

14th October 2011

Paul Brandon
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

Dear Paul,

RE: Consultation on the Treatment of Price Taking Generation in Tie Breaks in Dispatch in the Single Electricity Market and Associated Issues, SEM-11-063

Bord Gáis Energy (“BG Energy”) welcomes the opportunity to respond to the Consultation on the Treatment of Price Taking Generation in Tie Breaks in Dispatch in the SEM and Associated Issues (“the Consultation”).

BG Energy appreciates the complexity of the issue at hand and the need to provide clarity to the market in a timely manner. However, it is difficult to provide a full and comprehensive response to the proposals and issues under consideration without clarity and greater transparency around the processes and procedures that are being consulted on (e.g. modelling and real time implementation). In addition, there is no clear evidence on the level of Firm Access Quantities (“FAQ”) for Gate 2 projects and for Northern Ireland (“NI”) projects, making it unfeasible to accurately assess the Consultation’s proposals and their impact on portfolios. This makes investment decisions increasingly difficult.

Furthermore, without the connection of any further intermittent generation, an issue already exists between grid code compliant (i.e. controllable) windfarms and non-grid code compliant (uncontrollable) windfarms, whereby compliant windfarms, by virtue of their controllability, are being disproportionately constrained relative to non-compliant units. This discrimination needs to be addressed promptly outside of this consultation.

Notwithstanding the above, BG Energy has a number of views and concerns with respect to the proposals outlined in the consultation, namely:

1. **The definition and modelling of constraint areas:** Whether constraints are grouped into specific areas or not does not change how they will be dealt with in practice. Defining constraint areas essentially labels windfarms, either negatively or positively, based on the configuration of the grid and as such this has commercial implications for the units in those areas. Constraints are location specific by nature and so individual projects can be defined into levels of firmness on an all-island basis. Until information on Gate 2 Firm Access Quantity (“FAQ”) levels and the Northern Ireland firmness allocation process is available, it is extremely difficult to decide definitively on the categories of units within constraint areas. BG Energy requests that

- the categories are reviewed following completion of these work-streams to ensure their suitability;
2. **The treatment of temporary connections:** Gate 2 projects currently have no certainty on their FAQ or the level of constraints that will be applied to a project, hindering accurate assessment of these investments. Gate 2 projects have also seen significant delays to their permanent connections due to system operator optimisation, which rests wholly outside of their control. To penalise temporary connections which may have been in development with the TSOs for years at this point, is unfair. Where FAQ is available, it should be allocated to the temporary connections that can use the FAQ and the level of firm capacity should be the only determining factor in assigning constraints to any generator. BG Energy believes that projects should be assessed on the level of firmness at their connection node and not whether the connection is temporary or permanent;
 3. **The merits of different hierarchy options:** There is a clear conflict in interpretation between the Renewables Directive 2009/28/EC and the Cross-Border Exchanges Regulation (EC) No 714/2009. The decision to give interconnectors priority over renewable wind plants in Decision SEM-11-062, requires further consideration and justification particularly in light of binding EU 2020 renewables targets;
 4. **The treatment of curtailments:** Constraints should be dealt with before curtailment as managing constraints first will reduce and may even eliminate the necessity for curtailment to occur at all. Curtailments should be carried out on a pro-rata basis on the island of Ireland as curtailments are a system-wide issue;
 5. **Wider consultation:** wider consultation is needed on the processes and procedures underpinning the modelling of constraints, the rules and processes around counter-trading and the real-time implementation of these principles before a final decision can be made. The outcome of this consultation and the resulting treatment of units during tie-break and high wind scenarios have significant commercial implications for market participants. It is therefore imperative that there is full transparency and understanding before a decision is published.

The remainder of this response explores these issues in greater detail and poses a number of questions for which BG Energy would appreciate further clarification.

1. Constraint Groups/ Areas

BG Energy's main concerns on constraint areas relate to whether there is a need to define constraint areas, the levels of FAQ applicable to the categories of units within the areas and the treatment of Gate 2 temporary connections.

i. Constraint Groups/ Areas

BG Energy believes that defining constraint areas and subjecting them to review and thus significant change over time, heightens the uncertainty as to the level of constraints that a project may have to deal with from year to year. This level of uncertainty makes risk management for wind farm developers increasingly difficult and incidentally affects project financing prospects.

