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RE: SEM-22-036 – Consultation on Enduring Solution to Enable Energy Payments in the Balancing Market for DSUs (the “Consultation”)

Dear Leigh and Guneet,

Bord Gáis Energy (**BGE**) welcomes this opportunity to respond to the Consultation on an Enduring Solution to Enable Energy Payments in the Balancing Market for DSUs. In general, subject to our views on the need to understand in advance likely impacts to the imperfections costs for consumers and how the impacts will be managed, we support a phased approach to bringing DSUs on to a more level playing field by enabling them to access energy market payments.

BGE supports the implementation of the EU Electricity legislation relating to DSUs to ensure a level playing field for demand side response to access the markets (whether directly or by aggregation) alongside all other energy technologies on the energy system. DSUs should therefore receive energy payments consistent with their market operations so that they are on as level a playing field as possible with other market participants. This increased level of energy payments will be welcomed by the Individual Demand Site (IDS) asset owners backing each DSUs' deliveries and should result in enhanced DSU participation in the markets.

The changes proposed however will see an increased cost to the consumer in terms of higher Imperfections Charges. BGE believes it essential that before any of the proposed changes are finalised, or phase 1 is implemented, that the potential cost of these changes is analysed in detail with a view to understanding in advance how consumer cost impacts will be mitigated. Dependant on the scale of the impact to the Imperfections Charge as forecast from that analysis, it should be agreed with industry how this cost increase can be smoothed to lessen any impact on the consumer. We ask also that the decision outlines that there will be strict adherence to the planned review after a 12-month period in phase 1 to understand and manage the overall costs for consumers. The consultation recognises the need to reallocate the current benefit given to MIC Suppliers at the Individual Demand Sites back to the DSUs. But this step is to be implemented only in phase 2¹ and until this “benefit repointing” is put into effect, the move to provide energy payments to the DSUs at all times in phase 1 will bring about “double-counting” of the benefit, at an increased cost to the consumer. BGE believes that adopting the above approach before implementing phase 1 is critical to help manage the likely increased costs this ‘double counting’ effect will have for consumers.

In the review on the effectiveness of Phase 1, one of the main questions to address is whether DSUs are responding in a sustainable manner that sees an improvement in both their performance and availability on the system due to the incentive of a higher level of energy payments. As well as assessing DSU performance (i.e., delivery of dispatch quantities on the basis that dispatch quantity is a good proxy for metered quantity²), evidence should also be sought to show a positive change in the ‘availability’ of DSUs in the market during the 12 months of the review period i.e. the initial 12 months operation of Phase 1. If at the end of the Phase 1 review period the

¹ SEM-22-038 – Section 2.4.1 (pg 15)

² We support the continuation of the use of dispatch quantity as a proxy for metered quantity in both phases, subject to annual verification that the proxy continues to operate within an acceptable range against the dispatch instructions given to DSUs. We believe that EirGrid could already be able to verify performance by analysing the system capabilities that are on the DSU signals and we support the analysis of existing data streams to the TSOs from DSUs where the data is found to be suitable to verify DSU performance.

SEMC deem either the DSU performance or availability unsatisfactory, then the proposal to revert to the current interim arrangements³ may need to be considered. Care should be taken that results of the review account for any isolated distortion(s) that the market may see in the review period, such as unexpected fuel source disruptions. We also ask that after the review period the actual cost impact to the Imperfections Charge should be compared against the cost impact we believe must be forecasted before phase 1 begins. The forecast versus outturn costs comparison should show if the increased cost to the consumer under the Imperfections Charge remains manageable under the phase 1 operations before extending the phase 1 arrangements until phase 2 implementation. If a change in approach to mitigating the Imperfections Cost impact for consumers is needed at the end of the Phase 1 initial 12-month period, the change should be pursued as quickly as possible. In essence, we believe the phase 1 review should establish:

- Satisfaction (or not) with DSU performance as per the consultation, i.e. the TSO will verify the effectiveness of using the dispatch quantity as a good proxy for metered quantity, and
- Satisfaction (or not) on improvements to DSU availability, and
- Compare the forecast impact on the Imperfections Charge at the start of phase 1 with the actual impact from the costs across the initial 12-month review period,

with a view to determining whether the current interim approach needs re-visiting and whether a change to how Imperfection Charge increases for consumers can be better managed e.g. through smearing over longer time period(s).

