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29th July 2019

RE: Imperfections Charge October 2019-September 2020 and Incentive Outturn October 2017 – September 2018, consultation SEM-19-031 (“the Consultation”)

Dear Billy,

Introduction and context

BGE acknowledges that the Imperfection Charge forecast for 2019/2020, and the proposed K-factor, is much higher than previous years, and that part of the increase is due to the ISEM go-live and factors associated with the go-live delay. Conversely this may also mean that aspects of the increase are one-off costs and will not need to be repeated in the 2020/2021 forecast.

There is also the fact that there is an element of forecasting included for the rest of the 2018/2019 period, which could give rise to future increases if the forecast is incorrect. We will comment further on this below, but the main concern is whether from now on, increases in both Imperfections Charges and K-factors are going to become the norm, which should not be an acceptable outcome to any party involved.

It is also recognised that there are several additional costs that get passed through to the customer, which the RAs will now have full knowledge of, but which BGE does not, for example TUoS and DUoS charges. Therefore, BGE’s view is that the Imperfections Charge and the K-factor should not be looked at in isolation and that the RAs should take into consideration these other charges as well when making any decision in relation to whether or not to put the K-factor through as a whole or smooth it over a period of time.

Turning to the questions included within the Consultation, BGE has also considered each of the questions posed and has responded accordingly in more detail below.

Question 1

The RAs are minded to approve the revised forecast for Imperfections Charge to €271.33m, representing a 37% increase to the final decision for the 2018/2019 tariff year. RAs welcome comments on this proposal.

In relation to the inclusion list and the additional €73.7m BGE has reservations about one of the factors included on the list. Specifically, the provision allowed for the new imbalance pricing design in ISEM through CPREMIUM and CDISCOUNT of €19.05m. As outlined in BGE’s response on the SEM Committee’s Arrangements for the Calculation of the Public Service Obligation Levy post I-SEM Implementation, Consultation CRU/19/054 BGE disagrees that the proposed changes to curtailments and constraints should be brought in at all and depending on the outcome of the decision relating to that consultation, then this is a charge that potentially should be removed in full from this Consultation.

BGE’s view is that it is not appropriate to include costs relating to wind constraints and curtailments into DBCs and associated costs, particularly when there is recovery provided through the PSO levy calculations for wind costs, and it has been the PSO levy calculations used for such costs to date. BGE has already raised concerns relating to double recovery of such costs in its response to Consultation CRU/19/054, and inclusion within the Imperfections Charge would appear to be another double recovery risk.

Furthermore, if such a cost does get approved and needs to be included somewhere, including it in the PSO levy calculations would ensure that there is transparency on how much the renewable fleet are costing the

customer; putting it into the Imperfections Charge is masking the real cost of rising wind levels.

BGE acknowledges the reasons for the RAs proposing to disallow circa €30m in the exclusions list provided but is not in a position to comment any further on the proposals. However, BGE is concerned that K-factor costs are rising and we want to ensure that they do not continue to keep rising because of disallowed costs in one year that are recoverable in another year, and asks that the RAs confirm whether these costs are being disallowed fully, or whether they will materialise as K-factors in subsequent years.

Question 2

The RAs have considered the possibility of delaying the recovery of part of the K-factor until the subsequent year, in order to smooth the effects of the increases borne by suppliers and ultimately customers. RAs invite respondents to comment on the merit of this and on the quantum of any amount to be delayed for recovery until the subsequent tariff year.

BGE is of the view that whilst the K-factor is a lot higher than probably most market participants expected it to be and that there are pros and cons for both scenarios, for example:

Point 1 – there is clear reference being made to “uncertainty” about revenue streams for the TSO in the future and around “Brexit”, therefore there is a reasonable chance that the K-factor is also going to be high in the following year(s). It may not help the customer in the longer term to delay part of the K-factor now when they could be faced with similar or higher K-factors/Imperfection Charges in future years.

Point 2 – the history of DBCs is also seeing a year on year increase and when we look at the reasons included in the Consultation. In fact, BGE does not actually see any future reductions occurring in relation to the Imperfections Charge, as DBCs and other related costs keep increasing/arising. For example, this year the termination of the Dublin Bay gas contract gave rise to significant price increases; last year saw an amount included for the dispatch down of DSUs.

