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Dear Karen, Thomas,

Re: Capacity Remuneration Mechanism Reserves Consultation Paper – SEM-18-159

Bord Gáis Energy ("**BGE**") welcomes this opportunity to respond to the SEM Committee's ("**SEMC's**") Consultation on the inclusion of Reserves in the upcoming T-1 and T-4 auctions for CY2019/20 and CY2022/23, respectively.

1. Introduction and Context

At a high level, the purpose of the capacity mechanism is to ensure there is always enough capacity provision on the whole island to meet expected demand requirements now and into the future. It is a market-wide mechanism which seeks to maintain an 8-hour Loss-of-Load Expectation (LOLE) security standard across the island. As highlighted by the Regulatory Authorities (**RAs**) in the T-4 parameters consultation response earlier this year, it is clear that there is a risk of breaching this system security standard, particularly considering that load-shedding can occur before operating reserve is fully depleted (at ~100MW margin). Operating reserve (being a subset of frequency reserve) is a system wide issue, where frequency deviation in one area of the network will have adverse impacts on other areas of the network. Therefore, from these perspectives, **we believe it is extremely important that the addition of reserves is included first and foremost at the all-island capacity requirement level.** We agree with the SEMC that they should be included for the upcoming T-1 and T-4 capacity auctions given the threat to the security standard is near-term.

Although EirGrid's most recent Generation Capacity Statement 2018-2027[1] has indicated a large increase in demand, particularly in Dublin, BGE believes that a delineation exists between the Dublin supply/ demand issue and the need for the inclusion of operating reserves in the capacity requirement issue. The former is a Local Capacity Constraint Area ("**LCCA**") issue specific to Dublin whereas the operating reserve issue is a system-wide issue and should be treated as such. In this regard, we recognise that the Dublin LCCA issue needs to be addressed in the immediate term but that the means of addressing should be through market-based locational signals for the T-4 capacity auction, and not through reserves related to the all-island.

With respect to the inclusion of operating reserves in the capacity requirement, it is important that the capacity market (with the inclusion of reserves in the capacity requirement) **solves on an unconstrained basis first**. This is because system security as an all-island issue should aim to provide the right price signals for availability across the whole island and not just a subset of the island market. Rather than decoupling the market (i.e. allocating reserves only to certain locations), it would be more appropriate to use targeted market-based variables and locational

[1] EirGrid's 2018 Generation Capacity Statement, 2018-2027: link

signals to incentivise capacity in certain areas of the market as these areas may vary from time to time[2].

To maximise transparency, we believe a variant of Option 2b would be the most appropriate method to distributing additional MWs across each LCCA on a temporary basis (i.e. only for the upcoming T-1 and T-4 auctions). The key difference being that the inclusion of reserves would happen first and foremost at the all-island Capacity Requirement level. For example, the current Capacity Requirement in the T-1 CY201920 Initial Auction Information Pack (CY201929 IAIP[3]) is 7,030MW. The inclusion of reserves should increase this figure to at least 7,280MW[4]. After the unconstrained auction runs, the TSOs should check using Option 2b whether the minimum MW requirement in each LCCA was met. Going forward, for all future capacity auctions beyond the next T-1 and T-4, we believe the inclusion of reserves should be incorporated within the capacity requirement methodology.

In summary, BGE believes that the inclusion of operating reserves in the capacity market is critical for ensuring security standards on the all-island are met and that load shedding is avoided in so far as possible. Therefore, we agree that they should be included in the upcoming T-1 and T-4 auctions. The addition of reserves should be made at the all-island level to allow the unconstrained market auction to determine what capacity providers receive a contract for providing system security in the first instance. Furthermore, as operating reserve is a system-wide issue, it is extremely important that it is not used as a locational signal by applying additional reserve levels only to certain subsets of the market – local LCCA supply/ demand issues should be primarily dealt with through market based locational signals as discrete from operating reserves procurement approaches[5]. Finally, to maximise transparency, we believe a solution that is a variant of Option 2b should be applied on a temporary basis (i.e. only for the upcoming T-1 and T-4 auctions). The key difference being that inclusion of reserve is made first at the all-island capacity requirement.

