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9th November 2015

RE: Proposed SEM Testing Tariffs 2016 – SEM Committee Consultation, SEM-15-087

Dear Billy, Aoife,

Bord Gáis Energy welcomes this opportunity to comment on the proposed 2016 Testing Tariffs Consultation ("**the Consultation**") including the accompanying TSO paper on the proposals for SEM 2016 testing tariffs.

We accept that testing must apply for various reasons in SEM and that there is a cost attached to such. However, on review of the proposed 2016 tariffs and the main cost drivers for Tariff A increases in particular, we have a number of concerns around the drivers and rationale for the resulting increases. Based on this review, and the objective of testing tariffs being to cover the additional system costs of running the power system while facilitating units testing, we question the general compatibility of the proposed Tariff A increases with the Testing Tariff principle of "cost reflectivity".

The first clarification that we seek relates to the fuel prices forecast for the relevant period for Tariff A. As the fuel prices forecast is noted as one of the three "Cost Drivers for Tariff A" we are assuming that the TSO inputs to their Plexos model for 2016 tariffs reflect an increase in fuel prices for 2016. In-house analysis demonstrates however that fuel price inputs are in fact decreasing for 2016 and we request more detail on the TSOs' data on this.

The TSOs point to the refinement of the calculation of the cost of a sudden output as another key cost driver for Tariff A increases. While we concur with the general logic of this refinement, the resulting tariff levels appear inconsistent. Given that the Phase 1 and Phase 2 Test Criteria require sufficient system reserve online to cover 100% and 90% (respectively) of the MW produced by the generator under test, one would reasonably anticipate that the proposed Tariff A costs for each unit size category would be lower for smaller size units than for bigger units. Under the proposed Tariff A however, a generator for example with capacity of <50MW attracts a more penal Tariff A charge than any generator with output capacity of $\leq$ 400MW. As the amount of reserve carried is correlated to the size of the largest infeed, the cost to the TSO of facilitating the testing of a unit that is significantly smaller than the largest infeed should be negligible if normal reserve policies are adhered to. On this basis, and in light of the TSOs' statement that "typically units with a larger registered capacity pay a higher testing tariff on all the MWh the units generate", we question the cost reflectivity of Tariff A charges, specifically:

a. Why is the testing tariff A for a unit 100 MW $\leq$ 150 MW unit more expensive than the three immediately bigger unit categories (covering from 150 $\leq$ 300MW)?
b. As the third most expensive category, what is significant system cost associated with testing a unit less than 50MW?

The third and final key cost driver noted in the Consultation is the cost of the type of unit constrained on. Section 4.1.4 of the TSOs' paper notes a large increase in this cost component compared to previous years pointing to the sensitivity of additional run hour costs to the particular unit/ units scheduled by Plexos. We do not believe that the detail around this cost driver sufficiently explains the large variances between the Tariff A costs per generator size. We request more information as to the extent to which this cost driver has increased compared to 2015 tariffs, what type of unit (and in what areas) additional run

hours are being seen for, and what proportion of the increases this cost driver is contributing to as compared to the cost of sudden outputs.

A concern related to the above two points centres on the plant investment incentives for SEM/ I-SEM and the compatibility of the proposed tariffs with policy objectives. The Irish system's demanding renewables targets require a significant level of new types of flexible capacity to facilitate the achievement of these binding targets. The majority of this generation is anticipated to be within the 50 MW – 150 MW size category. We believe that the inconsistency as between generator sizes whereby Tariff A costs are higher for generators $\leq$ 150MW as compared to those that are 151 $\leq$ 300 MW, runs contrary to EU renewables targets as well as the complementary SEM/ I-SEM DS3 policy objectives. The tariffs are a disincentive to much needed flexibility and as such are prohibitive to the entry of new products to the market.

Our final comments relate to the three clarifications outlined in the Consultation as elaborated on in the TSOs' paper.

Regarding clarification 1, the TSOs state that Short Notice Declarations (**SNDs**) will apply to a generator under test if the unit unexpectedly deviates, i.e. trips, from "their agreed load profile". This is in our view tantamount to double charging a generator under test for the risk of a trip. The TSOs themselves noted in section 5.1 of their paper that they "assumed that the cost associated with short notice declarations is covered by the additional run hours and the additional reserve constraint cost components of the testing tariffs." Thus the application of SNDs on top of testing tariffs (which supposedly already account for the costs associated with SNDs) is at odds with this assumption. We strongly urge the Regulatory Authorities (**RAs**) to re-consider this proposal and submit that a unit under test should not be liable for SNDs so as not to double count risks.

Regarding clarification 2, the TSOs justify the application of testing tariffs to registered capacity rather than real time output suggesting that it reflects the "higher system risk with the sudden loss of a larger generator". Applying testing tariffs to registered capacity as opposed to the actual testing profile of the unit is tantamount to recovering costs of running the system at hypothetical levels rather than recovering the costs of maintaining reserves actually required (the purpose of testing tariffs). This heavily conflicts with one of the three core principles of testing tariffs "Cost reflectivity – where charges are imposed they should be proportionate and cost reflective."[1] Furthermore, the TSOs note[2] that Phases 1 and 2 testing criteria are most associated with Tariff A. For these Phases, it is necessary to have sufficient system reserve on line to cover 100% and 90%, respectively, of the MW produced by (as opposed to the registered capacity of) the generator under test. Given that testing profiles are known well in advance and often may not reflect the full registered capacity of a unit, it is submitted that the level of test tariffs applicable to a generator under test should be scaled to reflect the test profile of the unit testing. This is more in line with the "cost reflectivity" objective, is more in line with the Phases 1 and 2 testing criteria applicable to Tariff A, and will avoid the potential double recovery of costs. We urge the RAs to address this issue before finalising 2016 testing tariffs.

Finally, in relation to clarification 3 and tariffs to apply to units demonstrating compliance with Grid Code changes, in the context of demonstrating ROCOF compliance we believe that given:

i. that these units are not newly commissioned units but are units that have been running on the system for some time;
ii. that these units will have undertaken significant costs and will already have undergone significant, detailed studies to assess how the unit reacts in ROCOF scenarios (whereby the grid operator will already be familiar with how the unit reacts in such scenarios);

then the level of risk that the unit testing for ROCOF compliance poses, will in fact be minimal and thus these units should not be subjected to testing costs associated with high risk units under test.

In conclusion, we accept the need for testing in SEM and for providing for the recovery of test costs. We believe however that overall the proposed Tariff A charge levels are inconsistent with the principle of "cost reflectivity" and may act as a barrier to entry to much needed flexible generation contrary to EU and SEM policy objectives. We urge the RAs to consider all of the above suggestions and clarifications sought before finalisation of the SEM testing tariffs for 2016 and please do not hesitate to contact us should you have any queries.

[1] As outlined on page 5 of the TSOs' paper
[2] Page 6 TSOs' paper

Yours sincerely,

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Julie-Anne Hannon
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{By email}