We believe that the existing site metering arrangements for DSUs in SEM should endure for both phases 1 and 2 as the metering standard they provide for DSUs is at least on par with that in other markets. Imposing a higher metering requirement of settlement grade meters on DSUs is an unnecessary, additional burden to Individual Demand Sites. If however any DSU(s) chooses to move to a higher metering standard by installing settlement grade meters at their IDs, then a slightly higher value of the marginal de-rating factor (DRF) should be offered in the capacity auction packs recognising the better value to the system that the higher quality meter data from these DSUs will bring.

We support the introduction of a Generator Performance Incentive (GPI) to apply to DSUs and believe that it should be introduced on time to apply from October 2023. In our response to EirGrid's Harmonised Other System Charges (OSC) Consultation, Tariff Year 1 October 2022 – 30 September 2023 (dated 11th July 2022), we have indicated that DSUs are already an established technology. With a view to levelling the playing field amongst technologies, we believe that a DSU GPI should be incorporated into the next OSC framework in 2023.

The annex to this response reflects our views expressed above within the framework of the questions posed in the consultation paper. Please do not hesitate to contact me should you need to follow-up on any related issues to the above.

Yours sincerely,

Ian Mullins
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

³ Detailed in SEM-19-029

ANNEX – Consultation Questions and BGE Answers

- 1. The SEMC is keen to hear stakeholders' views on the continuation of dispatched quantity as a suitable proxy for metered quantity for an extended interim period (until phase 2 is live), acknowledging the absence of evidence during the first year in which 'phase 1' will be in place.**

BGE sees the use of the dispatched quantity (DQ) as a proxy for the metered quantity (QM) as suitable in the current environment with the use of existing site metering. A level of oversight needs to be applied to see that the proxy remains viable and effective and continues to operate within an acceptable range against the dispatch instructions given to DSUs. We believe that EirGrid is already able to identify non-performance by analysing the system capabilities which they receive via the DSU signals. We ask that any existing analysis is shared to support the view that the dispatched quantity as a proxy for the metered quantity is viable. As part of the Phase 1 review, the suitability of DQ as a proxy for QM should be reviewed and confirmed.

- 2. Do stakeholders have a view on the extent of industry code or system modifications/ time involved to develop and implement phase 1?**

We believe that any proposed changes to industry codes or systems should continue to use the existing review and governance processes e.g., the Trading & Settlement Code (T&SC) modifications committee or regulatory consultation. It would seem appropriate that the temporary changes needed to implement phase 1 for the 12-month review period should focus on the settlement aspects under the T&SC. Given these changes will be temporary (as the arrangements may revert to the existing interim arrangements if the SEMC deem the output of the Phase 1 review unsatisfactory), then in our view a temporary modification to the T&SC can be quickly raised by the Regulatory Authorities (RAs) at the T&SC modifications committee outlining the changes needed. With most of the items for change already considered in this consultation, it appears a well-developed modification can be quickly proposed to participants for review and the temporary arrangements could be approved for the coming winter period.

We ask that any industry code or system modifications considered for Phase 1 treat DSUs on a level playing field with the rest of the generation industry participants. Any changes should not introduce any unintentional bias into the codes or system which would unduly discriminate against DSUs or any other technology provider, nor undermine obligations to protect the consumer. Changes to industry codes that are expected to endure beyond the 12-month review period must give participants the appropriate time to consider any output and analysis from the 12-month Phase 1 review period. Any such changes proposed should also recognise the timescales needed to propose, review, approve, and implement changes in the codes and systems. We ask also that any necessary changes to accommodate DSUs receiving energy payments are completed efficiently to support the value delivery to the consumer of satisfactory DSU performance and availability to support energy security. The need for system/settlement changes that may materialise as necessary to mitigate the impact of forecast Imperfection Charge increases ahead of Phase 1 implementation, or how such impacts will be mitigated, should be clarified as soon as possible.

- 3. Is 12 months an appropriate period of time over which to assess effectiveness of dispatched quantity as a good proxy for metered quantity?**

We believe that 12 months should be sufficient time to complete an effectiveness assessment of the proxy use of the dispatched quantity for the metered quantity. Given the increased costs to the consumer due to more energy payments to DSUs being funded from the Imperfections Charge, we ask that this 12-month review period is strictly adhered to, so that it should complete in Q3 2023 at the latest. Otherwise, there is the risk of the consumer having to bear an increased level of cost without any indication of value delivery in terms of the expected increased security of supply provided by DSUs to the system. In our view, it is essential that the TSOs deliver on the expectation set for them in the consultation⁴ that they will monitor the effectiveness of phase 1 and highlight any concerns to the RAs

⁴ SEM-22-038 – Section 2.1.3 (pg13)

at any point during the 12-month period. Any such concerns raised should in our view be simultaneously flagged to market participants too.