I hope you find the above summary useful. Answers to the specific Consultation questions are also included below. If you have any questions, please do not hesitate to contact me at any time.

Best regards,

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Brian Larkin
Commercial Regulatory Affairs
Bord Gáis Energy

{By e-mail}

[2] For example, Northern Ireland is already experiencing tight generation margins. In the future, in addition to/ alternative to Dublin, it is possible that the west of Ireland could face tight margins if Moneypoint for example is on outage. Similarly, if the Celtic interconnector was built in Cork, the system in the Cork region could be tight when it is exporting to France.
[3] CY2019/20 Initial Auction Information Pack
[4] Note as outlined in our response to the T-4 CY2022/23 capacity auction parameters consultation, BGE believes there should be at least 250MW reserve
[5] Please see our answer to question 2 below for an overview of how BGE believes the operating reserve should be incorporated into the various capacity market "levels" on the island

2. Responses to Consultation Questions

1. Do you agree with the proposal to include reserves in Locational Capacity Constraint Area minimum MWs for the T-4 CY2022/23 capacity auction? Please explain.

In general, the all-island capacity requirement should always be set high enough to ensure that system security standards are met and that load shedding is minimised in so far as possible. Since load shedding can occur when available reserve drops below 100MW, we believe it is prudent that an appropriate level of reserves is included first and foremost at an all-island level in the Capacity Requirement. As per our response to the SEMC's Consultation on T-4 CY2022/23 Auction Parameters we believe that at least 250MW of reserve should be incorporated at the all-island level[6].

Operating reserve is a system wide issue where frequency deviations in one area of the network will have adverse impacts on other areas of the network. Therefore, we believe **the inclusion of reserves should be applied on an all-island basis** by adding it onto the overall Capacity Requirement. To the extent that the unconstrained auction does not meet the minimum MW requirements in any LCCAs, only then should the TSOs look to procure out-of-merit capacity contracts to maintain security standards in all locations. While we recognise that a large part of the increase in demand forecast is in Dublin, it is important that the capacity market (with the inclusion of reserves) tries to **solve any operating reserve issues on an unconstrained basis first given the system wide nature of operating reserve**. System security as an all-island issue should aim to provide the right price signals for availability across the whole island and not just a subset of it. Rather than decoupling the market (i.e. allocating reserves only to certain locations), it would be more appropriate to use targeted market-based variables and locational signals to incentivise generation in certain areas of the market as and when certain areas of the market may require them as outlined in our introduction and context section above.

2. If reserves are to be included across the Locational Capacity Constraint Areas, which of the above approaches (or other approaches do you favour and why?)

In the interests of simplicity and transparency, we believe a variant of Option 2b is the most appropriate approach for calculating the level of reserves in each LCCA for the T-4 auction on a temporary basis only (i.e. only for the upcoming T-1 and T-4 auctions). The key difference is that the inclusion of operating reserve would be applied first and foremost to the all-island capacity requirement. If, subsequent to an unconstrainted auction run, the minimum MW requirement for an LCCA (a sample of which approach is outlined in the table below) is not met, only then should the TSOs look to procure out-of-merit capacity contracts to maintain security standards.

We explain the above by reference to an example by adding 250MW of operating reserve to the T-1 CY201920 capacity requirement. The CY201920 IAIP indicates the 2019/20 Capacity Requirement is 7,030MW. By including 250MW operating reserves, this will increase it to 7,280MW. Then, based on the Option 2b approach, this Capacity Requirement would be divided between L1 and L2 areas (i.e. Northern Ireland (NI), Republic of Ireland (ROI) and Dublin) based on the current minimum MW approach, i.e.:

	Min MW Req't without Reserves		*Min MW Req't with 250MW Reserves*
All-island	7,030MW		7,280MW
L1: ROI	5,260MW		5,451MW
L2: Dublin	1,300MW		1,347MW
L1: NI	1,620MW		1,679MW

[6] This would i) reduce the risk of uncovered RO difference payments for consumers, ii) reduce the risk of inefficient exit signals and iii) be consistent with the direction of travel in the EU (e.g. 3-hours LOLE).

