



SEM-23-084 Capacity Market Code Workshop 33 Consultation Paper

SSE Response



INTRODUCTION

SSE welcomes the opportunity to respond to SEM-23-084 Capacity Market Code Workshop 33 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.

SSE RESPONSE

We agree with the SEM Committee's stance to approve CMC_18_23, and amend the definition of Third Party Extension Period in the Capacity Market Code (CMC) so that the full delay period is captured. We share the SEMC's concerns around the potential for exercise of market power in the absence of mandatory bidding for existing generators that CMC_20_23 would introduce. We agree with the general principle of CMC_21_23, but feel that the urgent modification proposed by the TSOs, CMC_25_23, better facilitates the timely participation of new capacity in the SEM and will respond to that consultation separately. Therefore, CMC 21_23 would be duplication of what CMC_25_23 is seeking to achieve.

The rest of our response will focus on CMC_22_23, as inflation materially impacts the ability of all projects to deliver and warrants an enduring mechanism to index capacity payments. In SEM-23-045, an enduring indexation mechanism was mentioned as the expected next step following the implementation of a time-limited indexation provision for specific auctions. To date, we have seen no further progress towards development of the enduring indexation mechanism for capacity contracts. This would be the appropriate solution to ensure that inflationary pressures that affect all current projects can be recognised and thereby alleviate risks to delivery of capacity. In the absence of the enduring mechanism, we support CMC_22_23 and suggest that it be widened to include projects in delivery and projects at auction, from 2024. The rationale for this is outlined below.

As we have seen in the recently published decision on extensions to Long Stop Date and Capacity Quantity End Date and Time for external delays, SEM-23-101, the SEMC have adopted a more permissive approach to requests for extensions for delays outside of participant control, which applies to all capacity set to deliver from Capacity Year 2024/25 onwards.¹ The SEMC is “satisfied that the proposed Modifications will not operate retrospectively”, because “as with the indexation modifications (see SEM-23-045), the proposals do not seek to reopen settled transactions.” This is evidence of the SEMC’s recognition that there are external factors outside of participant control that affect the delivery of all “live” projects. Inflation is yet another substantial external risk to the delivery of awarded new capacity in capacity year 2024/25 and beyond, which there should be an appropriate mechanism within the Capacity Market Code to account for to support the delivery of new capacity.

Therefore, as per above, there is no rationale why indexation under CMC_22_23 cannot be expanded to its fullest timeframe possible without reopening settled transactions. Indexation could then apply to all projects that are running in parallel to each other from 2024 onwards (without a risk that it could “reopen settled transactions”), without retrospective action. It would allow projects procuring and constructing in a parallel timeframe to avail of the ability to de-risk some of the inflationary pressures that they currently face. This would include all auctions since the 2024/25 T-3 and the 2025/26 T-4 auctions which were already the subject of SEMC Consultations and Decisions on Indexation earlier this year.

It is our view that the SEM Committee’s inclination to reject CMC_22_23 on the basis that it would constitute a “substantial change to current policy” is inconsistent with the decision issued above relating to extensions, and also inconsistent with the objective of the modifications process laid out in the Capacity Market Code “to progress Modification Proposals with a view to better facilitating the achievement of the Capacity Market Code Objectives”.² CMC_22_23 would also facilitate several CMC objectives, primarily “the provision of adequate future capacity in a financially secure manner”.³ Neglecting to fully consider the merits of this proposal, especially in the absence of progress towards an enduring indexation mechanism, would send the wrong investment signal at a time when security of supply is already a risk. And as evidenced below, the indexation challenge is also a likely contributing factor on units failing to progress to auction in the first case, which is not good for the consumer in the long run.

It is notable most recently, as we have seen in the 2027/28 T-4 auction results, the high number of projects that chose not to enter the auction but had pre-qualified. Whilst as above, indexation is significant for current projects that are seeking to deliver before 2027. But for those in this auction that was analysed by the SEMC, this disparity between what projects pre-qualified and what projects entered the auction is

¹ SEM-23-101

² Capacity Market Code B.12.1.2

³ Capacity Market Code A.1.2.1 (b)

proof that indexation is a likely contributing factor for future investment decisions.⁴ Lack of capacity arriving at auction risks driving up the clearing price in the unconstrained auction. Anecdotally, we have seen this with terminations in previous auctions seeming to impact clearing prices of future auctions, since the supply that was expected historically, has failed to arrive. This cannot continue, and if indexation can assist in removing the risk of less capacity progressing to auction, this can only have a positive impact on consumers.

⁴ In SEM-23-089 2026/27 T-4 Auction Volumes information note, the SEMC acknowledges that “the risks that drive non-delivery of particular units in Ireland and Northern Ireland have some common root causes (e.g. global inflation partly caused by the Ukraine War)”. We’ve seen that, disappointingly, the SEMC has decided to reduce non-delivery adjustments proposed by the TSOs (which added over 1GW to the modelled all-island capacity requirement) by a total of 349MW and address them collectively alongside other risks in their “diversified risk adjustment”. Both the TSOs and SEMC apportion risk adjustments per Locational Capacity Constraint Area (LCCA). In our opinion, applying different non-delivery/diversified risk adjustments to different LCCAs and discounting the risk of non-delivery by both reducing the magnitude of and combining those adjustments with other potentially correlated risks misrepresents the underlying causes of non-delivery (i.e. inflation), which are global pressures faced equally by all developers of new capacity. The lack of an appropriate non-delivery risk adjustment puts greater stress on providing all means available (i.e., indexation of capacity payments) to allow projects to deliver and to take account of the inflationary environment that projects seeking to deliver from today, are facing