4. In stakeholders' views, what would be deemed as satisfactory or unsatisfactory effectiveness of outcomes for a DSU operating in the market in phase 1 to aid the SEMC's assessment?

The outcome of phase 1 must demonstrate whether DSUs are responding (or not) in a sustainable manner to improve their performance and availability on the system due to the incentive of a higher level of energy payments:

- The TSOs should analyse the system capabilities which they receive via the DSU signals to establish that the performance of DSUs in delivering the dispatch quantity (as a proxy for the metered quantity) remains within an acceptable range against the dispatch instructions given to DSUs. Evidence from the 12-month review should be compared to show a positive (or negative) change in the response by DSUs in the market during the 12 months of the review period. A negative change should be deemed unsatisfactory and lead to further engagement on the appropriate approach to follow for DSU remuneration.
- We believe that it is not just a review of the suitability of the Imperfections Charge for funding of DSU energy payments that is needed. We request that the level of increase expected for the Imperfections Charge is forecast before the start of Phase 1, and then tested afterwards comparing the forecast to the actual costs incurred. Furthermore, we ask that more is done during Phase 1 to consider how to limit (or avoid) the "double-counting" (and so payment) of the energy benefit (to the MIC Suppliers and the DSUs) of the arrangements given the now increasing cost to the consumer. Depending on the extent of cost increases for consumers, further measures e.g. smearing may need consideration before Phase 1 progresses beyond its initial 12-month period. These cost increases should be transparently outlined in the Phase 1 review report and ideally reported on during the Phase 1 period itself in case preparation is needed to mitigate any cost impacts from the end of the initial 12-month period of Phase 1.
- Dependant on how the SEMC is defining participation, we believe that it is key to establish any change (positive or negative) to the DSU 'availability' due to the higher level of energy payments to DSUs in the period. The TSOs have previously provided availability statistics⁵ showing the poor availability levels of DSUs in the SEM, and so the TSOs can now measure the improvement (or not) of DSU availability in the period. They should provide additional commentary as to scenarios (such as high wind periods) where the DSU availability declarations are notably better or worse. This may help with further understanding the system service product needs of DSUs. Care should be taken that results of the review account for any isolated distortion that the market may see in the review period, for example unexpected fuel source disruption. Further deterioration in "availability" performance would be unsatisfactory, a sizeable improvement in availability performance is what would be most satisfactory.

5. Are there any other elements than those suggested which need to be included in the review of phase 1 to allow conclusion to be reached on feasibility to continue with 'phase 1' before phase 2 goes live?

With the increased cost burden to the consumer through the proposed use of the Imperfections Charge for the energy payments to DSUs, we ask that that the level of increase expected for the Imperfections Charge is forecast before the start of Phase 1, and then tested at the end of the 12-month phase 1 comparing forecast vs. actual costs incurred. We believe there must be an agreement with industry how the forecast cost increase can be smoothed to lessen any impact on the consumer pre -Phase 1

⁵ EirGrid/ SONI "Interim Solution for Capacity Market marginal de-rating factors: Information paper to SEMC", dated 16 May 2022 (Annex B, pg 23)

implementation. Strict adherence to the 12-month review period for phase 1 to minimise the potential overall costs is also considered necessary.

The review period needs to demonstrate value delivery to the consumer of satisfactory DSU performance and availability to support energy security, along with measures assessed that mitigate double-counting (and so payment to both MIC suppliers and DSUs) of the energy benefits given the increased costs consumers may face via higher Imperfections Charges that pay the energy payments to DSUs. The TSO monitoring of DSUs for their performance against dispatch instructions and their availability in the market should be improved. On foot of that analysis a level of penalty for any unjustifiable non-availability of DSUs should be set at an appropriate level to encourage response improvements by DSUs.

We ask that a formal consultation is held with participants at the end of the review period (ideally before the end of the Phase 1 initial 12 months) to transparently show the assessment results and seek input as to the optimum continuation of phase 1 until phase 2 is implemented.

We have identified in the answer to Q4 that isolated market distortions which may occur in the review period (for example, unexpected fuel source disruptions) should be accounted for in the results to provide a true picture of any improvements in DSU performance across the review period.

