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RE: SEM-25-028 Consultation Paper on Imperfections Charge October 2025 – September 2026 (the “Consultation”)

Dear Caroline & Market Modelling Team,

Bord Gáis Energy (“BGE”) welcomes the opportunity to respond to the SEM-25-028 consultation on the Imperfections Charge for the Tariff Year 2025/26 (**TY2025/26 (the “consultation”)**). Our primary concern is the Transmission System Operators’ (“TSOs”) proposal to remove the “Better-Of” rule as a means to mitigate imperfections costs. The TSO must do more to reduce the need for expensive balancing actions and the main way this can be done fairly is through addressing the root problem, being a lack of investment in the grid – not by removing a long-established rule that ensures consumers benefit from the value provided by efficient plant that help the TSO to solve for both energy and non-energy actions.

Another key BGE concern with this consultation is that the annual volatility in Imperfections Charges, primarily driven by rising Dispatch Balancing Costs (DBC), is exacerbated by the TSO’s lack of transparency in terms of their modelling and the TSO actions being taken to mitigate constraints that remain to be addressed. The TSO’s proposal to recover a €183.43m k-factor to Imperfections over one tariff year 2025/26 is an inappropriate figure to levy on consumers for one year’s costs and calls for price shock mitigation measures. BGE therefore proposes a 5-year k-factor recovery mechanism to mitigate consumer exposure to year-on-year price shocks.

In summary, BGE asks in this response that:

- A. The SEMC accepts that the proposed removal of the better-of-settlement approach is unreasonable as a “potential way to decrease imperfections costs” and should not be considered as a current or future measure towards decreasing the cost of operating the system because its removal: is fundamentally inconsistent with the Integrated Single Electricity Market (I-SEM) design and would mask the increasing cost of constraints, which cost is a signal for grid development. Moreover, it will distort market signals by penalising the most efficient generators—those capable of solving both energy and non-energy actions—by removing generators’ legitimate expectations of revenue and eroding the commercial ability



to remain available, ultimately increasing reliance on more expensive, out-of-merit units. Our more detailed views are outlined in Section A of this response.

- B. The scale of the K-factor recovery required is significant and should be considered over five years, starting this coming tariff year, to help smooth the impact of the K-factor on consumer bills. Our views on this are detailed in Section B of this response.
- C. The TSOs publish a “Powering Up Cork” document with full transparency on progress made on constraints identification, abatement and mitigation plans with respect to the South-East region¹ to inform future investment decisions in the region and provide clarity on the expected impact of Celtic and mitigation plans for existing and prospective projects. Our views on this are detailed in Section C below.
- D. The SEMC address long-standing inefficiencies in EirGrid’s process which are in BGE’s view contributing to the volatility of Imperfections costs i.e., forecast modelling of system conditions and a lack of transparency on costs across the tariffs and revenues process. Our views on this are detailed in Section D of this response.

A. Better-Of Settlement Approach

BGE requests that the RAs recognise that the existing 'better-of' settlement approach remains appropriate, as it ensures that units providing energy balancing—those within the Net Imbalance Volume (NIV)—are paid the balancing market price. Its removal would ultimately mask constraint costs, distort market signals and increase costs to consumers.

The proposal to remove the better-of-settlement approach is inconsistent with the I-SEM high level and detailed market design decisions and should not be permitted to be used by the TSO as a means to mask the increasing cost of constraints. Removing the better-of rule would dampen the incentive for the TSO to invest in grid infrastructure as the cost of not investing would be arbitrarily reduced at the cost of efficient generators in the market whose actions are capable of solving both energy and non-energy issues. Below are the key reasons why BGE urges the SEMC that this proposal should not be progressed:

1. **Actions that receive the “better-of” settlement are inherently energy-balancing actions that fall within the Net Imbalance Volume (NIV) and are therefore not the source of constraint costs.** The Balancing Market operates on a pay-as-clear basis for units providing energy balancing. These actions are the least-cost actions that fall within the Net Imbalance Volume (NIV), and the 'better-of' settlement mechanism ensures they are paid the balancing market price—regardless of whether they were initially flagged as constraint actions or not. Actions receiving a “better-of settlement” are thus not contributing to constraint costs and so should not be considered when attempting to reduce constraint costs. These actions are cheaper than the actions setting the BM price and so whether flagged as constrained or not, should have been actioned for energy reasons

¹ This would be akin to the “Powering Up Dublin” project to transform and modernise the city's infrastructure so Dublin can continue to develop, while increasing the power from renewable sources. “Powering Up Cork” would detail plans for similar projects in the South-East region of the country.

regardless of constraints². Constraint costs are incurred by all actions not receiving the “better of settlement”. These are actions not used for solving the NIV energy imbalance, and are typically associated with out-of-merit, expensive units that do not hold a balance responsible day-ahead position. It is these pay-as-bid actions that should be reduced, by investing in the grid and eliminating the need for these actions. Removing the Better-Of rule will not address the root cause of why DBCs are increasing.