BG Energy believes that constraint areas do not need to be defined as constraint is location specific by nature. The island of Ireland should be one constraint area with all constraints being dealt with where they occur on an all-island basis, based on the level of FAQs.

On a related point, Gate 2 projects currently have no guarantee that actual constraints will reflect those communicated through Possible Generator Output Reductions (“PGOR”) reports. To effectively manage projects’ constraint risk, a level of certainty must be provided to developers. For example providing a guaranteed percentage range, based on the PGOR, to act as a cap and floor on the amount by which constraints can vary, could greatly improve wind project bankability.

ii. Categories of Units within Constraint Groups/ Areas

BG Energy opines that it is difficult to make an accurate assessment of how many, or the level of FAQ applicable to, the categories of units on the island. Specifically, Gate 2 projects are not expected to receive information on the levels of FAQ that may be applied to their projects until the end of the year. At the same time, profound uncertainty surrounds the level of firmness applicable to units in Northern Ireland where no FAQ allocation processes currently exist. An informed assessment or decision on the Consultation is unfeasible without such information and a review of any decision made should occur once such information becomes available.

With regard to the different categories of FAQ-related units within a constraint area, BG Energy believes that units with 100% FAQ should not rest within any designated category. That is to say, a unit with full firm access should be so treated and should not experience constraint by definition. Similarly, units with 0% FAQ should be in a separate category given that this infers that the network has no capacity for this generator. On that basis, BG Energy suggests the following categories:

- 0% FAQ
- 1-49% FAQ
- 50-99% FAQ
- 100% FAQ.

Furthermore, as soon as reinforcement is made and where line upgrades are completed, a unit should automatically move up from whichever category it is included in, to the next relevant category on the relevant day. EirGrid would however have to consider how this can work from a modelling and real-time dispatch implementation point of view.

iii. Temporary Connections

BG Energy believes that projects should be assessed on the level of firmness at their connection node and not whether the connection is temporary or permanent. Temporary connections represent an efficient way to use available network assets and should be supported as they will have a major part to play in meeting the 2020 renewables targets.

The majority of Gate 2 projects with temporary connections have also seen significant delays to the completion of their permanent connections due to ‘grid optimisation’ decisions. These delays are typically as a result of further system design and optimisation works by the TSOs and lie wholly outside of the control of the project developer. Although BG Energy fully supports the TSO’s initiative to optimise shallow and deep works, it is imperative that this is not done to the cost of the individual developer. BG Energy propose that EirGrid should calculate (ideally annually to make full use of available FAQ) if there is

any FAQ available on the temporary connection which can be allocated to the temporarily connected unit.

In short, temporarily connected projects are necessary and should proceed and be supported where a viable temporary connection exists and where planning permission must be protected. They also assist the achievement of renewables targets in a timely manner.

2. Interconnector Issues

The Decision on the Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code (SEM-11-062) gives preference to interconnectors over wind plants for priority dispatch purposes. On the basis of legally binding renewable targets and the provision of priority dispatch for renewables, BG Energy opines that wind should have priority over interconnectors.

There was no formal consultation related to this issue in SEM-11-062 Decision and there is a clear conflict in interpretation between the Renewables Directive 2009/28/EC and the Cross-Border Exchanges Regulation (EC) No 714/2009. The conflict in interpretation and the decision in hierarchy may negatively impact the market and its participants as well as give priority to renewables in other jurisdictions above indigenous renewable generation. The Decision requires further consideration and justification in light of binding EU renewables targets for 2020, and the best method to achieve these targets while complying with the Directive's and Regulation's obligations must be consulted on further.

The potential for countertrading across the interconnector has been raised by the TSOs. In order for market participants to provide constructive comments on counter trading, much greater transparency and dialogue is required on the proposed counter trading rules and process. As part of this process further information on the estimated benefit to the SEM, through reductions in levels of imperfections (curtailment or constraints) should be provided, as well as further details on the scope for the TSO to counter-trade (e.g. will they be capped at a level of allowed revenue?) and potential changes required to the TSO licence.

