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2nd April 2019

RE: I-SEM Capacity Remuneration Mechanism (CRM), 2020/21 T-1 Capacity Auction and 2021/22 T-2, Capacity Auction Parameters Consultation Paper, SEM-19-010

Dear Kenny,

Bord Gáis Energy (**BGE**) welcomes this consultation and the opportunity to respond to it.

In our response below, we address the top three parameters of most concern to BGE in priority order. Specifically, we ask that the Regulatory Authorities (**RAs**) take into account the views we expand upon in relation to:

1. The Existing Capacity Price Cap (**ECPC**);
2. The New Capacity Investment Rate Threshold (**NCIRT**); and
3. The Increase and Decrease Tolerances.

In particular, we have significant concerns around the proposed ECPC reduction. At a high level, BGE believes that the RAs' original rationale for choosing a value of 0.5 of the Net CONE for the ECPC still stands and that no substantive rationale has been presented in the consultation paper to justify a move away from the 0.5 value. In fact any reduction in the ECPC, in light of wider market considerations that we expand upon in answer 1 below, would raise regulatory uncertainty risks for no clear benefit. In this context, we urge the RAs to give significant consideration to our answer in "1" below as a priority.

Our views on the Parameters are as follows:

1. The potential for reducing the value of ECPC for the 2020/21 T-1 and 2021/22 T-2 capacity auctions

BGE is not in favour of reducing the ECPC values for the 2020/21 T-1 and 2021/22 T-2 Capacity Auctions and instead believes that the current ECPC of 0.5 X Net Cost of New Entry (**CONE**) should at a minimum be retained. Moreover, insufficient rationale has in our view been put forward in the consultation to justify a move away from the current value of 0.5.

BGE's view is grounded in the context of the SEM Committee's (**SEMC's**) original rationale for adopting a value of 0.5. We recap that the original rationale was that 0.5 X Net CONE value was deemed sufficient for 3 key reasons:

a) The majority of plants required to meet the Capacity Requirement were expected to bid under their Net Going Forward Cost (NGFC) which should reduce the number of reviews the RAs must complete for Unit Specific Price Cap (**USPC**) applications. Otherwise a lower ECPC would result in an increase in USPC applications (which BGE notes would burden not only the RAs but affected industry participants):

   For the RAs to state in this consultation that, because they have now streamlined their USPC review process, the ECPC can be reduced as increased numbers of USPC applications can be handled by the RAs is simply not a reasonable justification to reduce the ECPC. On the contrary it only heightens the risks of regulatory uncertainty and of undermining investment signals;

b) The 0.5 value was deemed consistent with international benchmarks. For example, the GB capacity market was noted as allowing existing generators to bid at up to 0.5 x Net CONE and new generators to bid at up to 1.5 x Net CONE:

   As noted in our introductory comments, no further examples or benchmarks or convincing rationale (apart from administrative efficiencies in processing USPC applications) has been put forward to render this original point of rationale invalid;

c) The 0.5 level was deemed sufficient to protect consumers from the potential for bidders to exercise market power:

   Again the consultation is lacking any insight as to why this perspective of the RAs has changed. BGE is of the view that lowering the price cap and the regulatory uncertainty that comes with it, would not necessarily be in the best interest of the consumer. Indeed it is reasonable to anticipate that should market participants lose out on capacity market revenues due to a reduction in ECPC, they may seek to recover those revenues in either the energy and/ or DS3 markets to remain financially viable. Overall therefore, any perceived consumer benefit the RAs believe there may be in reducing the ECPC may not in fact materialise.

In addition to the above, BGE notes that various elements of the market are not producing results as expected and that a significant amount of work is currently being undertaken by the RAs and SEMO (and market participants) to consider the status of these outcomes. For example, the Reliability Option (**RO**) mechanism, is not performing exactly as anticipated as demonstrated by the RO payback event on the 24 January 2019, which has been accepted as an anomaly and is currently being addressed via a Trading and Settlement Code (TSC) modification. In the context of this and other issues being addressed/ under review in the market and the uncertainty that of itself brings, BGE believes that until further experience of operation of the CRM is gained, the RAs should avoid making any unnecessary changes that undermine investment certainty. Such uncertainty would be further exasperated if a reduction to the ECPC occurs, in BGE's view.

Furthermore, for new entrants, BGE also believes that if the ECPC is reduced downwards, given the rule that no new entrant will win a contract ahead of an existing unit unless the new unit bids below the ECPC, a reduced ECPC could reasonably be expected to severely undermine the scope for new units to enter the market on a competitive basis. A lack of new entry would not only undermine energy policy ambitions but could in our view allow additional scope for existing units to exercise market power.

Finally BGE understands, but would welcome confirmation, that the final ECPC will be based off any updated Net CONE determined under consultation ahead of the relevant auctions.

2. Setting NCIRT at €300/de-rated kW

BGE agrees with the SEM Committee proposal to continue setting the New Capacity Investment Rate Threshold (**NCIRT**) at €300/de-rated kW, for the 2020/21 T-1 and 2021/22 T-2 auctions.

We believe in fact that the current NCIRT should be maintained at a minimum at this level, and that further consideration to inflating the NCIRT year on year to reflect, for example, costs of build inputs for new entrants is merited.

Such an NCIRT level will go some way to maintaining as level a playing field as possible for refurbished versus new units and anything lower could undermine the business case for new entrants.

