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31st August 2022

RE: SEM-22-030 – Consultation on Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units (the "Consultation")

Dear Gráinne and Paul,

Bord Gáis Energy (**BGE**) welcomes this opportunity to respond to the Consultation on Applicability of Reliability Option (RO) Non-performance Difference Charges to Available In-Merit Units.

BGE believes that where a unit has taken all the steps within their control to make themselves "economically reliable for dispatch"[1], then RO Non-Performance Difference Charges should only apply where non-performance during a strike event is evidenced. This non-performance evidence can take for example the form of failure by the unit to respond to sync instructions, or a failure by the unit to meet its declared Technical Offer Data (TOD) to come on-line. These are only 2 proposed examples of unit non-performance to meet its RO obligations but other circumstances of unit non-performance may also be identified. On the contrary, where no sync instruction is given to an offline unit that has made itself economically reliable for dispatch, then there is no question of non-performance by the unit and so no non-performance charges should apply.

We ask the RAs to consult on and agree with industry the various scenarios under which this proposed exemption of non-performance will be applied. We request sight of a shortlist of proposed exemptions of RO non-performance before a final decision is made. A collective examination by wider industry, possibly through an industry workshop, based on the various insights that come forward from this consultation will best inform:

- any exemption criteria and how they are evidenced in unit operations.
- the scenarios where unit behaviour does not qualify for any non-performance exemption (for example, where a unit seeks to use a late declaration of reliability for dispatch to exempt the unit from RO exposure, after an earlier failed sync).

We believe that before any final decision is made, a proposed decision should:

- Outline evolutionary changes required of EirGrid's operational dispatch processes such that their economic dispatching methodology can clearly demonstrate the dispatch considerations given to fast acting units, the value they bring to the system, and how they contribute to minimising the cost to the consumers,
- Provide analysis of the potential impact to the Socialisation Fund and consequential increased charges to the consumer if a change is adopted which leads to a lower level of Non-Performance Difference Charges being received in from units, and
- Demonstrate the analysis and modelling by EirGrid of the proposed approaches.

Our proposed exemption in our view will provide a modicum of relief to units that have taken all the steps within their control to make themselves economically reliable for dispatch without undermining the delivery incentive that is the RO Difference Charge. If the proposed exemption outlined above is not provided, there is in our view a risk of:

a) inefficient markets where participants seek to mitigate against unavoidable potential RO charges,

[1] By which we mean: the unit has bid into the Day Ahead (DA) market; the unit has submitted a Final Physical Notification (FPN) to the System Operators (SOs); has provided Bid/ Offer prices to the SOs; and has declared the unit as available for dispatch to the SOs. **Unit availability on its own is not sufficient**.

b) an impact to SEM's Security of Supply by changes in ex-ante bidding, and the associated potential increase in the long-term cost to the consumer, and

c) increased carbon intensity of the system depending on how units mitigate their potential exposure to fast-moving strike events.

Considerable work remains to be done regarding alleviating the constraints on the system, as most recently recognised in the EY August 2022 report. The Capacity Market should not be used to correct the constraint problems on the grid and the solution is for EirGrid to deliver its constraint abatement plan as quickly as possible. BGE has suggested on a number of occasions this year, how the TDP could be used to outline in detail constraint mitigation plans for the coming years as there is a significant lack of transparency around what the TSOs are doing to alleviate constraints between now and 2030 notwithstanding a number of TSO incentives centred around constraints alleviation. We have also previously proposed that the grid needs to provide strong, locational signals to investors at the pre-connection stage to support generation locating to meet demand requirements (and vice versa) whilst helping alleviate (or at least not worsen) constraint conditions on the grid.

The annex to this response reflects our views expressed above within the framework of the questions posed in the consultation paper. Please do not hesitate to contact me should you need to follow-up on any related issues to the above.

Yours sincerely,

Ian Mullins
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

ANNEX – Consultation Questions and BGE Answers

1. **The SEM Committee requests that the TSOs provide further information regarding all of the possible reasons why, in practice, units may not be dispatched when available and in-merit. This information is required as different scenarios may need to be considered differently in the context of the applicability of Non-performance Difference Charges.**

   Not applicable to BGE.

