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RE: Dublin Security of Supply: Locational Scarcity Scalars for System Services in the Dublin Region (CRU/19/011) (the Consultation)

Dear Bobby,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to the Consultation on Locational Scarcity Scalars (**LSSs**) for System Services in the Dublin Region (CRU/19/011). As requested in the Consultation, BGE in its Opening Statement section below provides context for the views expressed in this response as well as an overview of our responses to the 6 questions raised, which are dealt with in more detail in the answers to the respective questions in section 2 below.

1. Opening Statement

Firstly, in general, BGE is acutely aware of the serious security of supply situation facing the Dublin Region in the coming decade, particularly given the level of data centre development anticipated within the All-Island Generation Capacity Statement (**GCS**) for 2018-2027.¹ We note a number of references in this Consultation to the level of development and reinforcement work that is required to be carried out by EirGrid in order to improve the network in the Dublin Region as it is largely the constrained nature of the network in this Region that is limiting the ability of capacity outside of Dublin to contribute to the growing demand needs. What is unclear however, and as has been expressed by BGE on a number of occasions previously, is: the extent of the targeted nature of the work being undertaken by EirGrid to alleviate the Dublin constraints issue; the planned expenditure for such works; the expected positive impact/improvements to constraints in the region such works will have; and importantly, the time it will take to reach a certain level of grid performance that means the Dublin Region will be better able to rely on capacity elsewhere in the Irish network to meet its demand needs. While we acknowledge and commend recent steps taken by EirGrid on projects that seem aimed at alleviating the Dublin Region constraints issue, we would ask for clarity on the above noted issues to be shared with market participants at EirGrid and CRU's earliest convenience. In the context of BGE's concern around the concentration of generator market power in the Dublin Region, such information should give an understanding as to how long the constraints issue will persist and therefore give signals to the market as to when new capacity will be needed, where and for how long. Without this understanding, it is difficult for new investors to compete with existing units and it is unclear as to where and when further investment will be required.

Secondly, BGE notes a number of references throughout the Consultation to the two security of supply focussed papers published over the last 15 months² which for example respectively (a) acknowledge a need for improvement in overall long-term capacity³ and: (b) outline the objectives that should guide the CRU in ensuring security of supply,⁴ which objectives are reiterated throughout this Consultation including the need for investor certainty and long-term signals. Furthermore, this Consultation is being heavily driven by concerns around expected data centre growth in Dublin⁵ and in this regard in the GCS 2018-

¹ http://www.eirgridgroup.com/site-files/library/EirGrid/Generation_Capacity_Statement_2018.pdf

² Regulatory Approach to Maintaining Local Security of Supply in Electricity (CRU/17/346); Dublin Security of Supply: Measures to mitigate the risk of disorderly exit (CRU/18/228)

³ CRU/17/346, p. 1

⁴ CRU/18/228, p. 12

⁵ Which rationale is noted throughout the Consultation

2027⁶ EirGrid calls out the need to appreciate that data centres normally have a flat demand profile. This demand profile, together with the aforementioned general themes and objectives of the 2017 and 2018 CRU security of supply focussed papers would imply that it is more baseload and mid-merit capacity that is required for security of supply in Dublin.⁷

The problem however is that these locational scarcity scalars are focussed at present solely on DS3 products and the DS3 market is focussed primarily on providing signals for products that facilitate renewables, as opposed to the product of capacity adequacy (for long term security of supply). In this regard, we note the often-re-iterated aim of the DS3 programme is to meet the challenges of operating the electricity system in a secure manner while achieving the 2020 renewable electricity targets.⁸ Comparatively, the capacity market mechanism is focused *inter alia* on future capacity adequacy as well as electricity reliability and security of supply.⁹ Thus the delivery of baseload and mid-merit capacity is more underpinned by the capacity market mechanism. Indeed in this Consultation the CRU notes that locational scalars are expected to create only “marginal incentives for providers to make themselves available...”¹⁰ and in our view a marginal incentive cannot be expected to deliver the baseload/ mid-merit type of capacity the GCS 2018-2027 clearly points to as being needed in the Dublin Region. BGE is therefore of the view that locational scalars have a role not only in addressing the short-term shortage of DS3 product concerns flagged in this Consultation, but that locational scalars should rightly be strongly considered within the capacity market mechanism also, if longer term security of supply issues driven by sudden demand growth/ early generation exit are to be addressed, and effective entry signals are to be provided. Moreover, providing for locational scalars in both mechanisms now would offer EirGrid and CRU greater scope to address system issues, be they flexibility or capacity-adequacy related, in a more timely manner going forward.

