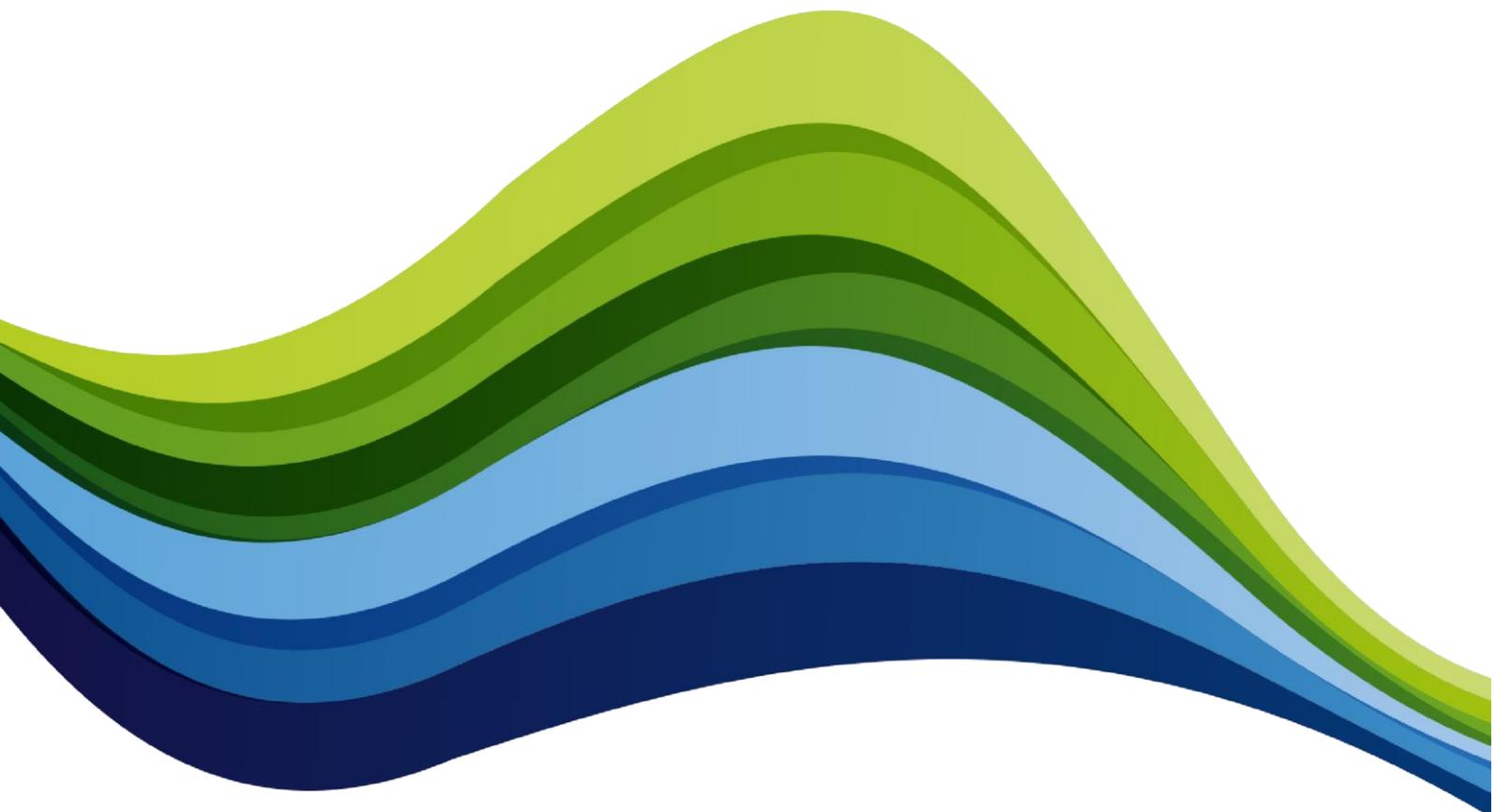

Capacity Remuneration Mechanism 2023-24 T-4 Capacity Auction Parameters

SEM-19-010



Introduction

SSE welcomes the opportunity to comment on the “*Capacity Remuneration Mechanism 2023/24 T-4 auction parameters*” 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 auctions T-1 and T-2.

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 the T-4 2023/24 capacity auction.

We note that the EAI will have submitted an industry response to this consultation. We are supportive of the majority of this response, barring comments relating to transmission constraints.

SSE Response

Transmission Constraints

1. In principle, we consider that it is unfair to directly discriminate based on locational constraint in the capacity market. We think that the issue of locational constraints is not strictly a capacity market issue i.e. it is not a shortage of capacity problem. Rather, the issue is a network issue which SEMC is attempting to solve through the CRM process¹. These issues should be addressed through network planning and delivery (e.g. North-South tie-line), not the capacity market. This would ensure that those entering the auction and deemed in-merit, would not be subject to a secondary adjustment, i.e. potential removal that aims to solve locational constraints. This would also remove the requirement for a re-adjustment to be made ex-post of the initial results that re-optimises to ensure no over-procurement of capacity.
2. It can be understood that pay-as-bid as an incentive, seeks to rightly represent the intended transient nature of a constraint, by attaching a one-year as opposed to a 10-year contract to generation in these areas. It is also understood that this is intended to reduce the danger of over-procurement. However, if capacity requirements North and South were considered separately, it would be clear that there is currently little danger of over-procurement in constrained areas. However, the incentive to locate in areas of constraint, has been depressed through a pay-as-bid model specifically discriminating, based on these constrained areas.

