

**Bord Gáis Energy Response to
I-SEM Proposed Locational Capacity
Constraints Methodology**

Consultation Paper

(SEM -17- 027)

10th May 2017

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10th May 2017

Dear Lesley, Thomas,

Re: Proposed Locational Capacity Constraints Methodology Consultation Paper – SEM-17-027

Bord Gáis Energy (**BGE**) welcomes this opportunity to respond to the Consultation on the Proposed Locational Capacity Constraints Methodology Consultation. Although we understand the need to ensure adequate capacity on the system in locally constrained areas, we do not believe it should be a market issue resolved by market interventions. Instead, we believe that locally constrained areas should be system issues only, which should be resolved by making upgrades to the Transmission system.

Given our preference for resolving constraints, we believe the approach outlined in this Consultation is very narrow as it only considers what additional capacity is needed to satisfy the constraint requirement. It does not consider the merits of reinforcing the network to mitigate the constraint, which we believe would be more beneficial for consumers and the market in the longer term. At the very least, while local constraints are being managed through out-of-merit bilateral contracts, we believe the TSOs should be conducting cost-benefit analysis on the value of procuring this capacity and comparing it to the costs of upgrading the system over a longer term period. Ultimately we believe that it is in the best interests of the consumer that priority should be given to upgrading the Transmission system to mitigate any capacity constraints rather than relying on local Generators by providing them with bi-lateral out-of-market contracts which create inefficient high prices.

Notwithstanding the above, we are still concerned about the level of transparency in managing locational capacity constraints that this Consultation provides. While this Consultation deals with the methodology for how locational capacity constraints are to be determined, it does not discuss how the methodology will actually be applied in the market, which is extremely important for understanding market operation. For example, take a situation where it became evident after the results of a capacity auction that a locally constrained area was short by 100MW (de-rated capacity) and therefore required out-of-merit units in that area to provide the shortfall. If the only available Generator had a de-rated capacity of 200MW, it is unclear whether the TSOs would procure its full 200MW or only procure the required 100MW to meet the constraint. In the interests of minimising market distortions and consumer costs, we believe the TSOs should only procure the absolute minimum level of out-of-merit capacity needed to meet/ satisfy locational constraints.

In summary, we believe a document that details the process of identifying and managing locational constraints, from start to finish would be extremely useful for providing transparency in out-of-merit contracts and helping market participants better understand market operation. Such a document could begin with the methodology as outlined in this Consultation, and then extend to detail how the constraints will be applied to the market and how they will be satisfied.

I hope you find the above comments useful for finalising the methodology for capacity constraints. We provide more detail to the specific questions in the Appendix below. If you have any queries or questions, please do not hesitate to contact me at anytime.

Best regards,

Brian Larkin

Regulatory Affairs - Commercial
Bord Gáis Energy

{By e-mail}

Appendix – Feedback to Consultation

The SEM Committee welcomes views on all aspects of the methodology proposed in Appendix A and the appropriate use of existing tools and standards to develop the proposed framework.

While we believe the approach proposed by the TSOs in Appendix A is appropriate for identifying locational constraints, it does not detail how the constraints will be applied in the market, which we believe is extremely important for market transparency. For example, take a situation where it became evident after the results of a capacity auction that a locally constrained area was short by 100MW (de-rated capacity) and therefore required out-of-merit units in that area to provide the shortfall. If the only available Generator had a de-rated capacity of 200MW, it is unclear whether the TSOs would procure its full 200MW or only procure the required 100MW to meet the constraint. In the interests of minimising market distortions and consumer costs, we believe the TSOs should only procure the absolute minimum level of out-of-merit capacity needed to meet/ satisfy locational constraints. We believe a document that details the process of identifying and managing locational constraints, from start to finish would be extremely useful for providing transparency in out-of-merit contracts and helping market participants better understand market operation. Such a document could begin with the methodology as outlined in this Consultation, and then extend to detail how the constraints will be applied to the market and how they will be satisfied.

We also have comments on some of the inputs used in determining locational constraints which we discuss below.

Demand forecasts

We believe demand forecasts should be based off the applicable Delivery Year, i.e. 2018/19 and not 2021/22. Although the capacity requirement uses 2021/22 demand forecasts, it would be inappropriate to contract for additional out of market capacity for meeting locational constraints that may exist in 2021/22 but not in 2018/19. Such an example is testament to why we believe the TSOs should in the least be conducting cost-benefit analysis on the value of procuring additional out-of-merit capacity and comparing it with the costs of reinforcing/ upgrading the Transmission system.

Network forecasts

We believe that network forecasts for a T-4 auction should be reflective of the expected network in its respective Delivery Year. In any event, if these network developments are delayed/ postponed and the TSOs need to procure additional MWs as a result, they would use the T-1 auction to do so and ensure system security is appropriately managed. However, we also understand there may be a need to take safety in network forecasting. From this perspective, it may be more appropriate to only consider ongoing projects that will be completed well in advance of the T-4 Delivery Year and to ignore proposed projects that are yet to begin.

The Committee would particularly want to receive evidence supporting any alternative to the methodology proposed, where possible supported by quantitative analysis.

See comments above.

The SEM Committee also welcomes views on the proposed changes in Appendix B.

No comment.