Notwithstanding this overarching viewpoint on the need for locational scalars to also be considered within the capacity market design, we put forward our views and suggestions below in the context of the CRU progressing in the near term with the scalars suggested for the DS3 products outlined in this particular Consultation.

Thirdly, BGE supports the objectives and principles outlined in the Consultation (our detailed views on which we address further in answer to question 1 below) but believes that the proposals in the Consultation unnecessarily favour the immediate maintenance of existing generation in the Dublin Region over potential new investments. Instead the proposals should be seeking to strike a balance between allowing efficient exit against ensuring sufficient signals for entry of new generation. In considering how to achieve this balance, we ask that the CRU consider the following two points in particular which also provide the key context for our answers to the 6 questions put forward in the Consultation:

- The fact that parties already in receipt of revenues from Local Reserve Service Agreements (**LRSAs**), do not appear to be excluded from also benefitting from these scalars. On foot of the process that led to the adoption of a significant amount of revenue being granted to LRSA parties through TUOS, it is our firm view that these LRSA parties’ potential revenue deficiencies (and exit risk) have been adequately addressed out to October 2022 at least and there is no need for them to receive additional revenue on top of LRSA revenues until such time as the LRSA remuneration ceases. Offering these locational scalar revenues to LRSA parties actually erodes the revenue available for other units, and by corollary undermines entry signals. We suggest therefore that LRSA parties are excluded from the receipt of locational scalar revenues until such time as their LRSA expires (from which point they could be eligible for the scalars if the circumstances require). Otherwise, we believe that if LRSA parties obtain LSS revenues, presumably from our understanding of the operation of the LRSAs, these would be netted off the LRSA revenues which would overall have a negative impact on the value of the LSS to other non-LRSA parties as it would dilute the €12.5m revenue stream;
- Before a unit can exit the market, it is required under the Grid Code to give 3 years’ notice of closure to the market. No such notice has been published in relation to any other non-LRSA party

⁶ P. 20

⁷ Simultaneously, however we do recognise that EirGrid has engaged with the CRU to relay its concerns that the Dublin area is facing risk of a dearth of the six DS3 products under discussion in this Consultation.

⁸ As for example stated in SEM-17-080, SEMC Decision Paper Regulated Arrangements Tariffs and Scalars

⁹ Per section A.1.2.1 (“Capacity Market Code Objectives”) of the Capacity Market Code

¹⁰ P.11

based in the Dublin Region. This implies that until at least March 2022¹¹ there is little, or no, imminent danger of additional existing non-LRSA generator exit from the Dublin Region. With regard to the proposed application timeline for the scalars¹², if the LSSs are implemented from 2022 rather than from 2019, it would thus not appear to undermine the continued financeability of such existing capacity. On the contrary, if the scalar is implemented in 2019, then the proposed 5-year period of duration will only have two years left by 2022 which is the earliest year that any new plant is likely to be capable of being built by, in Dublin. Two years does not provide a sufficient entry signal for new plant, thus the proposed commencement of application of the scalars from 2019 unduly favours maintaining existing generation (for which no risk of exit has been indicated), over entry signals for new generation. We therefore propose that the implementation of the scalar does not occur until 2022 and that the five-year period commences at that stage. We should at least be offering 5 years of certainty to new units starting out in the market if long term entry signal ambitions are to be achieved. An implementation date of 2022, rather than 2019, would also better achieve a balance between maintaining efficient existing generation against attracting efficient new generation. Alternatively, if the CRU is concerned about an imminent (2019/20) closure in Dublin that would add to security of supply concerns then the scalars could for the first scalar period, be set to 8 years (2019-2026) which would allow a minimum of 5 years of revenue certainty for any party seeking to respond to the security of supply issue.

