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RE: Harmonised Ancillary Services and Other System Charges

On a general point, Bord Gáis Energy (BG Energy) is in favour of this step to harmonise ancillary service and other charges across the two jurisdictions. This will ensure equal treatment of generators, which will further contribute to the development of the overall Single Electricity Market (SEM).

In previous submissions to the Regulatory Authorities (RAs) BG Energy has expressed its view that the current structure of ancillary services payments does not adequately incentivise appropriate investments in the SEM. The Irish government has set a challenging target of renewable energy contributing to 40% of Ireland's energy needs by 2020. This will require conventional generation that is sufficiently flexible and efficient to support the fluctuating and unpredictable nature of renewable generation and to ensure the safety and integrity of the electricity system. In its submissions to the RAs, BG Energy has stressed the importance of providing necessary reward mechanisms for investing in flexible and efficient plant. BG Energy has proposed that to incentivise the requisite type of plant one method would be through ancillary service payments being extended to reward the capacity characteristics that are most valued on the system. For the longer term, BG Energy believes that this policy will be of greatest benefit to consumers and enable the network to continue to provide the required level of electricity supply without compromising the government targets for renewable energy and CO₂ emissions.

BG Energy notes that the system operators are currently reviewing the requirement for new ancillary service products and would appreciate an

opportunity to discuss its views on future potential products with the system operators.

The remainder of this response focuses on the specific proposals presented in the transmission system operator's (TSOs) consultation paper.

1. Proposed Exchange Rate

The current proposal to fix exchange rates for a year, even with an ex-post review, puts a significant risk on market players. BG Energy would suggest that it would be more appropriate, particularly considering the exchange rate volatility that has been witnessed over the past 18 months, to set exchange rates in advance on a monthly basis.

2. Proposed Harmonised Ancillary Service Rates

In section 4.1 of the consultation, the TSOs refer to a model to derive ancillary service rates, however other than the assumptions there is very little information on this model. BG Energy seeks clarification on;

- the calculation of the ancillary service allowance;
- the rationale for the 70:30 split between reserve and reactive power;
- the rationale for the subsequent split between the different types of reserve, particularly why Primary Operating Reserve is given a lower weighting than Secondary Operating Reserve.

With regards to the proposal for alternative replacement reserve, BG Energy supports the TSOs proposal to differentiate between synchronised and de-synchronised units. This rewards more flexible plant and should contribute towards incentivising more efficient and reliable investments in the future.

The consultation paper also suggests that incentives may be placed on the TSOs with respect to ancillary services. Any such incentives may have a significant impact on the requirement for ancillary services. BG Energy requests for further detail to be provided as to what these incentives will focus on, how they will be implemented and how they will be rewarded/penalised?

3. Proposed Trip Constants & Rates, SND Rates and GPI Charges.

BG Energy agrees and supports the underlying principles used to calculate these rates and constants such that they levy charges based on the risk a generator's actions may have on the stability of the system. However, in general for each of the constants and rates, insufficient information was provided on the methodologies and inputs used in their calculation. This asymmetry makes it very difficult for respondents to provide constructive analysis or feedback to the proposals. It also impedes their ability to understand how they may change in the future.

In this regard, BG Energy requests clarification on the following:

- the methodology in calculating the trip constants and charges;
- the methodology and inputs to the calculation of the time-weight curve and the calculation of the SND charges;
- the inputs and rationale for the calculation of the GPI charges

4. Implementation

The ancillary service and other charges and payments are to be facilitated through the TSOs billing systems and settled on a monthly basis. BG Energy is concerned that consideration has not been given to the systems of market participants, and how they will need to change to accommodate these changes. The suggested go-live date for the harmonised charges is 1st October 2009. It was highlighted at the workshop in Dundalk on the 24th June that the TSOs are currently in the process of adapting their systems but that they will struggle to make the 1st October deadline. There has thus far been no interaction with market participants with regards to system changes. BG Energy requests that the TSOs communicate these changes as soon as possible to allow market participants to amend their systems and processes to reflect these changes prior to go-live.

The proposed changes will also require changes to the ancillary service policies, agreements and statements of payments and charges. These amended documents should be circulated to market participants to allow sufficient time to review before they are essentially implemented at go-live on October 1st.



BG Energy would welcome an opportunity to meet the TSOs to discuss the questions raised in this response further.

Yours sincerely,

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{by e-mail}