



**Gas
Networks
Ireland**

**Capacity Remuneration Mechanism
Detailed Design**

Third Consultation Paper

SEM-16-010 Consultation

Gas Networks Ireland Response

27th April 2016

Introduction

Gas Networks Ireland (GNI) welcomes the opportunity to respond to the third Capacity Remuneration Mechanism Detailed Design Consultation (SEM-16-010) 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:

Section 3:

3.2.1 Do respondents agree with the proposed approach for transitional auctions, T-4 auctions and T-1 auctions? If not, please explain.

Gas Networks Ireland is in agreement with the proposed approach for transitional auctions, T-4 auctions and T-1 auctions.

3.2.2 What is respondents view in relation to the flexibility around the timing of the T-1 and T-4 auctions?

The flexibility of allowing six months either side of a four year period seems like a reasonable amount of flexibility for the T-4 auctions.

Section 5:

5.9.2 Which auction format (simple sealed bid, multiple round descending clock, combinatorial format, i.e. Option 1 to 3 in Section 5.2) do you think is most appropriate for the transitional auctions, T-4 and T-1 auctions, and why?

Gas Networks Ireland believes that option 1, sealed bid, is the most appropriate auction format for the transitional auctions, T-4 auctions and T-1 auctions due to its simplicity and the fact that it lowers the potential for market power abuse.

5.9.3 Do you have any preference for the structure of bids for the auctions? Explain your rationale.

Gas Networks Ireland believes that at the current time the most appropriate structure of bids for the auctions would be a price quantity pairing for each capacity market unit. A bidder would submit a price quantity pair per capacity market unit for that capacity delivery year. This would be most compatible with sealed bid auction format in terms of simplicity.

5.9.4 Do stakeholders agree with the proposed approach of adopting Option 3b to deal with the lumpiness/discrete bid problem? If not, please explain why not, and your preferred alternative approach.

Gas Networks Ireland agrees with the proposed approach for dealing with the lumpiness/discrete bid problem and believes that Option 3b, allowing the auctioneer to accept out of merit bids as long as the net consumer welfare is optimised, is an appropriate approach.

5.9.7 Winner determination. Do you agree with winners being determined purely on price offered for each Capacity Delivery Year?

Gas Networks Ireland agrees that winners should be determined purely on the price offered for each capacity delivery year.

5.9.12 What is the appropriate level of information to be provided: before qualification; between qualification and the auction start; between rounds in the case of a multiple round auction; and after the end of auction?

The information outlined in section 5.8.2, 5.8.5 and 5.8.9 of section on Information and Communication Policies in consultation document are appropriate for publication before qualification and between qualification and the start of the auction and at the end of the auction. It may also be appropriate to publish the results of the qualification process at an aggregated level as long as the level of detail is minimal i.e. without a detailed breakdown.

5.9.13 Are any additional restrictions on bidder communications (over and above existing competition law) required?

Gas Networks Ireland believes that the restrictions on bidder communications outlined in section 5.8.10 of the consultation document appear to be appropriate.

Section 6:

6.5.2 Do you have any comments on the overall scope / process of auction parameter setting outlined above?

Gas Networks Ireland believes that the overall scope is reasonable. The process of auction parameter setting is key to the success of the sloped demand curve and the process outlined seems appropriate.

6.5.4 If introduced, should the sloped demand curve be different for the transitional period?

It seems reasonable that the demand curve should be different for the transitional period if it allows for a smoother transition.

6.5.5 What impact do you think the sloped demand curve will have on competition?

Provided the parameters are correctly set, it is expected that the demand curve will reduce market power and have a positive impact on competition.

6.5.6 Do you agree with the requirement for an Auction Price Cap? What principles should be used to determine the level for the Auction Price Cap/what level should it be set at?

Gas Networks Ireland agrees that an Auction Price Cap is required and carefully calculated to ensure the demand curve has a positive impact on competition.

Section 7:

A) Do you agree on the proposed role of the TSOs with respect to the auctions?

Gas Networks Ireland agrees with the proposed role of the TSOs as the capacity remuneration mechanism delivery body as set out in section 7.5.1 of the consultation document and agrees that the TSOs' obligations should be monitored by the Auction Monitor and the Regulatory Authorities and the SEM committee.

B) Do you agree on the requirement for an Independent Auction Monitor and its proposed roles and responsibilities? If not, please specify what changes you would make? Should this role be combined with the role of SEM/I-SEM Market Auditor?

Gas Networks Ireland believes that it is very important to have an Independent Auction Monitor to ensure that the auctions are being carried out properly and that anti-competitive behaviour does not take place.

C) Do you agree with the SEM Committee's proposed approach to managing conflicts of interests in the Capacity Market Code? Are any other steps appropriate to ensure that any actual or perceived conflicts of interest are managed?

Gas Networks Ireland is supportive of the approach to managing conflicts of interest in the capacity market code that the SEM Committee has proposed and believes that this important for a well-functioning market.

D) Do you have any comments on the proposed auction governance arrangements?

Gas Networks Ireland believes that the auction governance arrangements that have been set out are appropriate. In addition, it believes that the role of the Independent Auction Monitor is an important one and that their 'independence' is critical to the success of the role.

Section 8:

A) Do you agree with the proposed approach to incorporating the carbon price into the Strike Price formula?

Gas Networks Ireland agrees with the proposed approach to incorporating the carbon price into the Strike Price formula

B) Do you agree with the approach of moving to a month-ahead index?

Gas Networks Ireland agrees with the approach of moving to a month-ahead index.

C) Do you agree that a reference thermal efficiency of around 15% is appropriate? If not, why not?

Yes, a thermal efficiency of around 15% seems reasonable.

D) Do you agree that the appropriate oil price is the Heavy Fuel Oil price?

Gas Network Ireland agrees that the relevant oil price to use in the Strike Price is the Heavy Fuel Oil price, not the Gasoil price.

E) Do you agree with the principles / criteria set out in Section 8.2.28, that the SEM Committee proposes to use to choose between data sources for fuel and carbon prices, exchange rates?

Gas Networks Ireland believes that the principles / criteria set out in Section 8.2.28 seem reasonable.