If EirGrid or the CRU have a different view on potential generator exit timelines in Dublin to that outlined above, we request that as a matter of transparency and urgency, this is shared with the wider market to avoid any possibility for further LRSAs to arise, which BGE is overtly against.

Notwithstanding our view on a 2022 implementation date, we would however support the progression of the determination of the actual scalars as planned in 2019, considering that a DS3 tender and T-1 and T-2 capacity auctions are scheduled for 2019.¹³

It is with the above particular context in mind that we put forward our views on the questions asked in the Consultation, in section 2 below. **In summary, our views on the answers to the 6 respective questions are:**

- i. With regard to the CRU's objectives and principles herein, BGE believes that certain of the CRU's noted objectives (e.g. facilitating efficient new and existing generation in a long-term cost-effective manner) would be better achieved if LSSs were addressed in both the DS3 and Capacity Market workstreams. Moreover, we submit that to better balance the noted objectives and principles for LSSs, LSSs should only be implemented from 2022 (for all non-LRSA parties) as non-LRSA existing generators have not issued a 3-year notice of exit in Dublin and a 2022-2027 term would offer at least 5 years revenue certainty for new investments. If an imminent risk of further existing generation exit exists, we need insight of this asap and consideration could then be given to implementing the scalars from 2019 but for 8 years (to maintain a 5-year signal for new investments). Subsequent LSSs could then be set annually with 5 years notice thereof (e.g. set in 2022 for 2027/28 application). LRSA parties should not be entitled to LSSs for the duration of their LRSA remuneration given that their exit risk has been sufficiently dealt with via TUOS payments to 2022 at least. Lastly, we firmly support advancing work on planning for further locational capacity constraint areas outside of Dublin to ensure that investment signals for efficient existing/ new capacity are adopted such that the risk of further LRSAs is mitigated (please see answer 1);
- ii. In terms of the amount allocated through LSS (€12.5m) we believe the insight into EirGrid's targeted plans and related impacts for alleviating Dublin Region constraints would help better inform a view on the appropriateness of this amount. From a consumer perspective however we believe the CRU's commentary around VOLL and possibility of annual LSS payments being higher

¹¹ Being 3 years from the date of this Consultation

¹² Being set and implemented in 2019 for 5 years to 2024, then set 1 year at a time 5 years in advance, thereafter

¹³We acknowledge that data centre growth in the short-term is a major issue as this demand needs to be met mainly by generation and large demand loads can have relatively short construction lead times. However, given the apparent strong financial situation of LRSA parties, the lack of 3-year notice of closure of other Dublin located units and the time it takes for new build, we believe implementation in ~2022 would suffice to achieve certainty in supporting existing (non-LRSA parties') units as well as supporting business cases for new units entering the market.

than forecast raises significant concerns around the setting of the scalar and extent of the k-factor and TUOS increases for consumers. Insight and commitment to principles in setting the scalar would help predict year on year LSS payments and at least quarterly updates of LSS payments made need to be factored into the administration of LSSs going forward, not least from a supplier tariff stability viewpoint. BGE would also welcome insight on the apportionment of revenues between the 6 products to help inform the investment landscape. Lastly we firmly support keeping LSS costs separate from the DS3 revenue cap of €235m lest DS3 signals for service providers outside of Dublin be negatively impacted (please see answer 2);

