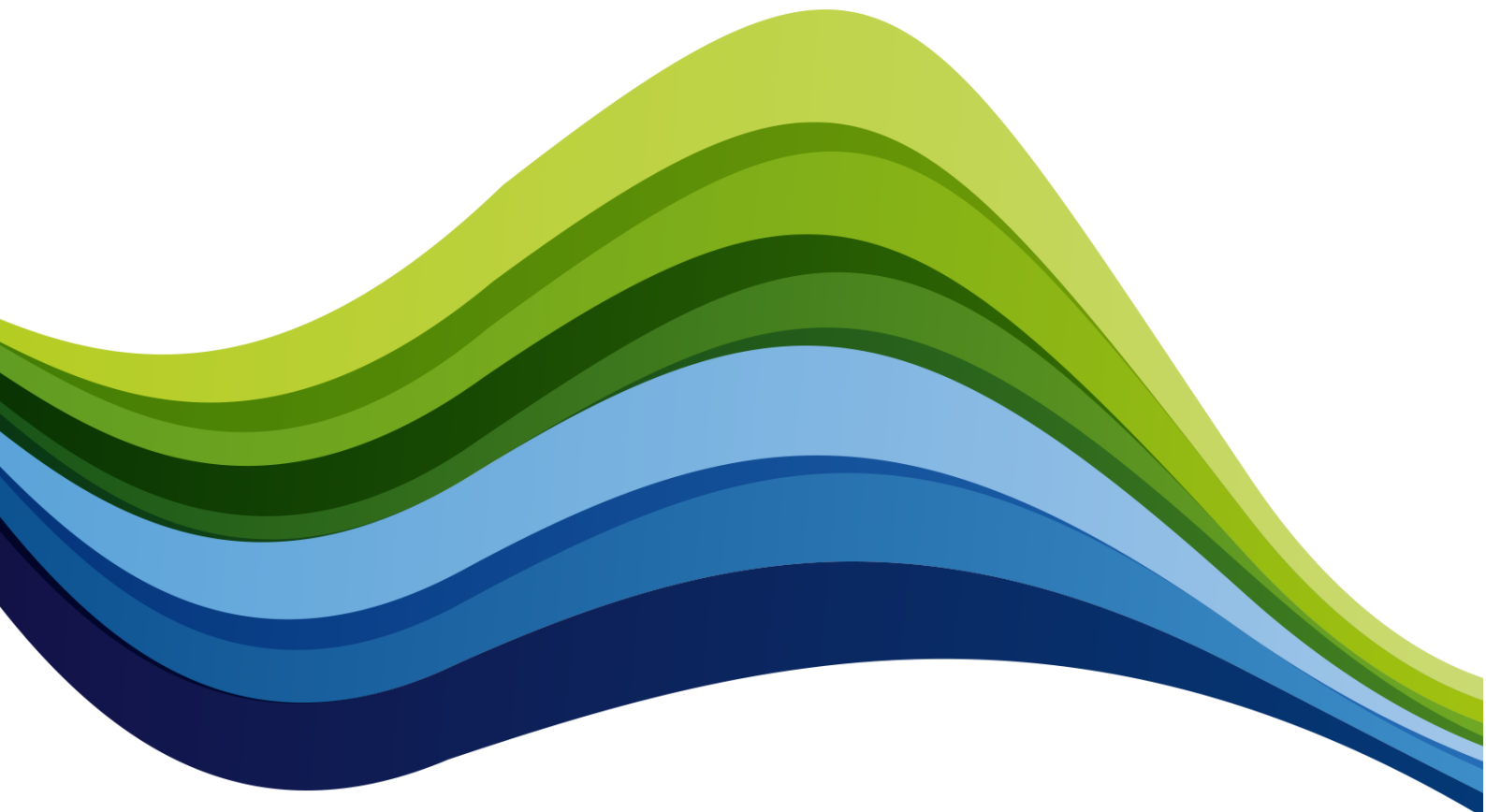

**Capacity Remuneration Mechanism 2024/25 T-4
Capacity Auction Parameters and Compliance with the
Clean Energy Package**

SEM-20-006





Introduction

SSE welcomes the opportunity to comment on the “*Capacity Remuneration Mechanism 2024/25 T-4 Capacity Auction Parameters and Compliance with the Clean Energy Package*”. For the avoidance of doubt, this is a non-confidential response.

As a large generation provider in the market, the parameters of capacity auctions provide a clear signal regarding bidding for contracts at the various capacity auctions. Furthermore, taken with the Best New Entrant parameter, it provides an important consideration for generators insofar as new plant and of which type might be best suited to the market and needs of the island. Therefore, we have provided comments below, regarding the proposed parameters for forthcoming auction T-4.

We have extensively commented on the previous consultations regarding the setting of parameters for T-4 and the setting of the Best New Entrant. We have drawn on this perspective to provide a relevant and consistent response to the proposals for these capacity auctions.

We note that the EAI will have submitted an industry response to this consultation. We have contributed to and are supportive of the comments provided in that response.

SSE Response

Parameters required by the capacity market code

SSE is supportive of the approach to setting the parameters for the forthcoming auction, barring the proposed adjustment to the ECPC for auction 2024/25 and the decision not to review the Best New Entrant (BNE) parameter. We also have some comments relating to the setting of the Demand Curve.