3. Curtailment

BG Energy agrees with the proposal to address constraints before curtailments on the basis that constraints are more localised than curtailments. When constraints are dealt with before curtailment, it is possible that the constraint process may solve all issues (and affect less units than curtailment would require), while reducing or even eliminating the requirement for curtailment to occur at all.

BG Energy agrees that curtailments should occur on a pro rata basis on the island of island on the basis that it is a system-wide issue. Further detail on the curtailment process will be provided in BG Energy's response to EirGrid's constraints modelling consultation which BG Energy urge the CER to read in conjunction with this response.

Once a wind farm has reached its curtailment point by virtue of the amount of constraints it is subjected to, it should be excluded from the curtailment process.

Furthermore, all wind farms regardless of firm status should be compensated for curtailment as, unlike constraints, there is no relation between firm access and the reasons for curtailment.

The issue of constraint and curtailment is not only a future consideration, The differentiation between constraint and curtailments and the current methodology for dispatching wind farms is completely unknown. It is imperative that this issue in current practices is addressed and resolved concurrently with future plans.

4. Treatment of other Types of Price Taking Wind Generation in Tie Breaks

With respect to uncontrollable wind units, BG Energy agrees that they should be constrained down first. However, the number of units with derogations from the Grid Code should be monitored and their proposed treatment in tie breaks reviewed if the scale of the category becomes unmanageable.

5. Questions/ Clarifications

Further to the above comments, BG Energy has a number of specific questions spanning the different sections of the consultation that it would appreciate clarity on before the publication of a final decision:

- How will the FAQ of an interconnector be defined?
- Can a formal definition of constraint and curtailment be provided?
- In the Decision paper SEM-11-062 it is proposed that Non-Wind Price Taking Priority Dispatch Generation Units will be dispatched down on a pro-rata basis. Why is there a separate principle for this type of generation and will this be a long term solution?
- Will the occasions where Non-Wind Price Taking Priority Dispatch Generation Units will be dispatched down to minimum load as opposed to zero output before moving to the next group in the hierarchy occur only for system stability or safety issues to people, arising from the operation of hydro generation stations in flooding situations?
- Further clarity is required on the concept of Excessive Generation Events (“EGEs”). How often are EGE’s expected and when are they expected to occur. Is it the whole plant’s dispatch quantity/ market schedule quantity that will be charged in such an event or will the charge for an EGE be levied on a pro-rata basis? Further details on the proposed SEMO post processing procedure and its adjustment of resulting MSQs ex-post to reflect the Metered Generation of relevant price taking units, is also required.

6. Summary and Conclusions

BG Energy appreciates that processes and procedures need to be agreed on the issue of tie-breaks given the level of wind generation and grid development that is expected in the coming years. However, these processes and procedures must be transparent, robust and accountable given the commercial impact they may have on projects and their viability.

BG Energy is firstly concerned about the proposal to define constraint areas and believes that defining specific areas is not required. Defining areas and the potential for these areas to be reviewed and redefined from year to year adds unnecessary risk. With that in mind, BG Energy proposes that there should be robust interaction and consultation between industry participants, TSOs and Regulatory Authorities on whether segmentation of

constraint areas is required and the best solution for the market before a final decision is made on such segmentation.

BG Energy is also concerned with the hierarchy as drafted in Decision SEM-11-062 which gives higher priority to interconnector units over renewable generators. BG Energy would suggest that a review of all of the relevant congestion management and priority dispatch legislation is completed to ensure a coherent policy is implemented to achieve the legally binding targets of the SEM.

With respect to the treatment of the categories of units, BG Energy is strongly of the view that units with 100% FAQ should not be categorised with other units who do not have full firm access. Furthermore, temporary connections should be allocated an FAQ and should be treated on their level of firmness only. This is a particularly important issue for Gate 2 projects which currently have no guarantee of their FAQ and are necessary for timely achievement of 2020 renewables targets. It is important that the commercial standing of these units are preserved and recognised in constraint situations.

It is imperative that this response is read and considered in conjunction with BG Energy's response to EirGrid's constraints modelling consultation due on 21st October next.

I hope that you find the above comments, suggestions and queries raised useful. Please do not hesitate to contact me should you wish to discuss any of the issues raised in further detail.

Yours sincerely,

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Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}