Kevin Baron
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ER

June 17th 2016

Dear Kevin,

Re: Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement & Annual Capacity Payment Sum for the Trading Year 2017 (SEM-16-026)

Bord Gáis Energy (BGE) welcomes this opportunity to comment on the SEM Committee's (SEMC) consultation on the Capacity Requirement and Annual Capacity Payment Sum (ACPS) for 2017. We have concerns with a number of areas of this consultation, particularly the calculations for deducting IMR and DS3 revenues from the BNE peaker costs.

IMR Deduction
Although the SEMC has recognised (and ultimately dismissed) the concerns that most industry participants have with the IMR formula, we still firmly believe that the approach currently used is fundamentally flawed and we are unsatisfied with the SEMC's reasoning to apply a theoretical formula based on the Loss of Load Expectation (LOLE). There has been no appropriate evidence shown to date on the relevance and applicability of the LOLE formula and we therefore still firmly believe that this calculation method must change. Given that all other aspects of the BNE peaker costs (i.e. fixed costs, DS3 revenues and WACC parameters) are all based on significantly detailed real market conditions, we believe that so too should the calculations for IMR revenues. Any investor (be they real or theoretical) would model their BNE peaker business case based on actual market conditions for all revenue streams. Due to the capacity revenue shortcomings and IMR revenue over-estimations under the current BNE approach, their business case would be unsuccessful.

A clear example of the inconsistencies in the IMR formula is the SEMC's numerous assumptions on the BNE peaker running profile. When calculating DS3 revenues the SEMC assume that the BNE peaker would run approximately 2% of the year. This is a reasonable estimation given that the best proxy peaking plant runs for approximately the same time on the existing system. For the SEMC to then make the assumption that the BNE would earn IMR revenues based on an 8-hour LOLE running profile is completely inconsistent. We therefore believe the SEMC should use the same assumed running profile when making DS3 and IMR calculations.

Overall, we still believe that the IMR formula should be changed to reflect actual market conditions and that the revenues be calculated in line with the expectations of what a rational investor would make when developing a business case to build a peaking plant. For next year, we urge the SEMC to model the IMR revenues based on the same 2% running profile they have made for calculating DS3 revenues.

Looking ahead to I-SEM, and the application of a BNE type methodology to both the capacity market and the ancillary service market, we further strongly urge the SEMC to review how IMR is treated such that the market delivers the right signals for investors and prices for the market.

DS3 Revenue Deductions
Although a BNE peaking plant is expected to earn higher revenues from the updated DS3 interim tariffs, we believe that the SEMC has not considered all aspects of the new system service arrangements and that they should update their calculations to reflect the following.

i. Under the DS3 contract arrangements, Generators will be subject to "DS3 Scalars" which will impact tariffs based on their level of performance. If a Generator performs poorly, a lower scalar will be applied and that Generator will therefore earn less DS3 revenues. Given the low

running profile of a BNE peaking plant (2%), it will be subject to an industry average performance scalar (defined by EirGrid) and would therefore have its revenues adjusted according to that average. The SEMC must therefore include EirGrid's industry average for performance into their DS3 deduction model as it is a significant element of the DS3 market for industry.

ii. In this consultation, it would appear that the SEMC assume that a BNE peaker would earn revenues from the new fast-acting system services (FFR, FPRAPR and DRR). The TSOs will not be contracting for these 3 services in 2016/17 and therefore these revenues should be omitted from the SEMC's model.

iii. The SSRP system service has an RP (Reactive Power) Factor which reduces its tariff value according to a unit's minimum generation capability. Given that this peaking plant's minimum generation is c. 110MW, the BNE would have an RP factor of 40% applied to the SSRP tariff according to the RP factor formula:

   - $\frac{Registered\ Capacity - MinGen}{Registered\ Capacity}$

In summary, BGE continues to disagree with the approach taken to calculate IMR within the BNE calculation. We believe it undermines the signals for new investors by over-estimating revenues and we also believe it is inconsistent with all other elements of the BNE peaker exercise. Given the current design of the DS3 market for the coming year, we are of the view that there are a number of inaccuracies in how the DS3 revenues for the BNE peaker have been calculated. We urge the RAs to review these calculations as part of its final decision.

I hope you find our comments useful and if you have any questions, please do not hesitate to contact me at any time.

Sincere regards,

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Brian Larkin
Regulatory Affairs – Commercial
Bord Gáis Energy

{By e-mail}