- iii. As to whether the 6 services chosen are the appropriate range of products, BGE has given its view above on the lack of a LSS for the product of capacity adequacy and how this should be addressed in the capacity mechanism. It is difficult to say without further insight on how EirGrid determined which products were necessary, as to whether the 6 in questions are appropriate. Insight into the choice of products and estimated weighting of the services would really help direct existing and future investors' attention to the types of unit that can best provide many if not all of these services (please see answer 3);
- iv. In relation to the initial duration of the LSS values, we have expanded on the context for our views on this in some detail above. In short, we believe LRSA parties should be excluded from LSS payments for the duration of their LRSAs; non-LRSA generation in Dublin is not at imminent risk of exit given the lack of publication of a 3 year notice of exit from the market; new entrants should at least be reasonably given 5 years revenue certainty - this overall points to a need for the implementation of the LSS from 2022 (for 2022-2027) or from 2019 (for 2019-2027 if an imminent risk of further existing Dublin generation actually exists now). 5 years notice of annually set LSS should apply after the initial LSS period of application (e.g. if the first period is 2022-2027 with LSSs determined in 2019, then the second set of LSS should be determined in 2022 for application from 2027/28) (please see answer 4);
- v. BGE does not agree with the proposed payment basis for the LSSs. Instead we believe that the potential payment basis should maximise the LSS value / objective and should be based on the higher of a unit's market or physical dispatch position. Importantly, the final decision should take into account the need to mitigate the potential for negative impacts of constrained running of units, in their provision of DS3 services and payments. Furthermore, this "higher of" payment rule should apply to all units regardless of their firm access quantity status (please see answer 5);
- vi. With regard to how additional revenues received by providers from the application of the LSSs should be considered in the CRM and USPC and other markets, we believe that further consultation on the interactions is warranted as alluded to in the Consultation. At a high level however, we believe that LRSA parties should not receive LSS and thus the issue is not relevant to them (otherwise a dilution of the value of the LSS being paid for via TUOS would arise). For non-LRSA (existing and new) parties however, in order to ensure that the benefit of the LSS is retained (and its objective not diluted) we believe it necessary to allow these parties the option to determine for their own commercial reasons whether their USPCs, capacity auction and balancing market bids do or do not take into account estimated locational scalar revenues. Otherwise, if the value of the LSS payment is required to always be taken into account by non-LRSA units in such bids, then the benefit of the €12.5m which the consumer is also paying could be potentially reduced. For regulatory certainty reasons, no ex-post interference should be permitted with USPC, CRM outcomes that will have occurred by the time LSS is implemented (please see answer 6).

Finally, we acknowledge and indeed welcome a number of references in the Consultation to the point that EirGrid has plans for development and reinforcement of the network in the Dublin Region. We note however that some areas may not be geographically located in Dublin, but are to be considered electrically inside Dublin, which areas "will be defined by EirGrid."¹⁴ We would welcome early insight on when the official electrical Dublin Region, in this context, will be defined. This information will be relevant to all market participants in order to understand the context of how far the locational scalars will stretch and to what areas they will apply. This will be important in giving the right signals for investments in the optimum areas of the network.

The remainder of our response goes into further detail on the overview of our key response points outlined in points i-vi above.

¹⁴ P. 2 of the Consultation

2. Questions and Answers

Question 1: Do you have any views on the CRU's objectives and principles in relation to introducing locational signals to Dublin via the System Services Locational Scarcity Scalars?

As outlined in our Opening Statement, BGE does not agree that the locational scarcity scalars (**LSS**) mechanism sits solely under the DS3 workstream; rather it should be addressed under both the capacity market and DS3 workstreams. Working on LSS within the framework of the capacity market, as explained in our Opening Statement, is more pragmatic for long term efficient entry (and maintenance of efficient existing) generation signals, given that it is mainly long-term security of supply and capacity adequacy in Dublin that is at issue. We believe that consideration of locational scalars in the capacity mechanism as well as DS3 would better facilitate the achievement of the CRU's noted objectives for security of electricity supply in the Dublin Region, in particular the facilitation of efficient exit and attraction of new entry all in the most cost-effective manner for the consumer in the long-term.

