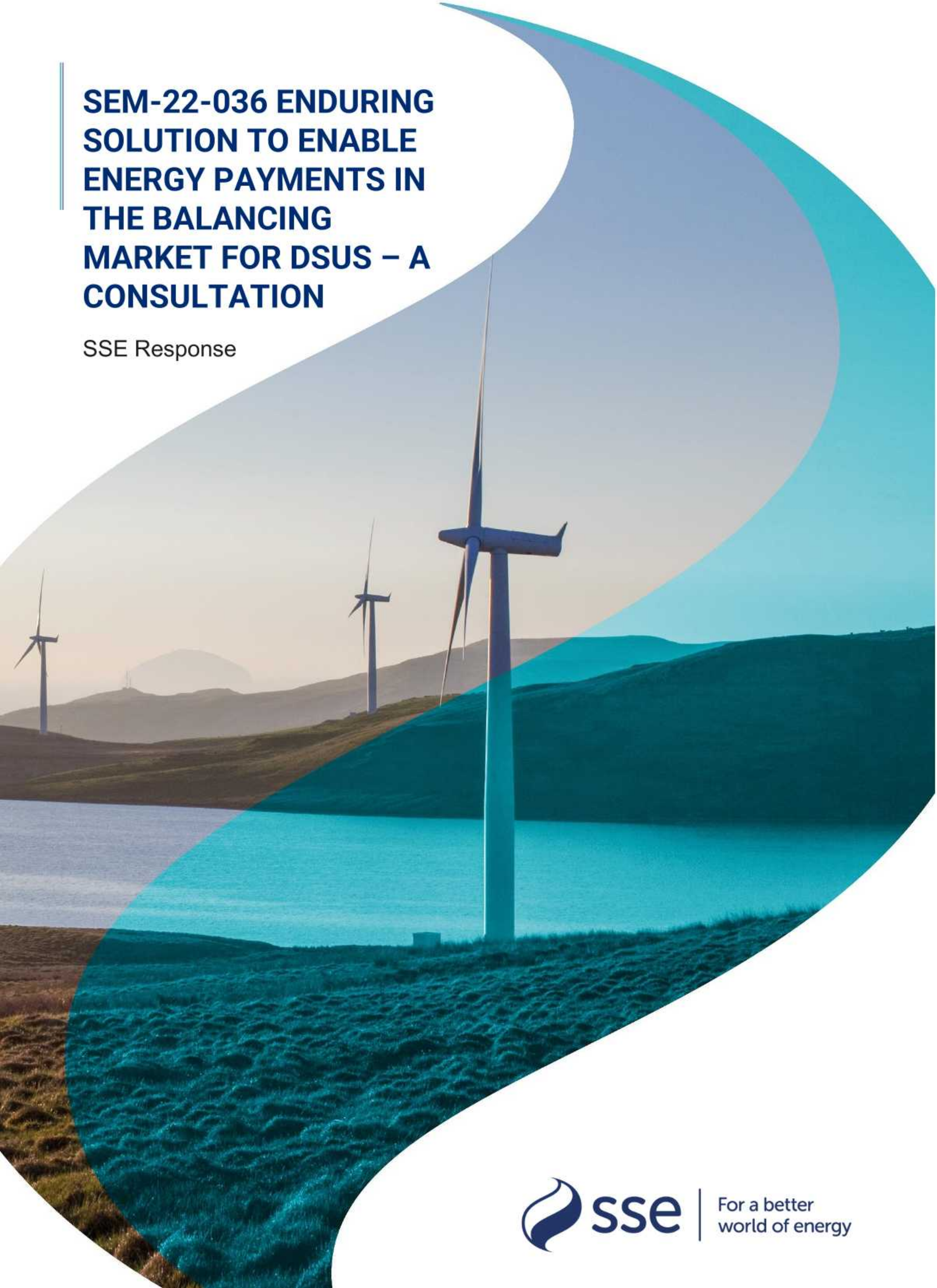
SEM-22-036 ENDURING SOLUTION TO ENABLE ENERGY PAYMENTS IN THE BALANCING MARKET FOR DSUS – A CONSULTATION

SSE Response



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INTRODUCTION

SSE welcomes the opportunity to respond to this consultation seeking views on an enduring solution for energy payments to be paid to DSUs.

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

In general, we are supportive of greater participation of DSUs in the market on the basis of demonstrable and increased performance by this community. We understand that DSUs can directly support customers' participation in the market, which is a positive development. We recognise that there are challenges that DSUs face like generators, such as the derating factors that affect the value of revenues they can realise. These revenues for DSUs must be remembered, positively impact customers.

At the same time as below, we agree that DSUs need to be treated like other participants in the market, i.e., being provided payments as and when they are engaged to provide a service, but also facing penalties when they do not respond. We appreciate that they cannot physically be available within the same criteria as a generator and therefore, it is unhelpful that the design of the market in terms of the Reliability Options and capacity contracts etc are not better tailored to meet these differences.

QUESTION 1: THE SEMC IS KEEN TO HEAR STAKEHOLDERS' VIEWS ON THE CONTINUATION OF DISPATCHED QUANTITY AS A SUITABLE PROXY FOR METERED QUANTITY FOR AN EXTENDED INTERIM PERIOD (UNTIL PHASE 2 IS LIVE), ACKNOWLEDGING THE ABSENCE OF EVIDENCE DURING THE FIRST YEAR IN WHICH 'PHASE 1' WILL BE IN PLACE.