2. **Feedback is requested from market participants, with supporting data where possible, as to circumstances in which units have been available and in-merit but not dispatched. While the SEM Committee's particular interest relates to circumstances that occur during an RO event, any other occurrences are of interest also, as it may be possible that the same circumstances could occur during an RO event.**

   BGE's CCGT unit at Whitegate/ Glanagow in Cork (WG1) has experienced over 500 ½-hour periods across 2022 where the unit:

   - did not have a non-zero FPN as our ex-ante position where our ex-ante bid may for example have been paradoxically rejected [2],
   - was declared fully economically reliable for dispatch but was not dispatched,
   - was in-merit when considering our Complex Offer Data (COD) bid/ offers against system prices, and our simple bid/ offers against the bid/offer acceptance levels, and
   - had 0MW metered quantity.

   The unit was not running for 48% of these periods. While none of these periods were strike events, our unit though available for dispatch and in-merit would have been fully exposed to the potential for RO Difference Charges. When comparing this scenario across a particular day[3] with the other large CCGTs on the southern coast of Ireland (Aghada and Great Island) we can see one was not running while the other was running despite not having an FPN at the time. This would suggest that TSO actions were constraining some units off while one unit was being constrained on, leaving the two non-running CCGTs exposed to potential RO Difference Charges due to TSO constraining conditions and actions.

   The factors which we believe may have contributed to the situation were:

   - Excess wind generation on the grid so removing the requirement for CCGT generation,
   - Congestion on the network, especially in the Cork area,
   - Lower dispatch costs by other unit(s) in the Cork constraint area.
   - The contribution of a large CCGT (even at minimum generation levels) exceeded the grid production requirements and so alternative, smaller unit(s) were brought on instead.

   We believe that this analysis above shows that even large CCGTs are exposed to potential RO Difference Charges if a strike event were to occur even if the unit is in-merit and economically reliable for dispatch but not run due to system constraints and/ or TSO dispatching decisions. We expect these conditions to occur more often as the level of renewable generation and interconnection on the grid increases. This can result in reduced net Capacity Market revenues to units where strike events coincide with these "at-risk" periods.

3. **Under what circumstances, if any, beyond being flagged for providing Replacement Reserve, should units be exempt from Non-performance Difference Charges that would otherwise apply? Please provide supporting rationale for your response.**

[2] Our ex-ante bid may have been within the market price range to be traded, but the bid was rejected as an economic condition (such as Minimum Income Condition – MIC) could not be met.
[3] 12th February 2022

Where a unit has taken all the steps within their control to make themselves economically reliable for dispatch[4], then RO Non-Performance Difference Changes should only apply where non-performance during a strike event is evidenced. This non-performance evidence can take for example the form of failure by the unit to respond to sync instructions, or a failure by the unit to meet its declared Technical Offer Data (TOD) to come on-line. These are only 2 proposed examples of unit non-performance to meet its RO obligations but other circumstances of unit non-performance may also be identified. On the contrary, where no sync instruction is given to an offline unit that has made itself economically reliable for dispatch, then there is no question of non-performance by the unit and so no non-performance charges should apply.

BGE asks the RAs to consult on and agree with industry the various scenarios under which this proposed exemption of non-performance will be established once TSO insights are clearer. We request sight of a shortlist of proposed exemptions of RO non-performance before a final decision is made. A collective examination by wider industry, possibly via a workshop, based on the various insights that come forward from this consultation will best inform:

- any exemption criteria and how they are evidenced in unit operations.
- the scenarios where unit behaviour does not qualify for any non-performance exemption (for example, where a late declaration of availability may seek to exempt a unit after an earlier failed sync).

We believe that before any final decision is made, a proposed decision should:

- Outline evolutionary changes required of EirGrid's operational dispatch processes such that their economic dispatching methodology can clearly demonstrate the dispatch considerations given to fast acting units, the value they bring to the system, and how they contribute to minimising the cost to the consumers,
- Provide the impact analysis for the Socialisation Fund to understand the potential increased fund charges for consumers if a change is adopted pursuant to this Consultation which may lead to a lower level of Non-Performance Difference Charges being received in from units, and
- Demonstrate the analysis and modelling by EirGrid of the proposed approaches.