¹ i.e. one-year capacity contracts for capacity in constrained areas like Dublin, versus 10-year options for those supplying non-constrained areas.

3. Locational constraints continue to be a feature of the capacity market, when there are also other measures in place accounting for or mitigating locational constraints—i.e. Dublin region measures (including changes to scalars and easier access to connections if connecting to Dublin) and measures in the balancing market to reduce the impact of the North-South tie-line either via recent modifications and possibly the introduction of simple NIV tagging. We would welcome a long-term and holistic view of local constraint volumes given the current moving parts of the market and how these fit into future regulatory policy and parameters for future capacity markets.

Setting of reserve quantities

Whilst it is a positive step to identify specific reserve levels, particularly in awareness of specific constraint areas such as Northern Ireland; we would have concerns regarding the proposed deadline when these values will be confirmed. Given that reserve quantities are intended to be a feature of the demand curve for T-4, as indicated in the consultation, sight of these final values is a necessity well before the publication of the FAIP. As it is, the indicative demand curve appears largely similar to the one proposed for the last T-4. Therefore, there is no indication of exactly how the proposed or final reserve quantities will feature in the shape, slope or final values for the demand curve. We would welcome detail at this initial stage, of the intended approach for reserves in the demand curve, and specifically, justification for reserves being finalised at such a late stage.

Withholding of capacity

The withholding of specific volumes was signalled in previous parameters consultations and a later consultation for the last T-4, well before the FAIP. Therefore, again there is an issue of visibility at an early stage for generation planning, ahead of several auctions. These values cannot wait till such a late stage in the auction process, to be provided.

Specifically, the rationale for withholding of capacity for DSUs, assumes that DSUs find it difficult to participate due to uncertainty concerning availability and prices, four years ahead; i.e. T-4. Whilst still reasonable, there has been no acknowledgement in this consultation, that DSUs were awarded contracts in the recent T-4 auction. The fact that some DSUs appear to have been able to provide themselves with sufficient certainty to then bid into T-4 auctions, is notable in any future consideration of withholding capacity. We would assume this will affect the policy of withholding capacity for the purpose of supporting DSUs at T-1, in light of these developments and in consideration of the current shape of the demand curve relating to procurement. We would welcome clarity in this regard.

Auction Process

Now that a significant number of auctions have been held, and there has been a bedding down period in terms of the auction process, we wished to provide some high-level comments as to the management of the process. We have found that recently, timelines have been squeezed and there have been delays, see examples below. We get the sense that SEMO require additional resources and internal planning to ensure deadlines are not squeezed and communications don't fall away at critical times. We would recommend that like with current

review of the workings of the market since Go-Live, a frank industry level discussion on lessons learnt with regard to the auctions process to date, would be beneficial for all sides.

Examples

- A three-week delay to IAIPs being published in June, ahead of the forthcoming Qualification (leaving only 4 weeks to prepare applications. Preparing the necessary paperwork for Qualification, requires internal consensus and sign off at various levels as well as gathering of appropriate data to input into the necessary forms. This takes time). We would suggest that greater communication would be of benefit where there are delays. Also, where there is an unavoidable delay, SEMO could also seek to balance out the tightness of the timescales on one end of the process, by reviewing and revising their review period at the back end.
- A Q&A meeting with SEMO was scheduled two days in advance of the date for the meeting (24th June email notification). The meeting itself was held, only two days before the deadline for Qualification (26th June meeting, Qualification deadline 28th June). This timeframe does not facilitate sufficient time to allow for market participants to make any necessary changes following the meeting, ahead of Qualification.

Auction Format

The intention for T-4 2023/24 is to move to combinatorial format D, if possible, in awareness of the requirements under State Aid. We have concerns with this halfway house approach. The requirement is to move to full combinatorial by a specific deadline to comply with State Aid. In principle and on the basis of providing certainty to market participants, there needs to be certainty as to this approach and feasibility within a reasonable timeframe for market participants to prepare for the outcome of such an auction format. We would welcome clarity on how industry will be notified of whether Auction Format D is possible or not.

Summary

In summary, we are supportive of the overall approach to the T-4 parameters setting, in line with previous parameter decisions. However, given the significant changes in landscape and the four-year lead-time considered under this auction, we were expecting a holistic approach, considering recent developments (such as the outturn of the T-4 2022/23).

We note that this consultation suffers from a lack of clarity in terms of the setting of certain parameters and the auction format for this auction. Clarity on reserves, withholding of capacity (accounting for developments in DSU participation at T-4) and local constraint volumes, are fundamental for any participant considering new build capacity or finalising a strategy for their existing fleet.