With regard to the specifics of the proposed locational scalar in this Consultation, we believe that a number of changes to their proposed design and implementation must be made if a balance between the objectives, and related principles, noted in the Consultation is to be achieved. We again provide further context for our suggested changes in our Opening Statement above but in summary we disagree with the CRU's proposal to apply a LSS above one for the listed System Services "for all providers in the Dublin Region" from 2019. Rather, the implementation of the LSS should only commence in 2022 for all (non-LRSA)¹⁵ providers as that is the likely earliest year by which any new entrant could be built by in Dublin. Otherwise, by the time a new entrant can avail of LSS payments, approximately 2 years only of revenue certainty¹⁶ would remain which weighs the LSS incentive heavily against new entry. We do not believe that an implementation date of 2022 would undermine existing (non-LRSA) units either given that no notice of exit from the market has been served by such units. However, if the CRU/ EirGrid are concerned that these latter units represent an immediate risk to security of supply then a scalar of 8 years from 2019 could apply. In this way, the 5-year revenue certainty reasonably required for new entrants could be achieved.

This suggested delayed implementation time should bode better for the consumer also, given they are already paying via TUOS for LRSA costs until at least 2022. Overall this timing in our view better meets the objectives of balancing exit and entry signals in a fair manner, in the most cost-effective long-term way for the consumer, while keeping the lights on.

Furthermore, with regard to the 3 principles being followed to achieve incentives in both entry and exit as noted in s. 2.2 of the Consultation, our views are as follows:

- Principle 1: (increase remuneration for services most contributing to increasing SOS in Dublin) – we note the CRU has liaised with EirGrid on the choice of the 6 services suggested for LSS remuneration, but we would welcome further insight into the choosing of these services. This is of interest not only from the perspective of better understanding the level/ volume of needs for the respective various services in Dublin, but also which type of generation investment it should attract which should help inform considerations around also factoring locational signals into the capacity mechanism to attract the optimum generation;
- Principle 2: (send appropriate long-term market signals to market participants to promote efficient locational decisions for new and existing generation which can provide system support) – BGE's views on the appropriate timing of the LSS implementation as described in our Opening Statement apply here. As explained above LSS implementation should only apply from 2022 as this would provide an appropriate balance between signalling new entrants (who need at least five years of certainty to help support business cases) and maintaining efficient existing units, without undermining security of supply. Alternatively, with a view to achieving the minimum 5-year certainty for new entrants, consideration could be given to applying the LSS on a 8-year basis to begin with and set on an annual basis thereafter with at least 5 years notice of the applicable scalar;

¹⁵ Please refer to our Opening Statement. Our view stands that under no circumstances should LRSA parties also benefit from LSS in Dublin for at least the duration of the LRSA

¹⁶ If the LSS is set and implemented in Q2 2019 for a duration of only 5 years

- Principle 3: (adopt approach that can be implemented quickly, is pragmatic and fit for purpose and in a manner that delivers reasonable certainty for market participants) – BGE acknowledges the imminent growth of demand in the Dublin Region, the levels of which become particularly stark from 2022, under the GCS 2018-2027. With regard to quick implementation of an approach, we urge the CRU to consider that new build would take ~24 months to enter a market and, given our views outlined in our Opening Statement, we do not believe that offering more revenues to existing plant in Dublin Region that is not at risk of exit before 2022 is necessary.¹⁷ Indeed to do so would add unnecessary cost to the consumer in our view. Our proposed timing of determining scalar levels in 2019 for application from 2022 for 5 years and making LSS payments to new and existing (non-LRSA) units from 2022, would adequately meet this Principle 3 in our view.

With regard to the reference to possible roll-out of the LSS to other regions, BGE has previously advocated for enhanced insight into EirGrid’s views on potential L2 areas (locational capacity constraint areas) in other parts of the country outside of Dublin. The five-year notice of locational scalars in this Consultation supports the fact that the market should be given at least 5 years notice of any emerging constraint areas so that LSS signals can apply to incentivize new entry and disincentivize inefficient exit. Otherwise, we could find ourselves in a similar situation to the Dublin security of supply scenario that led to sub-optimal work arounds being put in place that effectively undermine the market. We therefore strongly support work on advanced planning for potential constraint areas which may also call for possible LSSs through the DS3 or capacity market mechanisms.