Retaining this threshold at a minimum in our view also better supports the SEM Committee's aim noted in the T-4 Parameters Decision paper. That aim was to set the NCIRT at a level that constitutes a level of financial investment reasonable for an investor to bear without a multi-year contract, while also being set at a level that reflects what level of risk is appropriately mitigated by a contract of up to 10 years.

In conclusion, no rationale has been put forward to justify a move away from this level and we urge its maintenance at least at this level and request that inflation is added.

3. The final allowed Increase Tolerance and Decrease Tolerance by Technology Class that may be applied by a Participant in its Application for Qualification to Capacity Market Unit de-ratings

BGE notes that an original objective for the tolerance decision was to provide the right incentives for plant owners to invest, maintain and/or improve plant performance (SEM-15-103). BGE views this as critical to the Capacity Market, in terms of providing investment signals and in ensuring that capacity that are awarded contracts are incentivised to improve and maintain units or exit the market.

Allowing capacity to justify a de-rating downwards from the set levels undermines this objective and the value to the consumer, of under-writing the fixed costs of this capacity.[1] We thus support the decrease tolerance levels remaining as is. BGE does however also maintain its view, that plants should be permitted to increase tolerances at their own risk and discretion, as plants can be more efficient than others in their technology class and overall the capacity mechanism is seeking to incentivise maximum reliability from efficient plants.

4. De-Rating Curves

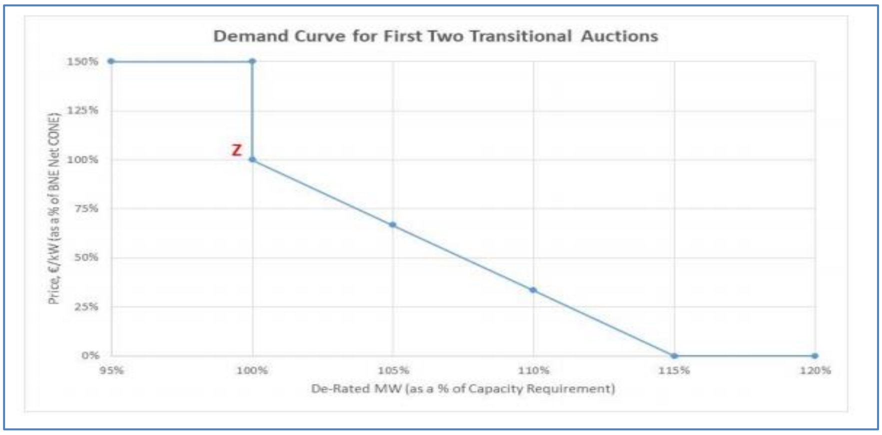
BGE supports the RAs' proposal to continue applying the current methodology for determining de-rating factors, for these auctions.

5. The final Capacity Requirement for the Capacity year to be used in the Capacity Auction

BGE notes the RAs' plan to determine the capacity requirements for both auctions before the Initial Auction Information Pack is published.

6. Indicative Demand Curve

In accordance with the graphs set out in the consultation paper, BGE supports the intended demand curve (copied below) below which is reflective of the curve used for the transitional auctions held to date. Given the short timelines inherent in the T-1 and T-2, we believe the rationale for a different type of curve for a T-4 auction differs and thus a different curve to that used for the T-4 CY2022/23 is justified.



[1] We note also that if parties want to reflect the risk of having a de-rating factor below that of the marginal de-rating factor for the technology type, they can do so via the flexible PQ pairs that are submitted to auction.

7. The Auction Price Cap (APC)

BGE agrees with SEM Committee proposal to set the APC at 1.5 x Net CONE given that it reflects the lower end of the international range and should adequately incentivise new investment when it is needed.

8. The values for the Full Administered Scarcity Price and the Reserve Scarcity Price Curve applicable to the Capacity Year

BGE supports the SEMC's proposal to retain the values for Full Administered Scarcity Price from the 2022/23 T-4 capacity auction for the 2020/21 T-1 and 2021/22 T-2 capacity as in the table below.

Short Term Reserve (MW)	Administered Scarcity Price (€/MWh)
Demand Control	25% of VoLL[3]
0	25% of VoLL
500	500

The current ASP provides sharp cost reflective price signals at times of system stress. Given that the VOLL and ASP have 2 different objectives (ASP being a balancing market price floor when necessary and VOLL being a cap) we do not believe there is sufficient reason to move away from the proposed ASP values.

9. Annual Stop-Loss Limit Factor at 1.5; and 10. Billing Period Stop-Loss Limit Factor at 0.5.

BGE agrees with both rates set for the Stop-Loss Limit Factors. No rationale or reason is currently known to us to justify changing either.

11. The indicative Annual Capacity Payment Exchange Rate

BGE notes and accepts that the SOs will determine and publish the rates as these are the first auctions for each respective Capacity Year under consultation.

12. Performance Securities; and 13. Termination Charges.

BGE agrees with the SEM Committee proposals to retain the Performance Securities and Termination Charges, as per the tables in the consultation.

14. Strike Price for the 2020/21 T-1 and 2021/22 T-2 Capacity Auctions - values

We agree with the SEM Committee proposal to retain these values as set out in the consultation paper.

I hope that you find the above comments and proposals helpful. BGE urges the RAs to take our suggestions, especially those with regards to the ECPC, NCIRT and the increase and decrease tolerances, into particular consideration.

Please do not hesitate to contact me at any time should you wish to discuss any of the above.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy
(By email)