

Integrated Single Electricity Market (I-SEM)

Capacity Remuneration Mechanism Detailed Design

GNI Consultation Response

17 August 2015

Gas Networks Ireland (GNI) welcomes the opportunity to respond to the SEM Committee's consultation on the Capacity Remuneration Mechanism Detailed Design, SEM-15-044. GNI was incorporated on the 13th of January 2015 as a fully owned subsidiary of Ervia (formally known as Bord Gáis Éireann (BGE)). GNI owns, operates, builds and maintains the gas network in Ireland and ensures the safe and reliable delivery of gas to its customers. GNI is working to continually advance the utilisation of the gas network for the benefit of Ireland. It is a progressive, trusted and responsible gas infrastructure company with a strong customer focus and commercial ethos that contributes to Ireland's social and economic progress.

The gas network is an integral part of the national electricity system as it transports fuel to the gas-fired power generation plants which provide a significant proportion of the electricity generated in Ireland (c. 45% in 2014). Ireland has ambitious targets to increase the level of electricity produced from intermittent renewable sources up to 40% by 2020. Gas-fired power generation plants are essential for providing flexibility to the electricity grid, enabling the targets for renewable forms of generation to be achieved. GNI supports the development of renewable energy and its contribution to the electricity market.

As more renewable electricity is connected to the grid, ever greater levels of flexibility will be required to match its inherent intermittency. GNI believe that the gas network and gas fired generators have the ability to provide this flexibility and we suggest that utilisation of this infrastructure should be adequately remunerated to ensure the optimal operation of the electricity network.

2. CAPACITY REQUIREMENT

2.6.1 The SEM Committee welcomes views on all aspects of this section, including:

A) Feedback on our minded to position to retain the all-island security standard of 8 hours LoLE.

On balance, having considered the costs and benefits of a security standard of 3 hours LoLE, Gas Networks Ireland agrees with the regulators' minded to position to retain the all-island security standard of 8 hours LoLE. However more intermittent generation could lead to increased levels of tripping on the system, which may lead to the need for a higher security standard. We propose that as the generation mix changes over time this standard should be reviewed to ensure that the national generation portfolio has the ability to meet the required standards.

B) Comments from respondents as to their preferred method of accounting for unreliability of capacity in determining the capacity requirement, along with reasons behind their preference.

The de-rated approach is Gas Networks Ireland's preferred method of accounting for unreliability of capacity in determining the capacity requirement as it is a less risky approach.

C) Feedback on the options presented in relation to accounting for demand forecast uncertainty, along with rationale behind any position.

No comment.

D) Feedback on our minded to position to base the capacity requirement for the CRM on a single capacity zone

Gas Networks Ireland agrees with the regulators' minded to position to base the capacity requirement for the CRM on a single capacity zone.

E) Detail of any other considerations respondents felt that we should take account of when determining the capacity requirement for the CRM.

No comment.

3. PRODUCT DESIGN

3.10.1 The SEM Committee welcomes views on all aspects of this section, including:

A) The approach to setting the Reliability Option Strike Price:

a. Should we adopt the “floating” Strike Price approach, which is indexed to the spot oil or gas price?

Yes, a “floating” Strike Price should be adopted that is indexed to the spot gas price.

b. How do we choose the reference unit? Should it be based on actual plant on the system or a hypothetical best new entrant (BNE) peaking unit as currently used for setting the Annual Capacity Payment Sum?

It is Gas Networks Ireland’s preference that the reference unit be based on a hypothetical best new entrant that is chosen on the basis of efficiency.

c. Should we grandfather this reference unit where a multi-year RO is sold by new capacity?

No. GNI believe that the reference should change over time to reflect changes in technology to encourage efficient entry.

B) The implementation of scarcity pricing in the I-SEM Balancing Market?

No comment.

C) The choice of market reference price options from amongst the options presented and consistency with key objectives.

No comment.

D) Whether the RO volume and/or the additional performance incentives should be load-following.

GNI believe that the RO volume and the additional performance incentives would be load-following.

E) The requirement for, and design of additional performance incentives, including:

a. The form of additional incentives;

No comment.

b. Scarcity based triggers for performance incentives

No comment.

c. Caps and floors on incentives;

No comment.

d. Performance incentives for renewables and DSUs;

All those that are eligible to take part in the CRM auctions should be treated equally in terms of performance measures.

e. Performance incentives during the pre-commissioning phase;

No comment.

f. Detail of any other considerations respondents feel that we should take account of when determining policy in relation to product design

No comment.

4. ELIGIBILITY

4.12.1 The SEM Committee welcomes views on all aspects of this section, including:

A) The options presented in relation to the eligibility of plant supported through other mechanisms;

All plant supported through other mechanisms should still be eligible to take part in the CRM auctions. The opportunity to take part in such market based mechanisms should be open to all.

B) The options for eligibility of demand side and storage providers

No comment.

C) Do you have a view on the technology vs plant specific approaches to de-rating?

GNI believe that a plant specific approach is the best option for de-rating.

D) Do you have a view on the historic, projection or hybrid approaches to de-rating?

No comment.

E) Do you have a view on grandfathering of de-rating factors?

No comment.

F) Do you have a view on options presented with respect to the non-firm generation?

Non-firm generation should be eligible to be involved in the CRM auctions.

G) What evidence should an aggregator be required to show physical backing?

No comment.

H) Should there be a maximum size of unit that can bid into the RO auction via an aggregator, and if so what is that threshold?

No comment.

I) Should there be a minimum size below which a capacity provider may not bid directly into the RO auction, and must bid via an aggregator? If so what is that threshold?

No comment.

J) What pre-qualification criteria should be applied?

Pre-qualification criteria should be applied and there should be an element of commitment related to the criteria to ensure that capacity is delivered and that the system is not put at risk. There needs to be strict governance around the pre-qualification criteria.

K) Detail of any other considerations respondents feel that we should take account of when determining policy in relation to eligibility.

No comment.

5. SUPPLIER ARRANGEMENTS

5.8.1 The SEM Committee welcomes views on all aspects of this section, including:

A) Whether the recovery of CRM option fees from Suppliers should be on a flat, profiled, or focused basis.

No comment.

B) Whether the Supplier credit cover arrangements for the I-SEM CRM should be broadly similar to those under the SEM, and whether / what credit cover arrangement should be introduced for capacity providers.

No comment.

C) Whether the costs of exchange rate variations (arising from differences in the €/£ exchange rate at the time capacity is procured and its subsequent delivery) should be borne by capacity providers or mutualised across the market.

No comment.

6. INSTITUTIONAL FRAMEWORK

6.8.1 The SEM Committee welcomes respondents' views on the issues raised in this section. In particular, the SEM Committee welcomes respondents' views on:

A) Are the above outlined governance arrangements suitable for implementation of the I-SEM capacity mechanism?

Gas Networks Ireland agree that the governance arrangements are suitable however, as stated in section 6.6, there must be clear transparent and audited rules with strong business separation in order to ensure the market is developed and run in a straightforward and cost effective manner.

B) Which options for contractual arrangements are the most appropriate as assessed against the listed criteria?

Gas Networks Ireland does not have a preference for any particular option, however which ever model is chosen it should adequately remunerate gas-fired generation plants and reward them for their contribution to the aggregate system. The gas network is an integral part of the national electricity system as it provides fuel to the gas-fired power generation plants which provide a significant proportion of the electricity generated in Ireland.

C) Are implementation agreements required for new entrants participating in the capacity auctions?

No comment.