

**Power NI Energy Limited
Power Procurement Business (PPB)**

**Treatment of Gas Transportation
Capacity Costs**

Consultation Paper

SEM-12-089

Response by Power NI Energy (PPB)

16 November 2012.



Introduction

Power NI Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper on the treatment of Gas Transportation Capacity Costs.

Comments

SRMC principles

The principles underpinning Short Run Marginal Cost bidding into the SEM requires that costs that are “marginal” or “avoidable” should be wholly included with a generator’s bids. Considering this principle in relation to gas transportation capacity costs, PPB considers it is clear that where short term gas transportation products are available in the market then those costs should be included within a generator’s bids.

The Opportunity Cost

A further question is raised in the consultation paper in respect of what the opportunity cost of the gas transportation capacity should be. PPB has no experience of operating in the RoI gas market but from the information provided in the consultation paper and in the recent note providing an overview of secondary gas transportation capacity trades, it is clear that a short term gas capacity product exists. The firm short term gas transportation products currently available in Northern Ireland are much more inflexible and unless and until similar products to those in RoI are made available, assessment of the “marginal” cost is less obvious.

PPB does not agree that the ex-post load factor of a generating unit should have any influence on the short-run cost to include within bids. Similarly, the discussion over the different annualised costs of annual, monthly and daily products is irrelevant and merely highlights wider regulatory decisions on tariffs. All generators are required to submit P/Q pairs to accurately reflect its costs at any level of feasible output and hence a generator is not allowed under the BCOP to make any presumptions as to how it may be scheduled. Hence all generating units must bid the short run value of such capacity. PPB agrees with the assessment that the value of Primary Capacity is the regulated price. However in relation to the value of Secondary Capacity, we do not consider that there is a recognised and generally accessible trading market and this is supported by the recent publication which indicates that the average number of trades is in single figures per day. In addition, the prices for the trades are opaque and in any event are unlikely to be known at the time the bids are being formulated for submission to the market. Therefore PPB considers that the only consistent price that should be used is the regulated daily capacity price. This would ensure a consistent approach would be adopted by all generators and has the further benefit of not complicating the market monitoring function.

The Capacity Payment Mechanism

In relation to the question of the impact on the CPM, an assessment of the most recent BNE decision¹ indicates that removing the cost of gas transportation capacity would narrow the gap in costs between distillate fired and dual fuel peaking units but would still result in the BNE plant being a Northern Ireland based distillate fired unit and therefore the BNE price determined by the SEMC would remain unchanged and there would be no need to reset any element of the CPM. Furthermore, generators would not be receiving double remuneration for gas transportation since no gas transportation costs are included in the cost for the distillate fired peaking plant that has been determined by the SEMC as the BNE plant.

Should the SEMC dis-apply the provisions of paragraphs 8(i) and 8(ii) of the BCoP?

PPB sees no good cause not to apply the provisions of paragraphs 8(i) and 8(ii) of the BCoP since short term gas transportation capacity costs are no different to many other costs that generators are required to bid and any disapplication would mean that a generator who does procure short term gas transportation capacity would not be recovering the marginal costs it would be incurring when it is called upon to generate and this would clearly result in the generator generating for revenues that would be less than its short run marginal/avoidable costs.

¹ in SEM-12-078