It is still common for DSUs to be metered as import and without export. Therefore, unless this changes, we cannot see how this proxy can change. We would welcome greater clarity on how metering will be updated to be able to implement an enduring approach as mentioned in Phase 2, given this challenge.

QUESTION 2: DO STAKEHOLDERS HAVE A VIEW ON THE EXTENT OF INDUSTRY CODE OR SYSTEM MODIFICATIONS/ TIME INVOLVED TO DEVELOP AND IMPLEMENT PHASE 1?

It is important to recognise that code changes are hampered by vendor capacity. As a rule of thumb, we have been advised that code changes can take at least 18 months for code changes to be implemented in the systems via a targeted code release.

QUESTION 3: IS 12 MONTHS AN APPROPRIATE PERIOD OF TIME OVER WHICH TO ASSESS EFFECTIVENESS OF DISPATCHED QUANTITY AS A GOOD PROXY FOR METERED QUANTITY?

This may be a suitable timeframe, but we would caution that it probably does not sufficiently provide for full visibility when you consider settlements rounds, i.e., M+13.

QUESTION 4: IN STAKEHOLDERS' VIEWS, WHAT WOULD BE DEEMED AS SATISFACTORY OR UNSATISFACTORY EFFECTIVENESS OF OUTCOMES FOR A DSU OPERATING IN THE MARKET IN PHASE 1 TO AID THE SEMC'S ASSESSMENT?

We should be seeing far more DSU responsiveness and reactivity to scarcity events and system tightness than present, in the first instance. Once this is far more visible, we would then consider that assessment should be made on an enduring solution for energy payments, in line with the proposed Phase 1 and 2 in the consultation. Where DSUs are not instructed to respond to system needs, they form part of the demand profile and should not enjoy any additional energy payments at these times. We agree that if DSUs are not realising full recovery when they are dispatched in the Balancing Market, this should be recovered.

QUESTION 5: ARE THERE ANY OTHER ELEMENTS THAN THOSE SUGGESTED WHICH NEED TO BE INCLUDED IN THE REVIEW OF PHASE 1 TO ALLOW CONCLUSION TO BE REACHED ON FEASIBILITY TO CONTINUE WITH 'PHASE 1' BEFORE PHASE 2 GOES LIVE?

We note that the use of Imperfections charges as a mechanism was a decision taken by the RAs and the TSO, rather than being put to the market. Unfortunately, neither the Socialisation Fund or Imperfections Charges are really suitable for this payment given their functions in the market. However, we understand that a solution needs to be found as to where these funds can be sourced, since DSUs do not earn revenue in the same way in the market. It must be considered though, that Imperfections Charges are high enough and their increase is of great concern to customers. It may not be realised that where these charges fund DSU legitimate payments when providing a service, this represents a saving of demand on the system and a revenue to customers. This could be better messaged and ringfenced as an item in Imperfections to aid clarity for industry and end customers.

QUESTION 6: THE SEMC WELCOMES VIEWS ON THE INTRODUCTION OF A NEW GENERATOR PERFORMANCE INCENTIVE (GPI) TO APPLY TO DSUS IF PHASE 1 CONTINUES BEYOND THE FIRST TWELVE MONTHS (IE. AFTER REVIEW HAS EVIDENCED ITS EFFECTIVENESS) UNTIL PHASE 2 IS IMPLEMENTED.

We would be keen to ensure that there are robust incentives on DSUs independent of energy payments. DSUs are not proving to be responsive at times of scarcity and payments in times of scarcity appear to have been insufficient for responsiveness to improve.

QUESTION 7: DO STAKEHOLDERS HAVE A VIEW ON THE EXTENT OF INDUSTRY CODE OR SYSTEM MODIFICATIONS/ TIME INVOLVED TO DEVELOP AND IMPLEMENT PHASE 2?

In our experience, we understand that metering changes take a considerable amount of time to implement, particular at any specific volume as we would expect represent the DSU community. This coupled with additional Code changes would put the timeframe for implementation of phase 2 into a quantity of years for implementation.

QUESTION 8: THE SEMC WELCOMES VIEWS ON 'PHASE 2' BEING AN 'ENDURING SOLUTION' IF/ONCE IMPLEMENTED.

There is not that much detail on whether this would be a realistic option given the challenges above, so cannot be clear if it will be the enduring solution either.

QUESTION 9: DO STAKEHOLDERS HAVE ANY CONCERNS WITH EITHER PHASE REGARDING ACCOMMODATING THE DIFFERENT TYPES OF DEMAND RESPONSE?

It would be worth considering how different demand response may need to be treated, but this is the same for how these parties can be classified in the market and what type of meter they have access. This may be something that ultimately goes back to types of metering options. We would encourage that this is addressed at source regarding metering in the first instance, since it seems to us that this is the common denominator that will illuminate whether there should be different approaches taken.

QUESTION 10: ALL OTHER STAKEHOLDERS' VIEWS ARE WELCOMED.

As an industry, we are lurching from one project to another that is related to implementing various aspects of Clean Energy Package requirements. It is not clear if there is a holistic overview of the interactions of all of these various projects of implementation. We cannot currently get a realistic picture of the market landscape following these changes, otherwise. This is important to be able to understand the bigger vision and market that will be achieved as a result of this and other wholesale changes. We have asked before for a roadmap relating to Clean Energy Package implementation. The SEMC has provided a high-level version of this which has provided some clarity. However, the overarching vision and market landscape as a result of implementation, and frequent updates of this plan as things develop, has yet to be provided.