SEM-21-065 AMENDMENT TO THE ALLOCATION OF DIRECTED CONTRACTS

SSE Response

For a better world of energy

INTRODUCTION

SSE welcomes the opportunity to comment on SEM-21-065 Amendment to the Allocation of Directed Contracts, information and consultation paper. For the avoidance of doubt, this is a non-confidential response.

As you can see in our response below, SSE has some process and governance comments regarding this paper and its proposals. We would encourage you to reflect on our responses regarding forward liquidity and DCs. We agree that there are specific barriers to forward liquidity. Some of which, are as a result of Brexit and implementation issues we consider are part of the CRM. We have raised some of the implementation issues in our response to T-4 2025/26.

WHO WE ARE

At SSE we're 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 be 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 the UK government and other stakeholders to support the delivery of a successful and impactful COP in Glasgow next November.

SSE RESPONSE

We note that the substance of the consultation is a discussion of the specific negative impacts to the development of forward liquidity. In this context, "*the SEM Committee intend removing Round 16 DC volumes normally allocated to eligible companies who do not have a DC Financial Energy Master Agreement (FEMA) (SEM-18-036) arrangement in place with ESB Generation & Trading such that they cannot participate in a forthcoming DC round, and then reallocate these DC volumes to small suppliers*".

We would have a concern regarding this approach, which we have outlined below, in response to the posed consultation question.

In addition, we note the link that the SEMC makes with current circumstances which are seen to negatively impact on forward liquidity (see below). We provide some thoughts in response to these outlined circumstances:

- *An increased number of planned outages of thermal generators has reduced generation capacity and contributed to an increase in the wholesale price of electricity;* We would agree that the increased number of planned outages has proved challenging for the whole market and that there potentially could be a slightly increased impact to smaller suppliers. However, we would note that the greater issue that is exacerbated by this circumstance, is that the CRM has, to date, failed to procure sufficient generation capacity to sufficiently manage this situation. Until the CRM procures sufficient generation capacity, we would be hesitant to cite planned outages specifically being a direct challenge to forward liquidity.
- *Interconnector Financial Transmission Rights (FTR's) are no longer available to interested parties since 1st January 2021;* We note the lack of FTR's is due to Brexit decoupling. We are still awaiting a decision regarding the implementation of a new trade arrangement which is expected by SEM participants to resolve this issue. We would strongly encourage that this provision forms part of any future trade arrangement and would therefore cease to be a specific barrier to forward liquidity being achieved.
- *Clean spark spreads have trended upwards since January 2021.* This is an issue for all suppliers. It is a reflection of system conditions and generation headroom. It would be expected that higher forecast clean sparks would result in increased liquidity as generators seek to hedge future margins.

DO YOU AGREE THAT THE PROPOSED AMENDMENT TO THE DC ELIGIBILITY MODEL SHOULD BE AN ENDURING ARRANGEMENT? IF YOU DISAGREE, PLEASE SET OUT YOUR RATIONALE.

Our first consideration when reviewing this is the premise upon which DC volumes are expected to be reallocated. As we mentioned in our response to the related SEM-20-045, the overall goal should be to ensure that there is a liquid forward market available to hedge forward exposure. The primary barrier to this at present is with regards to credit, which could be resolved through the introduction of solutions like clearing facilities. This could remove some issues with forward liquidity and reduce the reliance on Directed Contracts. We would consider that such an approach would have a positive impact for small suppliers.

We would also be concerned that there is no justification, evidence or rationale to adequately explain this proposal to reallocate volumes solely to small suppliers. The paper notes that the impact of reallocation would be limited in terms of the hedging requirements of small suppliers and would reduce the hedges available to others in supplemental rounds. Requirement to hedge is a function of net exposure to the market, not business size.