Finally, we note the CRU’s reference here to engaging with the SEM Committee in terms of interactions with the wider market. We put forward our views on this issue in answer 6 below but if interactions beyond the USPC and capacity market are under consideration we request that a consultation process thereon should apply so that the full market impacts are considered before any decision on locational scalars in the context of the wider market is made. This should help mitigate regulatory risk for new and existing investors.

Question 2: Do you have any comments on the CRU’s determination of the amount to allocate to cover the costs of adjusting the System Services Locational Scarcity Scalars in the Dublin Region?¹⁸

In terms of the determination of the amount to allocate to cover the costs of the scalars, we urge the CRU to consider the following points:

- We note the CRU’s reference on page 13 that annual tariffs of €12.5m would support transmission investment of the order of €150m which “would be expected to be considerably less than the cost of developing large scale cross country electricity infrastructure to support the Dublin Region.” We welcome the CRU’s affirmation that the EirGrid plans for the Dublin Region network will persist in parallel but what is unclear to us is what those plans are, where the projects are focused, what is involved, the timelines for delivery and level of alleviation of constraints those projects might bring. It appears from the Consultation that the CRU/ EirGrid have an idea of these costs thus we would welcome further insight into the basis of that conclusion. This insight would help better inform all interested parties as to the appropriateness of the €12.5m value;
- In the discussion around VOLL, notwithstanding the view in the Consultation that the LSS is a “marginal” incentive, we note the CRU view that the locational scalars value falls short of what would be required if VOLL alone was to be used as a parameter against which to assess the appropriate LSS value. This in our view undermines the objective and principle of providing long-term signals and certainty to new and efficient existing units. More worryingly, this VOLL view coupled with the CRU’s acknowledgement¹⁹ that the actual cost of the additional scalar payment will depend *inter alia* on the level of relevant services provided by generators electrically inside the

¹⁷ The lack of 3-year notice of exit from the market for such units would imply this risk is not imminent

¹⁸ BGE notes the question 2 at the end of the Consultation differs from that in the body of the Consultation (the former reads “Do you have any general comments on the CRU’s proposals, including the CRU’s objectives, to adjust the Locational Scarcity Scalars above one for providers in the Dublin Region? Are there any other specific considerations or conditions that the CRU should take into account in its proposals?”) but we believe we have addressed this question already in our Opening Statement and answers to questions 1 and 3

¹⁹ On p. 14

Dublin Region, implies that the consumer may see high k-factors year on year and that the €12.5m could be much higher in reality. It is unclear how the level of the scalar will be set and what the principles will be, thus we do not understand how they might change from year to year. This detail needs to be provided as early as possible, ideally before or in parallel with the consultation on the setting of the LSS itself. From a consumer perspective, it may be worth considering appropriate controls to apply to ensure that consumers are not unexpectedly burdened with large k-factor changes. Regardless of the outcome of this process, we request confirmation that quarterly updates on pay-outs under any LSS are given so that suppliers can appropriately mitigate shocks in TUOS billing for customers. Our concern here also lends support to our overarching view that an LSS could be easily administered within a competitive mechanism such as the capacity market, where payments are largely known ex ante.

Related to the above, from a long-term signal perspective, we believe that more transparency on the level of revenues expected to be apportioned for each of the 6 services would provide insights of relevance not only to new, but existing, generators in terms of investment types expected.

Finally, we request early confirmation of when the consultation on the actual scalar levels will be and when a decision can be expected? We would also like to confirm our solid support for the fact that the DS3 €235m cap will be unaffected by LSS values.

Question 3: Do you have any comments on the CRU's proposals to adjust the Locational Scarcity Scalars for the above services? Are there other considerations the CRU should take into account in determining the appropriate services?

