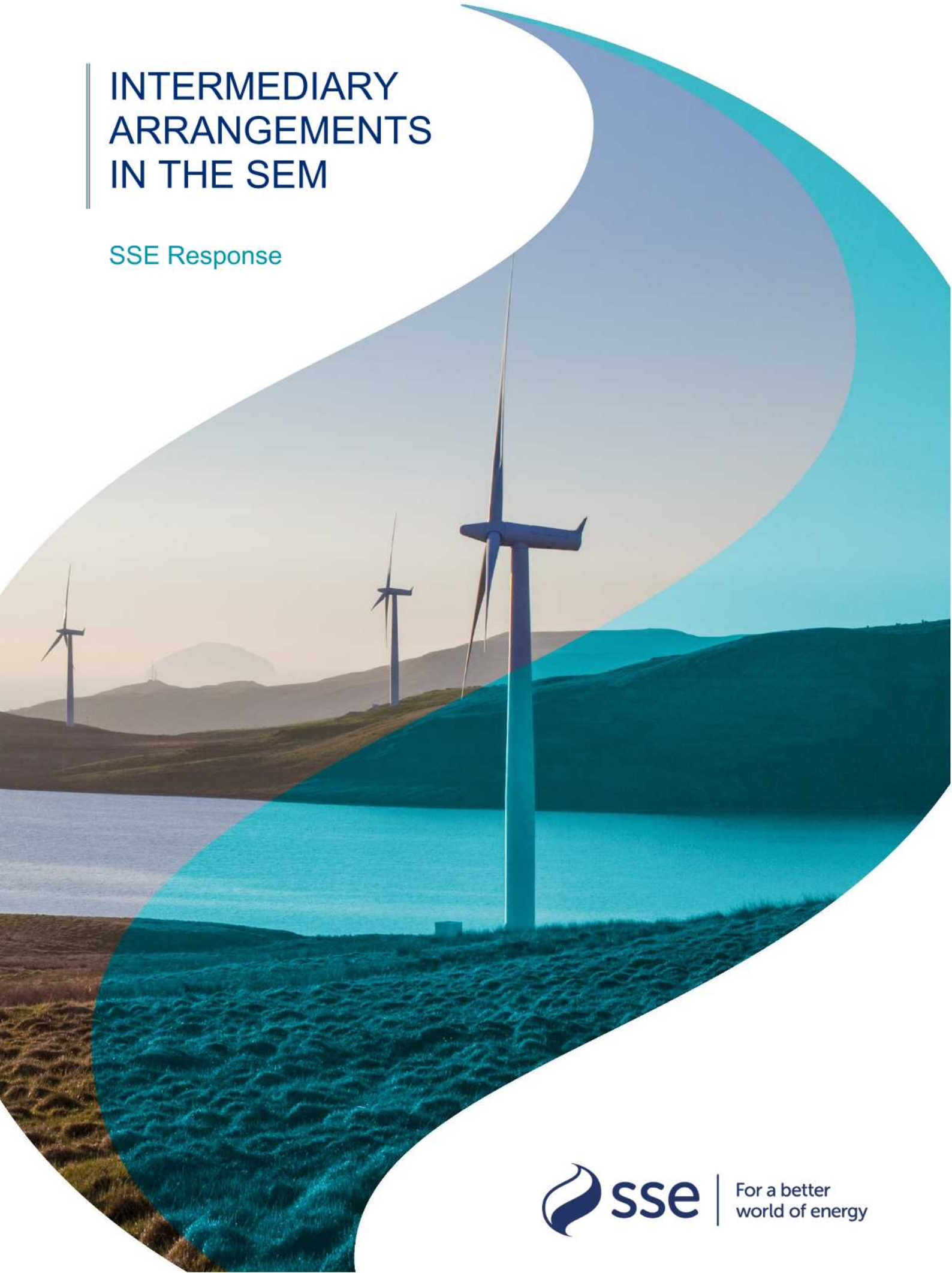
INTERMEDIARY ARRANGEMENTS IN THE SEM

SSE Response



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INTRODUCTION

SSE welcomes the opportunity to comment on *SEM-20-033 Intermediary Arrangements in the SEM*. For the avoidance of doubt, this is a non-confidential response.

