Capacity Remuneration Mechanism

Detailed Design

Second Consultation Paper

SEM-15-014 Consultation

Gas Networks Ireland Response

8th February 2016

Introduction

Gas Networks Ireland (GNI) welcome the opportunity to respond to the second Capacity Remuneration Mechanism Detailed Design Consultation (SEM-15-014) as part of the I-SEM project.

GNI was incorporated on the 13th of January 2015 as a fully owned subsidiary of Ervia (formally known as Bord Gáis Éireann). 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 operated by GNI is an integral part of the national electricity system as it transports fuel to gas-fired power generation plants which provide a significant proportion of the electricity generated in Ireland (circa 45% in 2014). There are many interactions between the gas and electricity systems and gas fired power stations provide flexibility to the electricity system to facilitate the renewable energy on the system as part of Ireland's transition to a low carbon economy. 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.

CONSULTATION QUESTIONS:

<u>Section 3.7.1</u>

A) Do respondents agree that direct secondary trading of Reliability Options should be permitted?

Yes, GNI believe that direct secondary trading of Reliability Options would allow capacity providers to successfully manage their exposure to the risk of prolonged forced outage, coupled with the relaxation of the de-rated capacity restriction, direct secondary trading would maximise the incentive for plant to be available during times of system stress.

B) Should secondary trading of Reliability Options be via an organised secondary platform? If so, which one of the options is preferred?

Yes, GNI is in favour of a centralised market as this option will maximise transparency in the secondary trading of Reliability Options market.

C) Do respondents believe that "back-to-back" trading to lay-off exposure to difference payments should be permitted?

Yes, "back-to-back" trading should be permitted, but only if it is facilitated on a centralised trading platform.

D) With respect to the creation of a centralised Reliability Option secondary market platform:

II. Do respondents think that capacity providers should be allowed to acquire Reliability Option volume in excess of their de-rated capacity (plus the tolerance margin), and if yes, how the limit on Reliability Option volume for the net primary and secondary volume should be structured?

Yes, GNI is of the opinion that capacity providers should be allowed to acquire Reliability Option volumes in excess of their de-rated capacity as notwithstanding a forced outage, capacity providers will have knowledge in advance of the delivery date of planned maintenance which would affect the overall de-rating capacity of the plant on annual basis but may not be relevant for the period of cover in question.

III. What limits should be placed on secondary trading timeframes, including: the timing of secondary trade execution – how soon after the auction should they be allowed; and the length of the Reliability Option contract which can be traded?

Both standard and custom products should be available to be traded. Standard products would allow cover for the likes of standard maintenance outages, whilst custom products would allow the flexibility needed for capacity providers to respond to unforeseen circumstances.

<u>Section 4.7.1</u>

A) Principle of Longer Term Reliability Options:

I. Do respondents agree that plant requiring significant investment should be able to avail of longer term Reliability Options?

Yes, it is important that plant requiring significant investment should be able to avail of longer term Reliability Options.

II. Do respondents agree that existing plant should be restricted to reliability options with a term of 1 year?

Yes, reliability options with a one year term are reasonable for existing plant. However, if an existing plant has incurred investment to provide capacity then consideration should be given to allowing reliability options with a longer term than one year.

III. Do respondents believe that longer term Reliability Options should only be available to new-build plant, or should also be available to existing plant where significant investment is being made to enhance or maintain its capability to provide capacity?

Reliability Options should be available to new-build plant and to existing plant where investment is being made to ensure that the plant maintains its capability to provide capacity or that it is able to enhance its ability to provide capacity in the future.

B) Classification of plant as new, upgrade or existing

I. Do respondents have a view on which approach should be used to classify capacity providers as "new", "upgrade" or "existing"?

Having looked at the three options for classifying plant as 'new', 'upgrade' or 'existing', GNI believe that there is merit to option 1 (Cost Threshold) and option 2 (Tangible Facts).

II. Do respondents prefer the approach of classifying providers as "new", "upgrade" or "existing", please indicate your view of the criteria, evidence and thresholds that should be used to inform this classification.

Setting a reasonable cost threshold as per option 1 coupled with additional tangible information such as the amount of additional capacity being provided as per option 2 would be a simple, transparent and objective mechanism.

C) Maximum available Reliability Option lengths

I. Do respondents have a view on the appropriate maximum Reliability Option lengths that should be available to new-build and upgraded plant?

A standard maximum Reliability Option length of 15 years seems appropriate in terms of facilitating investment financing.

II. How do respondents view the Reliability Option lengths in relation to the five generic frameworks set out in this section?

Applying a generic economic life of 15 years to all new plant and 3 years for refurbished plant would seem appropriate from a financing perspective.

D) Do respondents favour the I-SEM Capacity Year running from October to September, with annual stop loss limits applying over that I-SEM Capacity Year?

GNI are in favour of the I-SEM Capacity Year running from October to September as it is in line with the gas year and are also in favour of annual stop loss limits applying over that I-SEM Capacity Year.

H) Is a period of four years from the Auction Date to the start of the first Delivery Year appropriate?

Yes, a period of four years from the Auction Date to the start of the first Delivery Year seems appropriate.

I) Does setting the Long Stop Date at 18 months after the start of the first Delivery Year strike the correct balance between the costs incurred by the market and the ability for delayed or longer-running capacity projects to be completed?

Yes, setting the Long Stop Date at 18 months after the start of the first Delivery Year strike seems to be appropriate and would provide a balance between the costs incurred by the market and the ability for delayed or longer-running capacity projects to be completed.

J) Are the proposed milestones reasonable?

Yes, GNI believe that the proposed milestones are reasonable but that they need to be reviewed regularly. GNI would suggest the insertion of a procurement and delivery milestone for the key equipment between the commencement of construction works milestone and the mechanical completion milestone.

M) Is six-monthly reporting appropriate?

Yes, GNI believe that six-monthly reporting is appropriate as it provides regular updates to the TSOs without being overly time consuming for the power plants.

N) Do any (or all) of the reports need to be independently verified?

Reports would not need to be independently verified if suitable checks are carried out by the SEM to enforce the possibility of terminating the Reliability Options if the information submitted as part of the qualification process is discovered to be false or misleading (see response to question T). All plants should be aware of the checks that the SEM will carry out on the information provided.

T) Should the I-SEM consider terminating Reliability Options if the information submitted as part of the qualification process is discovered to be false or misleading?

GNI believe that the I-SEM should consider terminating Reliability Options if the information submitted as part of the qualification process is discovered to be false or misleading as this would deter plants from submitting any false or misleading information.

(Z) Do you consider that the Time To First Delivery (/Time to LSD) proposed here for the CRM should also apply equally to the delivery of System Services under the DS3 arrangements? If you consider that the time (s) should be different, on what basis / what rationale should they differ?

Yes, there should be consistency between the Capacity Remuneration Mechanism and the DS3 arrangements.