

APPENDIX D – RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	Bord Gáis Energy (BGE)
Type of Stakeholder	Generator (SEM); Supplier (Ireland)
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CAPACITY MARKET CODE MODIFICATIONS CONSULTATION COMMENTS:

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_01_18 – NIROCS in the CRM	BGE supports the amended proposal. We believe the Modification is necessary to comply with the State Aid direction in this regard. The Modification is in our view consistent with the Code Objectives.	No additional notable impacts.	The drafting proposed meets the objective of the Modification in our view.
CMC_02_18 – Permitted Disclosures – Credit Agencies	BGE has no objections to this Modification progressing. It does not in our view conflict with Code Objectives.	No additional notable impacts.	BGE has no preference for whether the current drafting or a separate subparagraph should be introduced as long as the intent of the Modification (to permit the proposer to disclose relevant information <u>confidentially in line with its obligations to credit rating agencies</u>) is maintained.

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<p>CMC_03_18</p> <ul style="list-style-type: none"> • Qualification Requirements in Respect of New Capacity 	<p><u>Proposed modification:</u></p> <ul style="list-style-type: none"> • BGE does not support the withdrawal of this Modification as we believe that further discussion on the issue between stakeholders and the Regulatory Authorities (RAs) is warranted. • We understood from the WG1 meeting and the WG1 Report of 24th May 2018 that the TSOs were undertaking further development of the Modification before proceeding further. In this regard, we believe that the process for CMC Modifications should be revised such that no withdrawal is offered until the Consultation period for the relevant modification(s) has closed after which a view on the status of a Modification can be taken while considering all written submitted comments. • BGE acknowledges the concerns raised at WG1 particularly by renewables participants, but it is our view that those concerns can be mitigated while simultaneously achieving the intent of the Modification. • Given the network constraints issues we are currently faced with, and the need to facilitate new entry in these areas as well as the disconnect between connection policies and market signals, BGE strongly supports the intent to remove the pre-qualification requirement to hold grid connection in facilitating new entry, without dampening the commitments of participants entering the auction. • More generally, BGE believes that the level of competition in any auction outcome (be that the capacity market, DS3 or new Renewable Electricity Support Scheme (RESS)), should not be hindered by a grid connection requirement. As it stands, we believe that the misalignment in timelines between Southern Ireland’s short-term grid connection regime (ECP-1) and the upcoming long-term capacity auction (T-4 capacity auction in March 2019) is a barrier to entry. We submit that this barrier can be addressed by relaxing the requirement to hold a grid connection prior to the auction, and instead allowing the auction outcome to provide the signal for the expeditious processing of a grid connection by the TSO. • To mitigate any concern as to the commitment level of a participant, the scope/ cost/ timelines for a grid connection for the relevant participant, could 	<p>BGE would welcome further engagement with the RAs and TSOs on this issue.</p>
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be determined at the qualification stage before any bid is submitted to an auction. To minimise any speculative grid applications consideration could for example be given to requiring a proportionate financial bond to be submitted at the qualification stage which could for example be called on if the relevant party, after being given an indicative grid offer during the qualification window (subject to them being successful in the capacity auction), did not enter the relevant capacity auction itself.

- The barrier to entry:

- By way of brief further context regarding the barrier to entry outlined above, under the CRU's ECP-1 process, the window for applications closed in May 2018. Offers will be issued in August 2018. Those new units that do not obtain a grid offer will not be able to participate in capacity auctions due to be held over the course of the next 16 months at least (as the next ECP grid connection window is not expected until at least 2020). Instead, the competition in these auctions will be limited only to those units that obtained a grid offer leading to less competitive outcomes and likely higher prices for consumers than would be the case were the processing of grid connection offers to be triggered by the auction outcome.
- In addressing this barrier to entry however, we understand that there is a backlog of applications that need to be addressed which we do not want to hinder. Instead, we are seeking parallel connection processes to: (a) address the backlog of applicants, particularly renewable applicants, while; (b) facilitating the market signals arising from the markets that have recently been designed in SEM (which signals should also materialise in the case of the future RESS auctions). Ultimately, BGE is seeking a solution that is forward looking and accommodates medium-long term investment signals being provided by recent market designs. If the issue is not addressed as early as possible, by the time the second "batch" of grid applications opens sometime in 2020, a number of T-4 capacity auctions will have occurred, and investment signals out to 2024 at least will have been given, in a manner that does not

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maximise the amount of competition that could potentially exist if this grid connection requirement issue was resolved.