In general, if the CRU persists with applying locational scalars through DS3 in the first instance over the capacity mechanism, application of the scalars to products deemed necessary to support the Dublin Region is acceptable.

As to whether the chosen products are appropriate, it is difficult to say without the further insight on how the products were chosen as noted in answer 1 (relating to Principle 1, above). While there is reference to the point that the CRU and EirGrid have liaised with one another on the appropriate services that should be provided under these locational scalars, the study and process behind how EirGrid determined that these were the necessary services have not been made available in this Consultation. We would welcome such insight with a view to better understanding the extent of pressure the Dublin Region network is under for each of the respective services, and therefore the type of capacity needed in the Dublin area and when, as well as how the locational scalars may be set differently for the different services. It would for example be useful to understand whether certain of the six services are required in more volume than the other(s) and by how much and at what point in time the need for these products becomes most pressing. While CRU notes that there is benefit from having a range of capacity types from baseload to peaker, insight into the estimated weighting of the services would really help direct existing and future investors' attention to the types of unit that can best provide many if not all of these services.

We also recognise the CRU's reference in section 3.3.3 to the scale of network investment planned for the Dublin Region in the coming period. The insight BGE has requested in our Opening Statement into EirGrid's Dublin centric investment plans would also be relevant in understanding to what extent, when and for how long the six services focused on in this Consultation will be required.

Question 4: Do you have any views on the CRU's proposal to set the Locational Scarcity Scalar values for a five-year period on an initial basis and then five years in advance on an annual basis in subsequent years?

BGE does not believe that the proposal to set the Locational Scarcity Scalar (**LSS**) values for a five-year period on an initial basis and then five years in advance on an annual basis in subsequent years, goes far enough particularly if the implementation date remains 2019. We believe that the proposal, together with a number of statements made in the related section of the Consultation (s. 3.3.4), put at risk the CRU's objectives of reasonable investor certainty; balance of exit and entry long-term market signals; and finding the most cost-effective long-term solution for consumers.

For example, the prospect of the CRU directing EirGrid to re-adjust the scalar to one at its own volition or accounting for any over- or under- expenditure incurred in one year in the subsequent year's scalar not only raises regulatory risk for investors, but price risk for suppliers and consumers alike.

In this context and as outlined in our Opening Statement, BGE believes that the LSS values should be set for a five-year period from 2022 (or a 8-year period from 2019, such that new entrants have 5 years of revenue certainty to help support entry). For example, if the scalar is implemented in 2019, it should be implemented for 2019-2027 and if implemented from 2022 it should be implemented from 2022-2027. As expanded upon in our Opening Statement, given new build lead-in times, and in order to balance the objective of efficient exit with time for the market to respond with entry, we believe that the initial determination of LSS values should proceed as planned and be consulted and agreed upon in 2019, for implantation from 2022 (or 2019 if an initial 8-year period is decided upon).

This approach would in our view better balance the entry and exit signal, investor certainty, and cost-minimisation related objectives outlined in the Consultation. The LSS does not require implementation in 2019/2020,²⁰ implementation should instead be aligned with the timings of the first T-4 capacity market auction delivery dates. Notice of the scalars should however be given from 2019 for the period 2022-2027, and then notice thereafter of changes should occur annually with at least 5 years notice (e.g. the first change could be in 2022 but wouldn't apply to scalars until ~2027).

This approach should support entry but should also avoid exit if efficient units are needed in advance of the Grid Code's 3-year notice of exit timeline. It also provides a wider number of years across which the CRU could spread any over- or under- expenditure incurred in a particular year, which bodes well for stability in consumer pricing. In any event, regular updates of such over- or under- expenditure should be published to the market throughout the duration of the LSS (e.g. on a quarterly basis) so that suppliers can better protect against price shocks for consumers.

Question 5: Do you agree with the CRU's proposals in relation to the payment basis for the System Services Locational Scarcity Scalars?