There is also an acknowledgment that there is more variable generation generally coming onto the system, which is having the impact of pushing dispatchable plants out of the ex-ante markets, yet these units will still be needed and therefore the DBCs will see further increases as a result.

Therefore, there is an argument to be made that costs associated with Imperfection Charges and K-factors from 2017/2018 and 2018/2019 should be put through in whole in 2019/2020 as there is limited benefit to the customer of holding back the monies now given expected future further DBC increases/one-off costs.

Point 3 – there are still a few months left of 2018/2019 which may not fully be captured in the K-factor to date, and which could still give rise to further increases next year.

Point 4 – for the year 2019/2020 there is going to be a reduction in the PSO levy for each customer, and this reduction will go part way to off-setting the total Imperfections Charge including the K-factor. This may not be the case in future years, and therefore it would be best to apply that offset in the 2019/2020 period to make full use of it and minimise the overall impact on the customer.

Point 5 – notwithstanding the above, there are other costs that are also due to impact the customer one way or another, which the RAs should now have full sight of, including wholesale prices curve, TUoS and DUoS charges, and other system related costs/reductions that get passed through. BGE believes that the RAs should consider these costs/charges alongside the Imperfections Charge and K-factor, and when making a decision about whether to put the K-factor through as a whole or a percentage over a number of years, take into account the position of all of the other charges and make a decision on those facts which will be in the best interest of the customer.

Question 3

A process to incentivise the TSOs to reduce DBC was introduced in October 2012. Based on forecast alone DBCs would have reduced for the fifth year in a row. However, some other costs/charges parameters are to be taken into account when assessing the ex-post adjusted baseline, and when the RoCoF GPI charges are removed from the Other System Charges this will result in an Actual Imperfections Outturn of €190.5m. RAs are minded to allow the zero-incentive amount and welcome any comments on this proposal.

BGE's view is that there are KPIs in place, with associated parameters, and that when the RAs have applied the KPIs and parameters to the outcomes achieved by the TSO it has resulted in €0 for the incentive payment and therefore €0 is what should be upheld in the circumstances.

However, BGE respectfully suggests that the KPIs should be re-visited and amended to include KPIs that seek to reduce constraints thereby producing an actual year on year reduction to the amount of the DBCs within the Imperfections Charge (rather than the annual increases we are seeing) and that there should also be associated KPIs put in place to incentivise the TSO to achieve increased stability of the system and to operate it and develop it in such a way as keep the system costs that are passed on to the customer as low as possible.

The reasoning behind this suggestion is because it is unfathomable to think that the TSO is potentially entitled to an incentive payment for forecasting rising constraints as accurately as possible (BGE appreciates there are some other factors involved too), when customers are still seeing an increase year on year in relation to the Imperfections Charge on their bills, which is acknowledged as being made up of 95% DBCs. BGE appreciates that there are penalty provisions included as well, but BGE's views are that the current KPIs do not target the correct outcomes.

Conclusion

BGE believes that whilst it is acknowledged and accepted that Imperfections Charges and K-factors are going to form an increasing part of a customer's bill for years to come, the TSO should be challenged to alleviate the constrained system overall and mitigate issues and costs with a view to achieving an ongoing reduction to the Imperfections Charge on the customer's bill.

The KPIs that the TSO is currently measured against are not conducive to achieving this outcome and should be more aligned to targeting a year on year reduction to the Imperfections Charge.

Linking to the above point, the TSOs should have KPIs in place around increasing the stability of the system as it is counter-intuitive to have a set of KPIs which appear to give rise to an ongoing annual decrease in the ex-post adjusted baseline, yet still results in DBCs continuing to increase annually.

Lastly, in relation to BGE's position overall when considering whether the Imperfections Charge and K-factor totaling €355.76, and resulting in a €10.40/MWh charge to the customer should be put through in whole, we would refer the RAs back to Point 5 under Question 2, as BGE does not have all the facts upon which to make such a recommendation which would, when taken all together, ensure the best outcome for the customer this year and in future years and we believe that the RAs will be in the best position to ensure this outcome.

I hope that you find the above responses and suggestions helpful, but should you wish to discuss further please do not hesitate to contact me.

Yours sincerely,

Nichola Westlake
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}