2. **The primary way the TSO can reduce DBCs is to invest in the grid and reduce the need for expensive pay-as-bid units.** Removing the Better-Of rule is proposed as a cost-cutting measure in response to increasing DBCs, however it fails to account for the significant portion of DBCs that arise from Pay-As-Bid (i.e. non-energy driven) actions being taken by the TSO to solve constraints. These are actions not used for solving the NIV energy imbalance and are typically associated with out-of-merit, expensive units that do not hold a balance responsible day-ahead position. The main way to address rising DBCs is for the TSO to invest strategically in the grid to reduce reliance on pay-as-bid units to manage constraints.

3. **The Better-Of rule is an integral part of SEM design - confirmed under the SEM-15-064 ETA Markets Building Blocks Decision³ - and forms part of existing and prospective investment cases in the SEM.** SEM-15-064 maintained the principle from the old (pre-2018) SEM market design that if a generator secures a Day-Ahead Market (DAM) position - and is subsequently dispatched away from that position by the TSO for constraint reasons - it receives the better-of either the imbalance price or its Commercial Offer Data.

This rule is critical for units capable of meeting both energy and non-energy needs, as their business cases were built on the legitimate expectation of this fairness in treatment and revenue when scheduled in the market (as opposed to scheduled only for system reasons). The proposed removal of this approach undermines this principle by removing valid remuneration for these units when they are instructed to run for system reasons after securing a DAM position. Doing so would not only be contrary to market design but would also erode investor confidence and disincentivise market participation by efficient and balance responsible plant.

In conclusion, the better-of rule to BGE’s mind must persist to stay aligned to the current SEM policy⁴ that units which are the most economic to meet demand should not be at a financial disadvantage due to any constraints. Otherwise, market participants’ legitimate expectations of being remunerated for the value they provide the system and market will be undermined. The

² During settlement some actions originally flagged as non-energy are reclassified as energy actions to contribute to meeting the NIV, which often results in initial non-energy actions that also contribute to meeting the NIV being included in the imbalance price (and unflagged at that point as they ultimately are energy-actions).

³ P. 28 “...a generator shall be entitled to receive the Day Ahead (or Intraday) price or be compensated for lost profits, as revealed through their offer prices, **if they obtain a matched trade in these markets and are unable to generate to meet the trade due to a constraint. For clarity, this means that a unit that obtains an ex-ante market position or that is dispatched up will receive at least its offer price, and a unit that is constrained down from its ex-ante market position (and which has firm access) will retain its inframarginal rent.**” - [SEM-15-064 ETA Markets Building Blocks Decision](#)

⁴ As re-iterated in SEM-15-011 ETA Building Blocks consultation p.17, and confirmed in SEM-15-064 ETA Building Blocks decision

RAs are urged instead to focus on promoting the TSOs' need to deliver on grid enhancements and on matters such as delivery of energy storage such as batteries to mitigate local constraint issues.

B. Introduce a 5-year K-factor recovery mechanism to manage price shocks and ensure stable consumer tariffs;

BGE requests that a new five-year K-factor recovery period is introduced to minimise the cost of K-factor volatility.

The scale of the TSO's proposal to recover a €183.43m k-factor to Imperfections over one tariff year 2025/26 is inappropriate. BGE urges the introduction of a 5-year recovery mechanism to mitigate consumer exposure to year-on-year price shocks. While we note that constraints are the main drivers of DBCs, volatility is now a priority concern and its impact must be immediately addressed. The K-factor recovery required is significant and should be considered over five years, starting this coming tariff year, to help smooth the impact of the K-factor on consumer bills. In our view, a multi-year K-factor recovery would provide a more effective and equitable means of dampening the impact of Imperfections on consumer bills over time. Smoothing the annual over- and under- recoveries across five years would avoid sharp annual tariff swings and offer greater price stability to consumers and price predictability for suppliers.

Regarding the inclusion of NI Minimum constraints cost here, given the nature of the forced outage at Ballylumford in December 2024⁵, we believe it should be acknowledged that the N-S interconnector constraint drove the impact of this event on Imperfections costs⁶ as more expensive replacement plant were dispatched in its place. The opportunity-cost of the N-I constraint, given the value of contributions from IE units that could have helped to offset the need for expensive replacement plant, highlights the critical need for investment in the grid. Without grid upgrades, better long-term modelling, and full cost transparency - increased external market interconnection and SNSP will only drive a further gap between actual and outturn costs.

Although a decision is not expected in the coming Tariff Year, we view it appropriate to include potential Article 13 costs now such that future consumers are not potentially penalised for benefits received by current consumers.