BGE does not agree with this payment basis proposal. We recall the rationale for basing payments for some services off market positions and others off physical dispatch positions was related to disincentivising units from locating in constrained areas of the network. However that rationale does not stand considering that the LSS is being introduced to specifically attract locating in a heavily constrained area (Dublin Region). We see units as having little control or foresight over whether and how often they are constrained up/ down in this region and on this basis, with a view to providing certainty for existing and new investors, BGE firmly believes that payments should be based on the higher of a unit's market or physical dispatch position to maximise the objective of the LSS. The final decision should take into account the need to mitigate the potential for negative impacts of constrained running of units, in their provision of DS3 services and receipt of payments.

We also suggest that given the lack of clarity or planning for offering firmness to units connecting on a non-firm basis in Dublin, that this payment rule ("the higher of" rule) should apply to all units regardless of their firm access quantity status.

Question 6: Do you have any views on how additional revenues received by providers from the application of the Locational Scarcity Scalars should be considered in relation to the CRM and the calculations of a unit's Unit Specific Price Cap (USPC)?

At the outset, BGE notes the disjoint between the timing of the proposed introduction of this LSS and the fact that the capacity auctions for CY2019/2020 and CY2022/23 will have finished before the LSS is finalised. Market participants, either new or existing, therefore cannot make adequately informed decisions as to the value they might derive from the LSS and incorporate this value into capacity market bids. In any event whatever the final decision on LSS implementation timing, it is not acceptable for

²⁰ Particularly given that LRSA parties' exit risk has been addressed through TUOS payments to at least 2022 and that non-LRSA generation in Dublin cannot be said to be at imminent risk of inefficient exit pre-2022 given the lack of publication of a 3-year notice of closure required under the Grid Code

regulatory certainty reasons to interfere with USPCs or capacity market auctions or outcomes that will have already completed by the time of implementation for which market participants could not reasonably estimate the value of LSSs. For the avoidance of doubt however, BGE reiterates its view that LRSA parties should not be entitled to the LSS, thus the issue of whether or not LRSA parties should incorporate LSS payments into capacity/ DS3/ energy market bids should not arise. Consumers should not be expected to pay for LRSAs and additional incentives on top of LRSA payments, when the risk of exit posed has already been covered by the LRSA. Otherwise a risk of double payment arises.²¹

For USPCs and other market bids going forward, for non-LRSA parties (new and existing) however, in order to ensure that the benefit of the LSS is retained (and its objective not diluted) we believe it necessary to allow these parties the option to determine for their own commercial reasons whether their USPCs, capacity auction and balancing market bids do or do not take into account estimated locational scalar revenues. Otherwise, if the value of the LSS payment is required to always be taken into account by non-LRSA units in such bids, then the benefit of the €12.5m which the consumer is also paying could be reduced.

From a general market participant perspective, notwithstanding our lack of insight on the TSOs' targeted projects, costs and timelines for Dublin, we are of the view that a balance must be struck between achieving the objectives outlined in this Consultation including value for money for consumers, while not undermining wider market operation on an enduring basis. In light of our comments earlier in this answer 6 we are also of the view that a separate consultation point on how these LSSs may impact wider market signals and interactions, is worthy of consideration. We look forward to the further engagement on this referenced in the Consultation as the issue is important enough to assess further through the consultative process.²²

Question 7: Do you have any further comments or are there any other considerations the CRU should take into account in its proposals?

In our Opening Statement section BGE has outlined the key context and rationale for the approach taken to answer the questions raised in this Consultation as well as an overview of our key points of response to questions 1-6 for consideration by the CRU. Please refer to that section at the beginning of this response for further information.

I hope you find the above comments and suggestions helpful. Please do not hesitate to contact me should you wish to discuss any of the issues raised herein further, at any time.

Yours sincerely,

Julie-Anne Hannon
Bord Gáis Energy
Regulatory Affairs – Commercial

{By email}

²¹ Consumers are already paying for LRSA costs via TUOS and would be additionally unnecessarily supplementing the same LRSA Dublin-based generation under the LSS proposals otherwise

²² Perhaps as part of the locational scalars consultation on the actual level of scalars