4. Is there any interaction with the incentives for units to trade in the ex-ante markets as a consequence of your preferred approach, or any of the approaches proposed?

We have considered this question under the following three scenarios:

- **If no change is made to the applicability of RO Difference Charges to in-merit units that have made themselves economically reliable for dispatch, i.e., maintenance of status quo, then we see it that**:
  - In-merit units with slower start units (1 hour+) will remain exposed to Non-Performance Difference Charges in a strike event until they reach their capacity market contracted output assuming the strike event endures during their start-up period.
  - Fast-evolving strike events driven for example by wind forecast errors, or interconnector flow flips could increase in occurrence due to more SEM interconnections and increasing levels of wind generation on the system. Where in-merit units that have made themselves economically reliable for dispatch are more exposed to fast-evolving strike events, then the unit's net Capacity Market revenues will fall due to more RO Difference Charge payments out. This change in revenues can in our view increase the risk of:
    a) inefficient markets where participants seek to mitigate against unavoidable potential RO charges,
    b) an impact to SEM's Security of Supply by changes in ex-ante bidding, and the associated potential increase in the long-term cost to the consumer, and
    c) increased carbon intensity of the system depending on how units mitigate their potential exposure to fast-moving strike events.

[4] By which we mean: the unit has bid into the Day Ahead (DA) market; the unit has submitted a Final Physical Notification (FPN) to the System Operators (SOs); has provided Bid/ Offer prices to the SOs; and has declared the unit as available for dispatch to the SOs. **Unit availability on its own is not sufficient**.

- ❖ As outlined above, fast-evolving strike events will likely increase in occurrence as the rate of interconnection and wind penetration in the SEM increases. And these events are not forecastable such that units cannot reasonably manage their risk and exposure at these times. The increased levels of potential risks as set out above can be regarded as providing more of an exit signal to participants (an inefficient exit signal) so undermining the operation and design of the capacity market. This is at a time when the capacity market needs to provide clear and robust entry signals to investors to alleviate Security of Supply concerns.

- **If units providing Replacement Reserve are exempt from RO Non-Performance Difference Charges:**
  - ❖ Then the same scenarios as above (status quo) apply. However, the difference now is that offline units that have made themselves economically reliable for dispatch, are exposed to the strike event for a shorter period given shorter time they need to reach their (lower) Capacity Market obligation output where providing replacement reserve. Units with longer start-up/ ramp-up times will take longer to reach their Capacity Market obligation output, so the majority of the strike event exposure will remain.
- **If units which are offline are not penalised for circumstances outside their control (as per BGE's proposed approach as set out in the answer to Question 3):**
  - ❖ There is in our view no change to the incentive for units to trade in ex-ante markets as the risk remains that units may be exposed to RO Non-Performance Difference Charges due to unexpected, fast evolving strike events with the inability to self-commit under the SEM.

5. Could these approaches introduce a detrimental locational signal into the Capacity Market (e.g. by exempting units bound by a Locational Constraint from Non-performance Difference Charges, could this send a signal to Capacity Market Units to locate behind a constraint)?

Considerable work remains to be done regarding alleviating the constraints on the system, as most recently recognised in the EY August 2022 report. The Capacity Market should not be used to correct the constraint problems on the grid and the solution in our view is for EirGrid to deliver its constraint abatement plan as quickly as possible. BGE has suggested on a number of occasions this year, how the TDP could be used to outline in detail constraint mitigation plans for the coming years as there is a significant lack of transparency around what the TSOs are doing to alleviate constraints between now and 2030 notwithstanding a number of TSO incentives centred around constraints alleviation. We also propose that the grid needs to provide strong, locational signals to investors at the pre-connection stage to support generation locating to meet demand requirements and vice versa (via for e.g. cheaper connection cost for generators/ demand in areas short of generation/ demand) whilst helping alleviate (or at least not worsen) constraint conditions on the grid.