- BGE acknowledges that this viewpoint may appear to be a departure from the ECP-1 policy but we believe that the CRU under that policy already has scope to provide exemptions from the qualification requirement to hold grid capacity particularly for security of supply reasons.
- In general, we believe that for investor certainty and maximisation of competition (and competitive pricing) reasons, this approach should apply across all of the capacity, DS3 and RESS auctions. In this regard, we very much welcome the suggestion in the DCCAE’s recent high-level design decision on the new RESS that a project may not need a grid connection offer/ application prior to participating in the auction and instead, if the project clears in the auction, their clearing “would be a signal for the grid connection application to be processed.” (p.29).
- In summary:
 - BGE strongly supports the intent of this Modification. While in its current form we accept that the Modification is not sufficiently developed to be considered for approval, in principle we believe that it is premature to remove this Modification at this point. We urge the proposer and the SEM Committee to take into account the above views – particularly the fact that further discussions between the RAs and stakeholders, which could benefit competition and pricing outcomes, should occur - before formally accepting the withdrawal of this Modification is the correct course of action;
 - BGE believes that the misalignment between grid connection offers and the T-4 capacity auction is a barrier to entry which can be mitigated by permitting the auction outcome to act as a trigger for the processing of a grid connection (the viability of which connection would be assessed during the qualification stage to secure the project’s commitment level);

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- The proposed approach should not and need not in our view undermine the processing of the backlog of grid applications that needs addressing under ECP-1;
- BGE submits that the existing ECP-1 policy currently permits such an approach particularly for security of supply reasons. In the longer-term (ECP-2+) the suggested approach of grid offers being triggered on foot of auction outcomes is something that should in our view apply on a blanket basis for capacity auctions, and is already an approach recognised as possibly viable for RESS auctions by the DCCAE in its recent RESS high level design decision;
- In general, where the grid connection follows the auction outcome, the result is market-driven and also avoids the scope for grid capacity hoarding in favour of competition and competitive consumer price outcomes. The approach should simultaneously benefit market participants in both the North and South of Ireland notwithstanding the different grid connection regime in Northern Ireland.

Code objectives:

BGE believes that our proposed approach to capacity auctions whereby the outcome of the auction would be a signal for the grid connection application to be processed, promotes all of the Code Objectives. In particular:

- (a) to facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licences in relation to the Capacity Market;
- (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;
- (c) to facilitate the participation of undertakings including electricity undertakings engaged or seeking to be engaged in the provision of electricity capacity in the Capacity Market;
- (d) to promote competition in the provision of electricity capacity to the SEM;

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	<p>(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.</p> <p>In BGE’s view, the objectives of transparency and ensuring no undue discrimination between existing or potential market participants can also be promoted by: a) ensuring that the processing of the current backlog of applications is not hindered and, b) that a parallel transparent approach to the offering of grid capacity that does not undermine ECP-1 and works for the benefit of both North and South Ireland market participants, is publicised sufficiently in advance of upcoming auctions.</p>		
<p>CMC_04_18 – Capacity Auction Participation</p>	<p>BGE supports the proposed changes for reasons of ensuring internal consistency on the treatment of New Capacity under the Code.</p>	<p>No conflict with the Code Objectives arises in our view.</p>	<p>The drafting is in line with the Modification objective.</p>

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<p>CMC_05_18 – Combining Candidate Units into a Capacity Market Unit</p>	<p><u>Proposed modification:</u></p> <ul style="list-style-type: none"> • BGE strenuously opposes the proposal to allow more than one unit, on the same site, to merge into a single capacity market unit. • The proposer’s argument appears to be that a) it is difficult to assign costs that are shared, between multiple units, to one particular unit; and b) this difficulty means that accurate capacity offers are hindered which means some units, of potential “flexibility” benefit to the TSOs may not obtain a contract. BGE takes this opportunity to emphasise that the main purpose of the Capacity market is to procure capacity, not flexibility, notwithstanding that the procurement of capacity may also simultaneously mean that the capacity procured is “flexible”. The procurement of flexibility falls within the auspices of the DS3 workstream. • Furthermore, the proposal notes that, if implemented, it would “assist in the proportionate treatment of all participants when determining a plant’s Net Going Forward Costs.” If the treatment of Net Going Forward Costs is a concern, the issue may be better dealt with through the USPC process and/ or possibly for example by way of RA guidance on how units on the same site with shared costs, should allocate those costs between units. This could ensure a similar approach is applied by applicants in similar situations. • Lastly, the proposer implied that the modification would lead to improved exit signals and “Rather than possible perverse auction results where one unit of a plant clears but the other doesn’t, the auction will be able to provide the necessary exit signal to the whole plant”. On the contrary, BGE analysis has shown that the opposite effect is also possible whereby plants that do not clear in an auction (i.e. that receive an efficient ‘exit’ signal) could in fact clear in the auction. This undermines the effectiveness and design of the capacity mechanism as it would mean that more inefficient plants would clear and avoid the exit signal than would otherwise be the case. This has knock on impacts for entry signals for more efficient plant; it could lead to higher capacity prices for consumers (particularly if the unit that clears was subject to a USPC); it raises serious “lumpiness” concerns with the concentration of a 	<p>BGE does not support the proposal or any changes to the legal text proposed.</p>
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large volume of capacity in the hands of one, or a small number of, market participants.