SSE is a large generator and supplier operating circa 2,000MW of generation in the all-island centrally dispatched SEM. The mechanism for Intermediary Arrangements facilitates smaller players and those of specific, novel or alternative technologies to access the market and should be retained. We note the possible development of these arrangements as part of the parallel SEM-20-042 Aggregation in the SEM, in accordance with provisions under the Clean Energy Package.

SSE RESPONSE

We have provided responses under the consultation questions posed. More generally, we note the interaction with the separate consultation SEM-20-042. We will provide parallel and more details comments as part of this separate consultation. It is sufficient to note in this regard, that aggregation and a portfolio of PPAs held by an intermediary are not immediately comparable and we are concerned that given the definition of aggregation within the relevant Directives, there is a reliance on Intermediary Arrangements to deliver this requirement; where this has sat outside the rationale for Intermediary Arrangements to date. We are concerned with the assumption that intermediaries and aggregators are interchangeable.

We also consider that for aggregation to properly function, means that this flows into settlements and provides for portfolio trading. The consultation on intermediaries and its counterpart SEM-20-042 appear to consider an expansion of eligibility for Intermediary Arrangements as meeting the requirements for aggregation; which is insufficient to meet the intention of aggregation. Furthermore, there does not appear to be consideration of the initial fundamental position: should an intermediary function like an aggregator at all and if so, how should this be achieved.

Consultation Question 1: The RAs propose to revise Part C of the eligibility criteria to allow for a broader range of market participant categories to apply and also to provide for renewable units which may be dispatchable and/or controllable to take part in such arrangements. The revised criterion would be; where a Wind Power Unit, a Pumped Storage Unit, a Battery Storage Unit, a Demand Side Unit or a Solar Power Unit with a Maximum Export Capacity of less than 100MW is contracted to a Supplier that is Party to the TSC.

In principle, it is reasonable to provide additional access to this mechanism for additional types of technologies. It is our understanding that the vast majority of these technology types are already provided for under the arrangements, barring perhaps Battery Storage or Demand Side Units. Therefore, we are supportive of the expansion of criterion C.

However, we note that the 100MW threshold could be an issue when considering the facilitation of Corporate PPAs as suggested below.

Finally, on the basis that the current solution for the loss of priority units is to define these as dispatchable; it makes sense to consider extending this provision to those units. This still awaits significant clarity through the recent SEMC consultation regarding Article 12 and 13, as well as completion of work through the SEMO priority dispatch workshop. We would welcome this clarity.

Consultation Question 2: The RAs propose to allow Suppliers to take part in Intermediary arrangements. Do you agree with this proposal and do you have a view on whether this should be available to all suppliers or only to those below a certain threshold of market share?

This proposal is not very clear and appears to be suggesting that Supplier Units with a certain market share, should be encouraged to engage with larger incumbent Suppliers as an alternative to registering as a Party to the TSC.

We believe there may be some confusion between Suppliers and Supplier Units. Suppliers with a customer portfolio may hold market share of a specific level. However, Supplier Units are defined under the Code as:

"means the Unit comprising of one or more Generators or Demand Sites which are not Generator Units (for which metered consumption may be positive or negative where such aggregated metered consumption is available). For the avoidance of doubt all Associated Supplier Units and Trading Site Supplier Units shall be Supplier Units as well as other Supplier Units that do not fall into those classes."

Therefore, the choice of terminology as a Supplier Unit (as defined) does not correspond to the discussion in the paper about small suppliers and market share. If otherwise, a large Supplier Party could amass a portfolio of smaller suppliers based on their smaller market share, this could give rise to market power concerns. This lack of clarity is concerning and makes it difficult to understand the proposal and provide a response. Therefore, we are not supportive of this proposal without further clarity.

One possible rationale for this proposal that we can arrive it, is in relation to "supplier lite" sites. This is a legacy arrangement affecting a large volume of generation, where the GenCo entered into a PPA with their own SupplyCo to facilitate a route to market; and could be registered as Supplier Unit to reflect their generation units at site.

As per question 1, there is a rationale as to why Generator Units enter into Intermediary Arrangements with Suppliers, (rather than Generators that are Party to the TSC). This allows for a route to market, and also removes the danger of market power. We understand the 100MW threshold in the criteria for Intermediary Arrangements could also be a market power preventative measure. We can appreciate this might be why the concept of market share is also considered, but as mentioned—this does not correspond with the definition of a Supplier Unit, versus a small supplier. We would consider that it should rather be explored whether Generation Units with current "supplier lite" arrangements, cannot directly apply via Criterion C, with a suitable Supplier intermediary.

