

APPENDIX C – RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	<i>Bord Gais Energy</i>
Type of Stakeholder	<i>Generator & Supplier in SEM</i>
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Confidential Response	[N]

CAPACITY MARKET CODE MODIFICATIONS WORKSHOP 34 CONSULTATION COMMENTS:

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this SEM-24-027 consultation on the modification proposals that was initially discussed at the Capacity Market Code (**'Code'**) Working Group 36:

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CMC_02_24: Modification to the Performance Security Requirement

BGE is not supportive of the proposed modification. Given the prevalence of terminations of capacity we have seen which have exacerbated the security of supply issues the system faces, we would not be supportive of anything which weakens the incentive for delivery of capacity such as the reduction of Performance Security Requirement (PSR), without strong justification.

The modification proposes significant reduction of the PSR (~50% decrease) without a rational basis for such a scale of decrease. The purpose of the PSR is to disincentivise speculative bidding. BGE believes the halving of PSR would increase the risk of speculative bidding due to reduced penalty for non-delivery. This is not the signal the CRM should be sending, at a time when delivery of capacity is the ultimate priority.

Furthermore, this modification appears to seek special treatment for DSUs, given no other capacity contract holder can feasibly bid for a one-year capacity contract to cover the cost of new capacity. The relative lack of complexity in delivering new DSU capacity compared with delivery of new dispatchable generation cannot be understated. Given the lower barriers to entry, and lack of sunk costs in a DSU compared with a physical generator the likelihood of speculative bids is higher.

Finally, BGE does not agree with the assertion that the PSRs are barrier to DSU qualification and Bidding. Of the new capacity cleared in T-4 2027/28 capacity auction ~40% of it was DSU (92MW, of 231MW). Of the 185MW of DSU that qualified, 49% (91MWs) cleared in the auction. In contrast 3036MW of Gas Turbines qualified, while only 2.6% of them cleared in the auction (80MW). The proposer claimed that “if Performance Security Rates decreased it would result in greater volumes of DSU capacity seeking to qualify.” While this is a reasonable assessment the same could be said for all types of types of capacity if PSRs were decreased across the board. However, as we’ve stated before this would increase the volume of speculative bids which are likely to displace more prudent capacity bids which are committed to delivery. Our assertion is this would not be in keeping with the objectives of the CMC, or beneficial for consumers.

CMC_03_24: Enduring Mechanism for Indexation based on GB Model

As we stated in our response to CMC_22_23, **BGE is supportive of the principle of introducing inflationary risk protection to the CRM.** This is something that already exists in RESS, ORESS, and CRMs of existing markets such as GB. The SEMC acknowledged in the SEM-23-038 Decision paper and SEM-23-045 Detailed Response Paper that after extensive consultation, inflation is having a material effect on the delivery of new capacity. This proposal builds on this logic while also accounting for the fact that currently existing capacity has no inflationary protection. In SEM-23-045, the SEMC suggested that arrangements like those

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used in GB would be considered in SEM. **It's disappointing to see SEMC's '*mind*ed to reject' position on this proposed modification.** It is the view of BGE that it not a substantial change to current policy as stated in the 'minded to' position. It follows policy decisions on RESS, ORESS and the 2024/25 T-3 and 2025/26 T-4 Auctions.

BGE is supportive of both proposed modifications and as stated at the workshop believes they should be considered in parallel to optimise the use of RA resources. We believe the approach taken in CMC_03_24 using average inflation would reduce the risk of a spike in inflation in a particular month having an oversized impact on the inflation applied to the Capacity price, and as such would be our preferred option.

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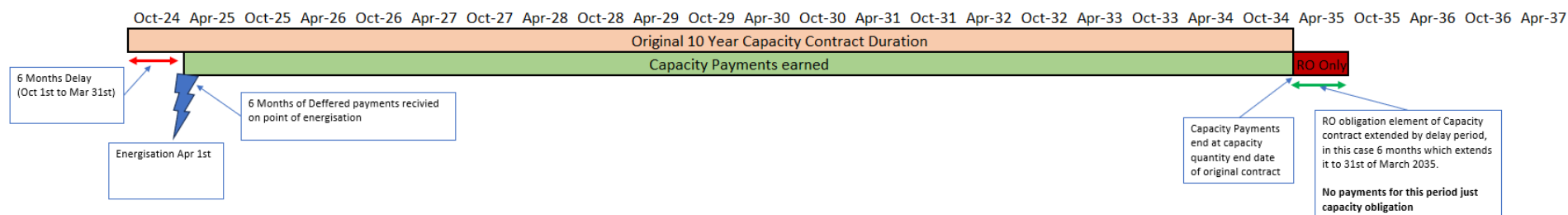
CMC_04_24: Recovery of Net Present Value Lost as a Result of No-Fault Delays to New Capacity Projects

BGE is supportive in principle of this proposed modification. The reduction of NPV as a result of delays can threaten the financial viability of a project and need to be accounted for on the same basis as the decisions SEM-23-001 and SEM-23-101.