Coupled with the proposal to introduce measures to comply with the new emissions limits outlined in the Clean Energy Package, a reduction to the ECPC benchmarked against a potentially non-compliant BNE reference plant would in our view, squeeze out thermal plant from the CRM at a much earlier stage than the system might be prepared for. Remaining consistent with the BNE parameter signals that inflation will not be significant, at the same time that the proposed reduction of the ECPC amounts to a significant deflation for associated thermal units. Furthermore, grid investment is not in place to compensate for the loss of these units when some of these are already on track for closure by 2023 or 2025. The ECPC is already at a very modest level where the clearing price has remained relatively low and stable. Therefore, we would not be supportive of its reduction.

We would also question the reasoning for reducing the ECPC as outlined in the consultation. The driver for reduction seems purely related to the management of the USPC process. It is our view that the USPC exemptions should not be encouraged to be the norm, which would be a risk as a result of reducing the ECPC. The ECPC provides a clear signal for existing plant, where the USPC in contrast is there to facilitate exemptions. USPC by its definition should therefore be rare or occasional. Finally, this paper acknowledges that certain measures could serve as an unwitting exit signal. A reduced ECPC, where there are significant thermal plant closing in due course and coupled with emissions limits measures; could constitute an exit signal in the same manner.

The BNE reference plant was set in 2018 in preparation for the T-4 CY 2022/23. This is set as a distillate fired peaking plant in Northern Ireland. We appreciate that the reference price associated with the plant may itself still be appropriate but consider optically that a reference plant fired on distillate, is out of step with what the forthcoming capacity auctions will be seeking to deliver. Additionally, compared to the new emissions limits under the Clean Energy Package for units commissioned after 4 July 2019 (Article 22(4)a of the EU 2019/943), there

is no evidence that this reference plant is complaint. Therefore, we would encourage a review of this framework in time for this capacity auction.

Finally, in relation to the Demand Curve we note that there are some adjustments proposed for the forthcoming auction. The assumptions appear reasonable as per the table on page 13, apart from the adjustment relating to DSUs and withholding of capacity to T-1. As previously seen in the last T-4 auction results, a proportion of new contracts were awarded to DSUs despite the auction being for a period four years in the future. Therefore, the rationale for withholding across to T-1 is less reasonable than might have been previously. We consider this should be reviewed and revised in regards to the final adjustments to the Demand Curve.

Compliance with the clean energy package

Question 1: Which of Option 1 (allow high CO₂ emitting plant to participate in the CRM, but be subject to additional derating) and Option 2 (make no changes to the CRM, but ensure that any unit with emissions exceeding 550g CO₂/kWh comply with CEP annual run-hours limitations) is your preferred approach?

We agree that Option 2 could provide an unwitting exit signal at a time when capacity shortfalls are expected and need to be mitigated against, and while critical grid investment is a slow progressing objective. We also agree that Option 2 will emphasise an already over-reliance on a large volume of run-hours limited plant. Option 2 is also likely to encourage a tendency towards relevant units hoarding annual run-hours in preparation for potential scarcity events, which should be avoided. Furthermore, a central-dispatch system such as ours may need a greater degree of processes to track and manage these batches of run-hours on the system.

Whereas, a simple derating limit such as under Option 1, should be easier to institute. Option 1 provides a simpler signal whilst potentially facilitating additional headroom for New Capacity and allowing CO₂ emitting units to still participate in the CRM. We also consider that Option 1 is a complementary signal to the expectation that new plant entering the forthcoming T-4 2023/24 would need to be compliant within certain emissions limits at commissioning and operation¹. We would assume that Option 1 (like specified for Option 2), would also carry the risk of exposure relating to Reliability Options payments in the event a relevant unit is needed in a scarcity event.

Question 2: If the additional de-rating is applied, should it be applied for the 2024/25 capacity year, or held until the 2025/26 capacity year? Alternatively, should the duration of the 2024/25 capacity year be reduced to nine months?

We would not be in favour of the capacity year being reduced to nine months. The auction still relates to and provides time for the commissioning of New Capacity of a scale that would require the four-year timeframe for delivery.

Clean Energy Package emissions limits will be required by the time of the 2024/25 auction, therefore it is not clear why a delay to implementation of Option 1 should be considered. The de-rating factors will be an input into the new auction format, therefore, again the rationale for delaying one parameter (de-rating) whilst implementing the other (auction format D), should be clarified.

¹ <https://www.semcommittee.com/news-centre/crm-interaction-clean-energy-package-emissions-limits-and-t-4-cy202324-capacity-auction>

Question 3: Should the Long Stop Date be reduced from 18 months to (for example) 12 months or 6 months?

It is not clear from the consultation, what has precipitated this proposal. Specifically, it is not clear what is driving the SEMC to consider a revision of the Long Stop Date. There is also no detail of the specific Minimum Completion issues the SEMC is referencing. Long Stop Dates are impacted by related policy and supporting frameworks; i.e. the lack of grid investment and current approach to connection policy. These specific issues in large part act as barriers to delivery and must be acknowledged as affecting Long Stop Dates.

Given these factors, we are not be supportive of any change to the Long Stop Date.

Auction format

We acknowledge the requirements to change in the auction format to deliver full combinatorial, as specified under State Aid. We would note that industry has already signalled significant perceived resource constraints within EirGrid and SEMO associated with managing the delivery of a large number of system-related workstreams; i.e. closing out continued system defects, settlement reruns, implementation of repricing, progressing of day 2 issues, other State Aid requirements and RESS. We would consider that at current resource levels, there may be a significant risk to delivery of the auction format change, in time for this specific auction. We would rather retain auction format C, than run this risk.

Treatment of constraints

We are in favour of the treatment of constraints approach proposed, where the SEM Committee remains open to allowing the auction to solve constraints using multi-year New Capacity.