6. The SEMC welcomes views on the introduction of a new Generator Performance Incentive (GPI) to apply to DSUs if Phase 1 continues beyond the first twelve months (i.e., after review has evidenced its effectiveness) until Phase 2 is implemented.

We support the introduction of a Generator Performance Incentive (GPI) to apply to DSUs. In our response to EirGrid's Harmonised Other System Charges (OSC) Consultation, Tariff Year 1 October 2022 – 30 September 2023 (dated 11th July 2022), we have indicated that we believe DSUs are already an established technology in the market. With a view to levelling the playing field amongst technologies, we believe that a DSU GPI should be incorporated into of the next OSC framework in 2023.

7. Do stakeholders have a view on the extent of industry code or system modifications/ time involved to develop and implement phase 2?

It is difficult to understand the exact changes that may be needed but we ask that any industry code or system modifications considered for phase 2 treat DSUs on a level playing field with the rest of the generation industry participants. We believe that any proposed changes to industry codes or systems continue to use the existing review and governance processes whether by industry committee or consultation. Any changes should not introduce any unintentional bias into the codes or system which would unduly discriminate against DSUs or any other technology provider, nor undermine obligations to protect the consumer. Participants must be given the appropriate time to consider any changes proposed with a recognition of the timescales needed to propose, review, approve, and implement changes in the codes and systems. Any necessary changes should be carried out efficiently and quickly in a manner that does not undermine the value delivery to the consumer of satisfactory DSU performance and availability to support energy security, and such that mitigation of any 'double counting' effect that persists under the Phase 1 approach occurs.

The level of change and development to implement phase 2 appears complex and may need a number of years to provide a robust solution. In this context, we ask that the cost impact to the consumer of paying for the "double counting" of the energy market benefit (i.e. paying to both the MIC Suppliers and the DSUs) is mitigated as a priority. We believe methods of mitigating the "double counting" effect need to be further investigated early in Phase 1 and during it and included in the Phase 1 review report. Certainly the double accounting effect will need to be completely eliminated ahead of phase 2 implementation. This could be implemented by way of a "perimeter shift" of payments so removing the benefit from the MIC Suppliers such that the benefit is being recognised only in the energy payments to customers. This step is proposed for phase 2 in the consultation, but we believe that the design and development of this process should begin immediately unless a Cost Benefit Analysis shows the benefits to the consumer outweigh any of costs concerns expressed.

8. The SEMC welcomes views on 'phase 2' being an 'enduring solution' if/once implemented.

The use of dispatched quantity as a proxy for metered quantity is sufficient. BGE believes that the existing site metering arrangements for DSUs in SEM should endure for both phases 1 and 2 as the metering standard they provide for DSUs is at least on par with that in other markets. Imposing a higher metering requirement of settlement grade meters on DSUs is an unnecessary, additional burden to Individual Demand Sites. If however any DSU(s) chooses to move to a higher metering standard by installing settlement grade meters at their IDSs, then a slightly higher value of the marginal de-rating factor (DRF) should be offered in the capacity auction packs recognising the better value to the system that the higher quality meter data from these DSUs will bring.

9. Do stakeholders have any concerns with either phase regarding accommodating the different types of demand response?

BGE believes that current and emerging technologies need to be accommodated in the energy system on a level playing field so that the market value of their contribution to the security of supply to the SEM is fairly reflected. Where incentives (such as here by increased energy payments to DSUs) are offered then it is appropriate that the TSO improves its monitoring capabilities to ensure the value delivery to the consumer of satisfactory DSU performance and availability to support energy security. Measures to mitigate the "double counting" effect of current energy payments (to MIC suppliers and DSUs) should apply in our view to any type of demand response, preferably from Phase 1.

10. All other stakeholders' views are welcomed.

BGE sees DSUs as established providers to the energy system who provide valuable contributions to meet the energy system requirements of the SEM. It is appropriate that they are treated in SEM market operations on a level-playing field not only in terms of energy payments but equally in performance oversight and compliance with operating obligations. Their operational capabilities (such as asset constrained availability) need to be considered when reviewing the DSU performance so that an enduring performance and revenue framework for DSUs is established in line with other market participants. With the playing field for DSUs being levelled with regards to access to the markets as required by EU legislation, then we expect the TSOs to provide an equal application of its unit monitoring processes (e.g., ensuring the availability of larger units, such as CCGTs) to all units that operate in the SEM including DSUs. Otherwise, there is the risk that a disparity on oversight and monitoring will remain between units now holding similar obligations under the SEM. This would be an unfair advantage to the smaller units that are the subject of this consultation.