SEM-23-024 Consultation on Compensation Arrangements for Net Transfer Capacity Reductions

SSE Response

Introduction

SSE welcomes the opportunity to respond to SEM-23-024 Consultation on Compensation Arrangements for Net Transfer Capacity Reductions. 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

The focus of the consultation is the assessment that any future SEM-GB interconnectors will continue to be treated in the same manner as existing interconnectors between these jurisdictions. This consultation mainly sets out the regulatory and legal context in which the SEMC has made itself comfortable that Greenlink will be treated under the same interim decoupled arrangements as other SEM-GB interconnectors, in the absence of pending implementation of Multi-Regional Loose Volume Coupling (MRLVC).

However, as outlined below, SSE has further comments to make about the need for swift implementation of MRLVC, the urgent need to reinstate the hedging opportunity of transfer capacity products for Market

Participants (MPs) and the need to ensure that treatment of all ICs will be proportionate, consistent, and holistic to ensure that a 2-tier scenario will not be created on this island. It is also important to reiterate that as part of other consultations[1], we have made it clear the impact that ICs continue to have on the SEM (importing of prices, CRM derating displacing local generation, etc).

Question 1: Please set out your view on the appropriate arrangements for NTC reduction compensation going forward in the SEM, given the current arrangements for cross-border trading. Would this be impacted if cross-border forward hedging instruments were introduced in advance of MRLVC and, if so, in what way?

We have previously mentioned that we are not supportive of the continued use of the interim arrangements and would like urgent update from the SEMC as to the status and progress towards MRLVC as an enduring approach.

With respect to NTC reduction compensation, we are relatively agnostic as to what arrangement is used. So long as it is clear to industry in good time where there are reductions (degree and frequency) and value of compensation, we would be comfortable. We would have concerns to ensure that whatever compensation calculation is decided on, would not negatively impact the delivery of NTC products for market participants across interconnectors.

On this topic, there is no rationale for why FTRs needed to be removed along these interconnectors and why they cannot be reinstated immediately. Provisions of these products for market participants is not predicated on the implementation of MRLVC. It is worth noting that whatever justification is being used for explicit flows on BritNed/IFA etc, should be applicable to GB-SEM interconnector arrangements. This could be a useful starting point to be able to facilitate transfers across the interconnectors.

We appreciate a separate work stream is requiring analysis by Interconnector Owners regarding delivery of PTRs. We welcome this. But in the interim, as PTRs could represent a system change, FTRs could still be providing hedging benefits for market participants and potential liquidity benefits for the market. FTRs are more protected and don't necessarily need an energy position. Where the TSOs continue to curtail back ICs to be able to protect the market from imported prices, FTRs can be more flexible and can provide benefits for liquidity and better overall outlook for customers.

To reiterate, the ability for market participants to better hedge capacity via transfer rights across the interconnectors is not dependent on what trading arrangement is in place between UK-EU. We have responded before that the current interim arrangement post-Brexit is not ideal[2], that market participants require something better than the interim and that currently hedging opportunities and forward liquidity has been greatly affected. This must be addressed in the interim and even in the absence of MRLVC. MRLVC itself also does not immediately guarantee a return to transfer across interconnectors being possible, either FTRs or PTRs. Therefore, this must be considered as a matter of **urgency**.

Question 2: This paper references various principles that underpin different approaches to compensation arrangements for NTC reduction (i.e. 'causer pays', 'cost neutrality', 'different compensation arrangements for allocated and unallocated capacity'). In your view, what principles should underpin compensation arrangements for NTC reduction going forward in the SEM?

As mentioned, we are relatively agnostic as to which compensation approaches should be adopted for TSO – ICO trading. We expect that reduction compensation must be cost-reflective and cost-neutral to the market whilst also adequately accounting for unknowns. By unknowns for example would be ensuring that compensation considers the spread value on unscheduled outages and/or TSO reductions as these can't be priced it at time of auction, since they are unknown. In addition, whatever compensation

[1] SSE Response to SEM-22-076.pdf (semcommittee.com)

[2] GB-SEM Trading Decision Paper .pdf (semcommittee.com)

principles are decided, we would consider that this mechanism could in future be applicable to parties that have purchased IC capacity and will be covered/kept financially whole in either market.

Question 3: are there any other factors, not covered in this paper, which should be considered by the RAs ahead of a decision? If providing, please explain relevance.

The risk of differing approaches between SEM-GB and SEM-EU with the advent of Celtic has not been considered. This risk is one that must be considered in the round in terms of operation of SEM-GB ICs and future operations. Otherwise, we risk a divided single market with differing treatments. Therefore, we would consider that whatever compensation mechanism is arrived at, reflects a reasonable or comparable mechanism that would be in place for Celtic to avoid a two-tier transfer capacity approach.

There has not been a follow up on the separate decision relating to PTRs analysis and this would have been a useful piece of analysis to inform this discussion—so again a holistic view of interconnector treatment and compliance can be understood by industry.

Lastly, the impact of recoupling following the advent of Celtic and how this may impact on compliance with EU Network Codes for all interconnection has also not been adequately articulated. We note that the regular industry forums covering EU Network Codes have fallen off the calendar of regular industry engagements. There also appears to be no policy, regulatory or systems related progress towards being ready to comply with these requirements as soon as 2026 (when Celtic energises); e.g., Electricity Balancing Guidelines. As per the last SEMO focus group, the independent panel raised the issue of not already preparing the systems to deal with the approach needed to accommodate and operate along the Celtic interconnector, despite there being a well-understood ~18-month lead-time for system changes to reach code release stage. We would welcome clarity on this all of this will be considered in the round alongside the operation of the existing ICs.