We reiterate our support of the SEMC SEM-25-025 Decision not to approve the TSOs' request proposing a mid-year adjustment to the Imperfections Charge Factor from 1 to 1.5⁷. We also support the SEMC's ask, outlined in that Decision, for the TSOs to review the adequacy of their Market Working Capital Facility as a matter of urgency to ensure the risk of unforeseen or unprecedented circumstances is accounted for. BGE believes that this fund should be explored as a means to protect

⁵In December 2024, Ballylumford Power Station in Northern Ireland was placed on outage following significant damage due to Storm Darragh.

⁶ More recent analysis shows that when the costs associated with the Northern Ireland Security of Supply dynamic requirements are removed, the TSOs have moved from a position of -€7.5 million under recovery in March 2025 to an over recovery of +€16.4 million in April.

⁷ In respect of each imbalance settlement period, applicable from 1 July 2025 to 30 September 2025.



consumers from Imperfections Price volatility and we request that the SEMC provide an update on if this assessment is complete and potential next steps.

C. Provide full transparency from the TSO on progress made on constraints abatement and mitigation plans

BGE reiterates its call for a public and transparent grid development plan for the South-East region, similar in scope and ambition to the “Powering Up Dublin” initiative.

As previously outlined in our response to the CRM T-4 2029/30 Parameters Consultation, the Cork Harbour area and the broader South-East corridor—including critical transmission paths such as Knockraha to Carrickmines—are experiencing persistent and worsening grid constraints. These constraints are expected to escalate significantly with the commissioning of the Celtic interconnector, which will place additional pressure on an already strained network.

In the absence of a clear and accountable strategy for grid reinforcement, the long-term value of major infrastructure projects like Celtic risks being undermined. To mitigate this risk, BGE urges the RAs to require the TSO to publish a dedicated “Powering Up Cork” plan. This plan should provide a comprehensive overview of grid challenges in the South-East and include:

- Identification of binding constraints and affected nodes
- Planned mitigation measures and timelines
- Transparency on how these plans align with auction parameters, Low Carbon Inertia Services, and battery procurement
- Clear accountability for delivery.

While BGE supports the development of a NESO⁸-style platform to enhance system transparency and coordination, we emphasise that its success is contingent on EirGrid first delivering credible, transparent, and accurate forecast modelling of system conditions. Without robust system forecasting capabilities, there is a real risk that such a platform could inadvertently entrench existing inefficiencies in EirGrid’s modelling processes rather than resolve them. These inefficiencies include the treatment of interconnected markets, the lack of transparency on modelling assumptions and the lack of the visibility needed to make informed investment decisions, and are detailed in Section D of this response. Furthermore, we note that while the PR5 incentive framework placed strong emphasis on the need for detailed identification and mitigation of constraints, this was not delivered to the effect of reliably informing investment decisions and we urge the stringent application of the related amended incentive under PR6, by the CRU from an Ireland perspective and an equivalent by URGENT for NI.

D. Modelling and Forecasting Issues

Current inefficiencies are exacerbating the cost of DBCs and we have outlined these consistently and in detail in previous responses to this consultation. For the purposes of forecasting the 2025/26 Imperfections costs, of these, our priorities for the 2025/26 Tariff Year are:

⁸ National Energy System Operator

- **Improve the treatment of interconnected markets:** The current approach to forecasting interconnector flows fails to reflect the evolving dynamics of interconnected markets which is essential to understanding the full impact of Greenlink and Celtic on the South-East region. For example, the current model must be updated to reflect real SEM-BETTA dynamics and recognise similar weather conditions between regions by treating BETTA equally to SEM in modelling processes e.g., account for outages, increased renewable penetration, and market coupling effects.
- **Provide transparency on assumptions and data inputs:** Stakeholders continue to lack visibility into the assumptions underpinning the Imperfections model, including those related to generation capacity, priority dispatch and reserve requirement. We reiterate our ask for the TSO to publish the data used in the underlying Imperfections model and to provide clarity on how assumptions are derived. This is essential not only for determining the reliability of forecast but also for understanding the dynamics of Transmission Loss Adjustment Factors (TLAFs) and Generator Transmission Use of System (GTUoS) charges derived from the same model.
- **Provide a 3-year forward-looking view of constraints - with clear visibility of the grid's baseline condition before new projects are implemented - to allow stakeholders assess the true impact of large-scale investment.** Investors need to understand where constraints are likely to emerge and the TSO's view on interim and enduring mitigation measures needed to reduce/remove their contribution to Imperfections charges. This is urgently needed for the South-East region where the connection of the Celtic interconnector is expected to have a significant impact on constraint costs and where investment will to help offset this cost by allowing the value of large infrastructure projects and increased SNSP to materialise. For this to happen, investors need to be clear on what technologies are needed and where.

We hope you find our suggestions constructive and helpful. BGE would welcome further engagement with the Tariffs Team as part of a coordinated effort to reduce the long-term impact of constraints on DBCs through effective and equitable solutions.

Yours sincerely,

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{via email}