

The I-SEM Licensing Team
Commission for Energy Regulation
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3rd July 2017

Subject: Information Paper on proposed modifications to Generation and Supply licences, necessitated to implement the Integrated Single Electricity Market (I-SEM), CER/17/111

Dear Sir, Madam,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this information paper on proposed modifications to Generation and Supply licences, necessitated to implement the I-SEM (**the Information Paper**).

1. Balancing Market Principles Code of Practice” (BMPCOP) licence condition

BGE’s primary views relate to the proposed new Licence condition on the “Balancing Market Principles Code of Practice” (**BMPCOP**), being new conditions 19a and 25a of the Supply licences and new conditions 15a and 17a of the Generation licences, respectively.

As outlined in our response to the BMPCOP Consultation, SEM-17-026, BGE advocates for transparent and predictable market outcomes and believes that an offer principles approach to complex bid offer data bidding in the Balancing Market will facilitate such outcomes. BGE however continues to have significant concerns regarding the scope for the exercise of market power in the Balancing Market (**BM**), particularly by units operating in non-competitive constraint locations. As also outlined in BGE’s 12th May 2017 response to SEM-17-026, BGE submitted that a number of changes to the consulted-upon BMPCOP were required before its finalisation. These changes included: i) increasing the range of output, from 1MW, over which marginal costs are assessed; ii) preventing double counting of Gas Transportation Capacity (**GTC**) costs where the fuel cost already incorporates an element of GTC cost; iii) not applying the proposed Opportunity Costs valuation approach to Variable Operating and Maintenance costs given the impracticalities of such; and iv) enabling reasonable provision for increased risks to be incorporated in start-up costs.

These proposals were put forward in the context of ensuring that true cost-reflective complex bid offer data was captured in the I-SEM BM and that a level of certainty in terms of price outcomes would be discernible in the BM. Our proposals would not only help ensure that market participants recovered relevant costs but would also minimise the Dispatch Balancing Costs (**DBC**s) ultimately paid for by the consumer and enable predictability in price outcomes for suppliers and consumers alike.

With specific regard to the need to permit the existing bidding code of practice (**BCOP**) provision of “reasonable provision for increased risks to plant and equipment as a result of the operation of a generation set or unit” to remain for the start costs component of bid offer data, BGE believes that to do otherwise would undermine true cost-recoverability.

Undermining the practical and economic realities of operating a thermal unit with regard to start costs could have knock-on negative impacts on their continued viability. This in turn could also impact the flexible plant mix required to support a market dominated by variable renewables and impact the meeting of legally binding renewables targets.

We therefore urge the Regulatory Authorities (**RAs**) to address these shortcomings of the consulted upon BMPCOP before finalising the approach to regulating bidding in the I-SEM BM. Ultimately, BGE believes that the governance approach to bidding of complex data in the BM (as between the relevant licences and the BMPCOP) should result in market outcomes that are predictable and transparent. This will help ensure that

costs, particularly DBCs which are ultimately paid for by the consumer, will be minimised. On the basis that the proposals put forward by BGE with regard to the BMPCOP are included in the final BMPCOP, BGE is satisfied with the proposed licence condition.

BGE strongly believes that regulatory oversight of bidding of complex bid offer data in the BM is required for so long as market power, and the scope for the exercise of market power abuse, exists in the I-SEM.

Finally, on the BMPCOP licence condition, BGE seeks clarity as to when the first director certificate will be required to be signed. As the certificate is to cover a 12 month period ending on the preceding 31 March, it seems the first director certificate will not be due until June 2020. Is this correct or will a transitional arrangement be made for earlier certification? With regard to the certificate itself, will the form of certificate be issued by the CER or will market participants be required to use their own form/ template certificate?

2. Other proposed licence condition modifications

In general, the other proposed licence changes appear pragmatic and in line with I-SEM market arrangements' decisions made to date. With regard to these other proposed modifications, both new and existing, BGE has the following viewpoints:

- i. **“Condition 1: Interpretation and Construction”**: BGE accepts that the current Trading and Settlement Code definition has become redundant but requests that consideration be given to including a new definition for the “Single Electricity Market Trading and Settlement Code” in the relevant licences, for clarity reasons;
- ii. **Re-drafting proposals**: On review, BGE suggests that a number of drafting amendments are made as follows: a) with regard to the generic Supply licence, “Condition 13: Intermediaries”,¹ line 4 of condition 13(2) should read “... as the Commission may by direction...”; b) with regard to the generic Generation licence, “Condition 20: Capacity Market Code”,² condition 13(2) should read “... the Licensee shall not be obliged to be party to the Capacity market Code...ensure that the Intermediary shall be party to, and shall comply”;
- iii. **Terms and Conditions for Generators with an installed capacity under 10MW and over 1MW**: BGE’s views outlined above in relation to the BMPCOP condition are also relevant for these units. Furthermore, similarly to “Condition 1: Interpretation and Construction” for the supply and generation licences, consideration should be given for clarity purposes to the need to include a new definition for the “Single Electricity Market Trading and Settlement Code”. Lastly, condition 13(4) (Capacity Market Code) on page 71 of the Information Paper replicates paragraph 2 and should be deleted.

Finally, BGE requests confirmation that should further changes be required to the licences, for example to address issues such as Directed Contracts, that these will be consulted upon. Should the RAs anticipate that further changes will indeed be required, insight as to when such changes might occur would be welcomed.

I hope that you find the above comments and suggestions helpful. Please do not hesitate to contact me at anytime should you have any queries on the above.

Yours faithfully,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

¹ Condition 19 PES Licence

² Condition 23 ESB Generation Licence