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28<sup>th</sup> June 2019

**RE: Capacity Remuneration Mechanism 2023/24 T-4 Capacity Auction Parameters**

Dear Kenny,

I am writing to in response to the SEM Committee Consultation Paper relating to the Capacity Parameters for the T-4 Capacity Auction for 2023/24. By and large I note that very little is actually changing in principle, however change is likely to materialise within the auction information pack as the various methodologies are applied in practice over the coming months. I would like to make two high level points at this stage.

Firstly, Bord Gáis Energy (BGE) is becoming increasingly concerned with the process by which unit de-rating factors are being calculated. In each of the capacity auctions to-date BGE has seen its de-rating factor decrease. When we have sought to understand and challenge these decreases, we have been told by SEMO that they simply follow a CRU methodology and cannot give us any insight into the changes. From a process point of view, we are concerned that there is not enough governance (a) to enable market participants to shadow or replicate the de-rating figures or (b) to provide confidence to parties that there is sufficient governance in place to ensure that the auction market operator is applying the various methodologies correctly. We therefore ask the CRU to consider as part of the more detailed processes to collate the auction information pack, how we may provide better transparency and governance around the various methodologies used.

As a suggestion, we as a market participant are subject to numerous audits to verify that we follow specific processes, specifically in the area of renewable supports and fuel mix disclosure. Perhaps this is something that the Auction Monitor or Auditor could get involved in reviewing and giving an opinion on. That is to say, that rather than just looking at the market outcomes, perhaps there is a role for the Auction Monitor or Auditor to have a role in governing the market inputs and the processes that relate to them as well.

Secondly, we are concerned with the proposal that the market may move to a combinatorial auction for the next T-4 auction, which is scheduled for March 2020. A combinatorial auction is a much more complex auction process than the one which is in operation today. Moving to this auction type would need considerable system and process build and testing by all parties to the extent that we can have confidence in the market systems and the outputs from those systems.

At this stage we are all very much aware of the difficulties in bedding down the energy market systems and processes within the new market structure. This is giving rise to significant operational uncertainty and cashflow risk for market participants. We are expecting changes over the coming months to address these initial teething issues. At this stage we cannot consider that it would be feasible or prudent to design, test and implement a new market system and process for the upcoming T-4 auction as proposed as part of this Consultation. Whereby we understand that the market will ultimately move to a combinatorial auction format on an enduring basis, we feel that March 2020 would be too soon for the market to take any further change.

Until such time as the energy market is operating within normal expected processes and procedures and delivering expected market outcomes, we do not believe that further changes to the capacity market systems should be considered. Once the energy market systems are bedded down and parties have confidence in their operational merits, only then should we consider diverting resources to develop, test and implement changes to the capacity market. For market participants, it will be important that we can understand and replicate the capacity market systems and outcomes. For the system operator, it will obviously take considerable time and resources to develop a combinatorial

auction ruleset, system and procedures. At this stage we do not believe that any party has the capacity to set aside resources to provide for a combinatorial auction for March 2020.

With that in mind, I would ask that the SEM Committee at least provide clarity and certainty to market participants and confirm that a combinatorial auction will not be implemented for March 2020, thereby allowing all parties to focus their resources on the exiting issues.

I hope you find the comments above helpful, but please do not hesitate in contacting me if you would like to talk through anything in any further detail.

Yours sincerely,



Jill Murray

{by email}