Consultation Question 3: The RAs propose that an additional criterion is added to the Trading and Settlement Code to allow for specific registrations to be approved once they meet the SEM Committee's specific objectives in this area. A Modification to the TSC would be raised following this Consultation to provide for this change. Do you agree with this proposal?

The proposed process for this, via a modification proposal to the TSC and a specific approval route; is welcomed.

Consultation Question 4: The RAs propose to publish a quarterly report on the SEM Committee website setting out the details of the current Intermediary arrangements in place in the SEM. Participants involved in these arrangements would be required to notify the RAs and SEMO of any changes to these. Do you agree with this proposal?

We agree with this proposal. We would consider this needs a sufficient level of clarity to provide details of the changes and parties involved.

Consultation Question 5: What is your view on the potential added value of the application of Intermediary Arrangements in the Ex-Ante Markets?

Intermediaries do not fully lend themselves to the full concept of an aggregator as an entity that can portfolio trade. Particularly, in a market where market participants are forced to continue with unit level bidding in order to ensure we continue to receive REFIT payments. This makes the concept of net trading difficult and this would be the cornerstone of introducing aggregation into trading, in whatever form suitable. If wind units were made firm, this would resolve some of the issues around needing to unit level bid. This change would also lend itself to full aggregation through to settlements.

It is also important to note that the current M7 platform does not provide for portfolio trading, without the separate back office OTC functionality. Where portfolio trading is legitimately engaged in the market currently, it appears as a market distortion; a self-trade. Therefore, if a higher volume of aggregation is introduced without this current feature being remedied, the degree of market distortion will be far greater.
In addition, we would ask the RAs to clarify why Assetless Units have not featured in the consideration of what parties fulfil some degree of aggregation. The concept of an aggregator as per Clean Energy Package and the associated Directive 2019/944, is comparable to the facility provided by Assetless Units in the market; which is defined as:

a notional unit that represents a Participant's activities in the Balancing Market and that is not a physical Generator, an item of Dispatchable plant or a Supplier Unit.

Intermediaries are contrastingly a facilitation role, not directly linked explicitly to trading, but more so to registration and overall participation in the SEM:

the person appointed by a Unit Owner under a Form of Authority set out in Appendix C: "Form of Authority", for the purposes of registration of, and participation in the SEM in respect of, any of the Unit Owner's Units in accordance with sections B.7 to B.11.

The concept of Aggregators is rather comparable to Assetless Units, when considering these definitions side by side. Aggregators and ASUs provide a trading facility to a portfolio of clients or customers in the market. Aggregators also do not own any specific generation or supply themselves, but contract these at scale to be able to leverage the volume in their portfolio. This is cleaner than a Supplier with a portfolio of PPAs, or a DSU with interruptible contracts, which is only one prism through which aggregation could be examined. We will provide more detail in this regard, in our response to SEM-20-442.

In summary, we are not supportive of the expansion of Intermediary Arrangements into the ex-ante markets without sufficient additional context as to how the function of Intermediaries will change and move closer to the concept of Aggregators. In addition, no aggregated trading can be facilitated in these markets without significantly considering barriers to net trading. Furthermore, we request clarity as to why what we consider to be a more comparable parties to the Code, i.e. Assetless Units are not considered in the context of aggregation.

Consultation Question 6: Are there limitations to the current arrangements which could be revised to better facilitate corporate PPAs?

As we understand from the consultation, it is being considered whether Intermediary Arrangements should be revised to facilitate Corporate PPAs. It appears that intermediaries would lend themselves well to the purpose of facilitating Corporate PPAs (CPPAs). However, it is not clear how CPPAs could actually fit within the current criteria if a PSO payment does not apply (Criterion A), or with a 100MW threshold (Criterion B). CPPAs will more likely represent significant value and larger sized sites, likely more than 100MW. The current criteria would represent a barrier to encouraging the growth of CPPAs without additional provisions suited to these types of contracts.

Consultation Question 7: Are there further changes to the FoA that the Regulatory Authorities should consider?

This process is fairly well-known and straightforward. However, given the current pandemic situation and the likely continued uncertainty, use of electronic signatures or other process improvements to facilitate the current remote working and social distancing approaches, would be welcome.