- In summary, the main concerns that we urge the SEMC to consider include:
 1. The principles of unit bidding across all markets in I-SEM apply for real market power reasons and BGE does not see anything in this modification that would appease concerns over market power. Rather, it would open the potential for the exercise of unilateral market power resulting in less economical plants obtaining a capacity contract to the detriment of more economical plants that may not be able to avail of “shared costs” benefits;
 2. It is probable that plants in constrained areas would obtain such contracts if this Modification progressed which, in turn, with Auction Format C being proposed for T-4 March 2019, would result in significant displacement of in-merit, more economical and efficient plant and higher prices for capacity being paid for by the consumer;
 3. Liquidity concerns for both the primary and secondary (when it comes into effect) markets arise if unit lumpiness is permitted to develop. We submit that under no circumstances should units located in constraint areas be permitted to merge in the form proposed under this Modification;
 4. Overall, consumer prices are likely to be impacted not only in the capacity market as outlined above but an increase in lumpy units in the market may result in more economic, more efficient units being inefficiently forced out of/ blocked from entry into, the market. This could have a knock on negative impact on market outcomes in the energy and ancillary services markets also.

Code objectives:

BGE does not believe that the proposed modification is in the interests of competition or consumers. We don't see it furthering the Code objectives. Specifically, with regard to the objectives that the Proposer suggested would be promoted by the suggested Modification:

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	<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;” – the proposal could in our view in fact hamper the development of more efficient types of capacity required in the market with uneconomic impacts; - “(d) to promote competition in the provision of electricity capacity to the SEM;” – we believe that lumpiness on the system would likely result to the detriment of competition and new entrants; - “(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.” – as outlined in our response points above, BGE believes that negative price impacts for consumers could outturn not only in the capacity market but in the DS3 and energy markets if capacity market unit ownership becomes more concentrated. 		
CMC_06_18 – Disaggregation of Performance Securities to Capacity Market Unit	On review of the existing Code drafting, particularly B.21.1.3 BGE supports the minded to position, i.e. that the existing CMC drafting is robust to address the proposer’s concerns. BGE does not believe that extra drafting is required that could convolute the issue. In any event, there should be no impact in terms of the duration of the performance bond or level of performance bond – no gaps in protection against non-delivery (in the form of the bond) should be permitted to arise.	Not applicable – BGE supports the minded to position that no change is required.	Not applicable – BGE supports the minded to position that no change is required.

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<p>CMC_07_18 – Information Published Following a Capacity Auction</p>	<p>BGE strongly supports the proposal to publish a provisional auction results (rather than waiting 4 weeks to see other participants' results in the 'final auction results publication'). We request however that a timeline closer to 3 working days between the auction and publication of the auction results is preferable to 1.5 weeks.</p>	<p>Given that the original justification for the modification was “to avoid an extended period when Participants have sight of their own results and are at risk of trading with inside knowledge” 3 working days to inform stakeholders and staff of results as opposed to 1.5 weeks is considered a better balance in the overall context.</p>	<p>Redrafting of the additional event into Table A in Appendix C to reflect our suggested change to “3 Working Days” rather than “1.5 weeks”</p>
<p>CMC_08_18 – Typographical Correction – E.8.2.4</p>	<p>BGE supports the minded-to position to approve this Modification with a view to ensuring clarity in interpretation.</p>	<p>No additional notable impacts.</p>	<p>BGE accepts the proposed drafting.</p>
<p>CMC_09_18 – Publication of Qualification Results</p>	<p>BGE supports the minded-to position to approve this Modification so it is clear what information is publishable.</p>	<p>No additional notable impacts.</p>	<p>BGE accepts the proposed drafting.</p>
<p>CMC_10_18 – Report on Capacity Auction</p>	<p>BGE supports the minded-to position to approve the Modification to amend the incorrect section reference.</p>	<p>No additional notable impacts.</p>	<p>BGE accepts the proposed drafting.</p>

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<p>Respondent Comments in relation to the CMC Modifications process</p>	<ul style="list-style-type: none">• BGE believes that the Modifications process should be revised to ensure that:<ul style="list-style-type: none">- A decision to withdraw, approve, amend etc any modification is not made until such time as all written comments on the issues have been submitted through the CMC Modifications consultation process. This would provide the proposer and the RAs with as wide a view as possible on the various nuances involved in any proposal, helping to inform the possible way forward;- A shorter timeline between the Working Group (WG) held for modifications and the related consultation, applies. The consultation should (as has been the case in this instance) be for at least 4 weeks but it should commence as soon as possible and no later than 2 weeks after the initial Working Group on the modifications(s) is held. This should help progress modifications in a quicker timeframe;- Each WG agenda should have a “standing” agenda item to cover discussion on any modifications on which discussions remain open, e.g. for which consultation periods have not yet closed.• In order to ensure transparency and fairness and that all issues within modifications are discussed and understood, we submit that the above proposals be taken on board as soon as possible. The RAs should reserve the right to determine a more formal structure, e.g. akin to that of the Trading & Settlement Code modifications committee, for the CMC Modifications process in future if it materialises that the current format is unworkable. We suggest that a review, with engagement of stakeholders, of the workability and performance of the structure should be undertaken before the end of 2018.
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NB please add extra rows as needed.