In terms of the other options presented in this Consultation, we believe Option 2a is an arbitrary approach that would not accurately reflect the MW requirements in each area. Further to this, a trip of the largest single infeed in ROI would have adverse impacts on the NI system, meaning that LCCAs would be considered independently which is not appropriate. We believe Option 1 is similar to Option 2b as both approaches use the 8-hour LOLE security standard to determine the appropriate minimum MW requirement. However, Option 2b has the added advantage of being transparent, which is why we believe it is a better approach compared to Option 1.

Finally, we note the RAs' reference to their desire to exercise discretion in the final level of reserve ultimately decided upon and where it is included, but BGE's emphasises the need for transparency in this process not least from an investor confidence perspective. For the avoidance of doubt, we do not support the adoption of Option 1 or Option 2a.

3. Do you agree with the proposal to include reserves in the forthcoming T-1 capacity auction for CY2019/20? Please explain.

Yes, provided they are first and foremost applied to the all-island capacity requirement and then to the LCCA minimum MW requirements in line with the sample approach outlined in answer 2 above.

In the T-4 CY2022/23 Capacity Auction Parameters consultation, the RAs outlined the imminent risk to maintaining the 8-hour Loss-of-Load Expectation (LOLE) due to load-shedding occurrences at 100MW operating reserve margins -and from that perspective, BGE agrees with the SEMC that a level of reserves should be included in the upcoming T-1 capacity auction. As mentioned in our introduction, it is extremely important that the addition of reserves is made at the all-island level to allow the market to try to solve on an unconstrained basis first. This recognises that operating reserve is an all-island issue and therefore should try to be solved on an all-island basis. If the unconstrained run does not deliver the necessary MW to meet the minimum requirements in Dublin, only then should the TSOs procure out-of-merit contracts.

4. Do you agree with the view that the case for including significant reserves in the all-island demand curve is relatively weak?

We strongly disagree with this view. To ensure the integrity of the capacity market mechanism, we believe **that the addition of any operating reserves should be made first and foremost at the all-island capacity requirement level**. As mentioned at the outset of this response, operating reserve is a subset of frequency control, which is an all-island issue. The Dublin LCCA issue is a supply/ demand issue which needs resolution through market-based locational investment signals separate to this reserves consultation.

Applying reserve MWs to subsets of the system would undermine the capacity mechanism and its underlying objectives. To be clear, it is extremely important that any level of reserves is included firstly in the all-island Capacity Requirement. In the event that the unconstrained auction does not deliver the minimum MW requirements at each LCCA in line with the approach BGE outlines in the answer to question 2 above, only then should the TSOs intervene to procure out-of-merit capacity contracts.

5. If reserves are to be included across the Locational Capacity Constraint Areas, which of the above approaches (or other approaches do you favour and why)?

As per our answer to question 2, we believe a variant of Option 2b would be the most suitable approach for dividing reserves between each LCCA on a temporary basis only (i.e. only for the upcoming T-1 and T-4 auctions). Ultimately, given the system wide nature of the operating reserve issue the enduring solution to the risk of load-shedding should be achieved on an all-island level through inclusion of operating reserve solely at the all-island capacity requirement level.

6. Are there reasons to use different approaches for the CY2019/20 T-1 auction and the CY2022/23 T-4 auction? If yes, please explain.

Considering the imminent risk that the current process does not mitigate the risk of load-shedding at low levels of operating reserve margin, it is our view that there is a need to procure additional operating reserve MW to the all island capacity requirement in the upcoming T-1 and T-4 auctions. We do not believe that there is sufficient rationale to adopt a different approach between these two auctions for determining the level of MW of reserve to be added to each of the Capacity Requirements (and subsequent minimum MW requirements at each LCCA as outlined in our answer to question 2 above).