However, BGE understands such a process would create additional workload for the RAs, with each application potentially akin to a mini USPC application. The choice of discount rate is likely to prove contentious and the proposed NPV approach would result in increasing the costs for consumer as demonstrated in the example by the proposer.

BGE's alternative proposed approach aims to find a middle ground between the BAU scenario (full erosion of NPV), and the proposed approach (full make whole payment for NPV erosion). Our proposal would be to frontload the deferred set of payments. The simplifies the approach while minimising the impact to the consumer and maintain delivery incentives. For example:

- A project due for delivery in Oct-24 is delayed by 6 months and only energises in Apr-25.
- From Oct-24 to Mar-25 the CMU receives no capacity payments.
- Upon energisation in Apr-25, the CMU will receive its Capacity payment for month 7 and the previous 6 months capacity as a deferred lump sum.
- The lump sum will not be inflated so the total cost across the capacity year remains the same.
- We propose that participants who are in receipt of the frontloaded deferred payments, would provide cover for the capacity difference charges element of Reliability Option but not receive capacity payments for the period equal to the delay after the capacity quantity end date. i.e., in the example below the unit providers RO cover for difference charge in the event of a strike event, from Oct-34- Apr-35, but doesn't receive any capacity payments for this period. This means a full 10 years of RO cover is provided for.



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The **benefit of this approach is it maintains a strong incentive for delivery** of capacity, due to the cashflow implications, particularly at the early stage of a project. Additionally, it **would not increase the cost to consumers** as the same amount is being paid out over the same capacity year just at a deferred rate. Finally, it ensures that a full 10-year period of RO cover is provided for.

We agree with the proposer that the increase in construction costs due to 3rd party should be accounted for. Depending on how progressed a project is and the point at which the delay happens this could be very substantial. In the proposed BGE example this could be included in the lump of deferred capacity payments paid on energisation. While this would add an additional cost to end consumers it would be significantly lower than in the proposed NPV + Construction cost approach.

CMC_05_24: Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108

BGE is supportive of the proposed legal drafting change to implement the modification on extensions based on SEM-23-101 and SEM-23-108.

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ID	Proposed Modification and its Consistency with the Code Objectives	Impacts Not Identified in the Modification Proposal Form	Detailed CMC Drafting Proposed to Deliver the Modification
CMC_02_24: Modification to the Performance Security Requirement	<p>BGE is not supportive of the proposed and believe not consistent with the following code objectives:</p> <p>(f) to ensure no undue discrimination between persons who are or may seek to become parties to the Capacity Market Code; and</p>	<p>The reduction in Performance Security Requirements is likely to result in increased speculative bidding and could result in viable projects being displaced.</p>	<p>N/A</p>

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CMC_03_24: Enduring Mechanism for Indexation based on GB model.	<p>BGE believes the modification as drafted is consistent and will deliver under the following code objectives:</p> <ul style="list-style-type: none"> (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner; (g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland. 	N/A	N/A

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CMC_04_24: Recovery of Net Present Value Lost as a Result of No-Fault Delays to New Capacity Projects	<p>BGE is supportive in principle of the proposed modification. However, we believe that the alternative we proposed would be simpler and would retain the incentive for projects to deliver.</p> <ul style="list-style-type: none"> (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner; (g) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland. 	N/A	Included high level approach above no specific legal drafting proposed.

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CMC_05_24: Amendment to J.6.1.6 to recognise extensions granted under SEM-23-101 and SEM-23-108	<p>BGE believes the modification as drafted is consistent and will deliver under the following code objectives:</p> <p>(c) to facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licenses in relation to the Capacity Market;</p> <p>(d) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner;</p> <p>(f) through the development of the Capacity Market, to promote the short-term and long-term interests of consumers of electricity with respect to price, quality, reliability, and security of supply of electricity across the Island of Ireland</p>	NA	NA

NB please add extra rows as needed.