SEM-23-082 Capacity Market Code Consultation – Modification to Implement the SEMC Decision set out in SEM-23-038 and SEM-23-045 on Indexation of Capacity Payments

SSE Response

sse Thermal

Introduction

SSE welcomes the opportunity to respond to this SEM Consultation Paper on the Modification to the Capacity Market Code to implement the SEMC Decision set out in SEM-23-038 and SEM-23-045 on Indexation of Capacity payments.

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 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

This Consultation is based around a Modification proposal submitted by the RAs to implement the SEM Committee's decision set out in SEM-23-038 and SEM-23-045 to apply indexation to multi-year New Capacity projects which won in the 2024/25 T-3 and 2025/26 T-4 Capacity Auctions.

Modification to Capacity Market Code:

The Modification would introduce a new section under Chapter M: Interim Arrangements of the CMC and a total of six subsections under this new section, as outlined in the Consultation. It would also introduce new definitions to the Glossary, and make corrections within the CMC to maintain consistency with the proposed changes to the code and to avoid conflict with the new proposed arrangements under Chapter M. It also proposes to delete a clause related to the CPP not being subject to indexation or adjustment, as this would result in conflict with the new section.

SSE agrees that this Modification is consistent with the Code objectives and accepts that these changes are appropriate to implement this Decision. It would also be useful to see a worked example to understand the impact of this indexation formula.

Indexation for further Capacity Auctions:

This Decision only applies to the 2024/25 T-3 and 2025/26 T-4 Capacity Auctions. There are continuing risks to generators as a result of inflationary pressures. Project financing is still tight and projects are struggling in this inflationary environment. Where inflation risk is removed from investors, ultimately consumers will be better served if the CRM contracts offer protection from high inflation, and therefore mitigate the risk of inefficient exit or failure of delivery for new capacity.

Given current security of supply challenges, there needs to be a mechanism to account for indexation for further auctions as inflation continues to be unpredictable. SSE is aware that SEMC is considering an Enduring Indexation Mechanism for capacity contracts. SSE supports an enduring mechanism whereby prices will be indexed over the lifetime of the contract.

The effects of ongoing higher inflation should be factored into capacity payments for further auctions, given that economies have moved from an extended period of stable low inflation to one where rates are higher and far more uncertain. This will ensure that there is a level playing field for forthcoming participation and to enable projects by providing investor confidence. It will help to support the delivery of future generation.

To date, the Enduring Indexation Mechanism for capacity contracts is not yet published and details are still unavailable. This would be the appropriate solution but in the absence of the Enduring mechanism, we suggest that this Modification proposal is widened to the following 2026/27 T-4 Capacity Auctions, to enable new capacity to be built to underpin security of supply.