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2nd August 2017

RE: Imperfections Charge, October 2017- September 2018 and Incentive Outturn October 2015- September 2016, Consultation Paper, SEM-17-045

Dear Billy,

Bord Gais Energy (“**BGE**”) submits this response in reply to the Consultation on the Imperfections Charge, October 2017- September 2018 and Incentive Outturn October 2015- September 2016 (“the Consultation”).

BGE is very concerned about the proposed large step change and increase in the Imperfections Charge tariff of 148.3% as compared to the 2016-2017 tariff. This proposal occurs at a time when significant increases are also being applied to the PSO levy and increases are anticipated in electricity TUoS and DUoS charges. Given the negative impact these charges will have on end consumer prices, BGE urges the Regulatory Authorities (“**RAs**”) to consider mitigating such increases insofar as possible going forward. In this regard, and in the context of this Consultation, BGE outlines below (i) elements of the proposed Imperfections’ tariff inputs that we agree with; (ii) other elements that we believe could receive further RA consideration; and (iii) the need for a mid-term review of Imperfections such that suppliers have early sight of and may pre-empt possible step changes (without making mid-year tariff changes). Given the approximately 50% decrease in Imperfections tariffs last year, and the proposed 148.3% increase this year BGE submits that it is critical that a mid term review occurs during the 2017-2018 tariff year to mitigate the effect of such tariff swings.

With regard to the 2017-2018 Forecast, BGE believes that the proposed TSO forecast of €213.6m is an unacceptably high figure. We support the RAs’ proposals to remove: provision for the interconnector ramp disparity forecast; the NI Gas Product Charges forecast; and the SONI Debt Replacement forecast. The rationale provided by the RAs sufficiently justifies the exclusion of such forecasts in our opinion.

BGE also supports the zero forecasts for Uninstructed Imbalances, test charges and the OSC charges for the reasons outlined in the Consultation. The use of actual data to calculate Make Whole Payments is considered pragmatic given it is conducive to determining the actual costs of keeping market participants whole as between production costs and energy payments.

There are however other aspects covered in the Consultation that BGE believes could be given further consideration by the RAs with a view to reducing the proposed Imperfections tariff. These include:

- i. The LNAF: the decision has been made to apply an LNAF of zero from I-SEM go-live. The €2.92m provision for this in the TSOs’ submission should therefore be removed;
- ii. Delays and overruns of outages: In the TSOs’ paper accompanying the Consultation, they refer to “risk factors”. Reference is made to a significant programme of capital works scheduled which is resulting in increased Dispatch Balancing Costs (**DBC**s). The TSOs refer to a desktop study that they carried out to indicate transmission outages and which included the “most onerous” outages from a DBC perspective in PLEXOS. BGE understands that there may be such delays outside the TSOs’ control but urges the RAs to encourage minimisation of these delays wherever the TSOs have influence. Moreover, BGE believes that further consideration could be given by the RAs to the use of the “most onerous” outages in the DBCs. The use of the most onerous outages implies that

the worst case scenario, cost wise, is included in DBCs. Reasonable consideration to including less onerous outages should arguably occur rather than utilising the most onerous outages and relying on an ex-post review to make any necessary adjustments;

- iii. Interconnector flows: reference is also made in the TSOs' paper to the use of January and February 2017 data for estimating interconnector flows. The TSOs note they will re-forecast these flows during the tariff year if deviations as compared to MIUNs arise. BGE would welcome further insight to the expected effect of such a re-forecast if it arises – could it affect tariffs mid year? We urge the RAs to re-consider whether more accurate flows could be determined based on a longer time period (more than two months) in order to mitigate against mid year re-forecasts and tariff change impacts. BGE is not in favour of mid year tariff changes given the uncertainty this raises from a supplier and consumer pricing perspective;
- iv. The TSOs also reference, in their paper, the use of a high forecast connection rate for wind. BGE would welcome confirmation as to whether this assumption is based on past connections and whether it is a reasonable or overly ambitious assumption to include in the Imperfection charge forecast. The most reasonable assumption possible should be applied.

Finally, with regard to the application of incentives, BGE is a strong advocate for incentives that maximise cost efficiencies and, in terms of imperfections, minimise DBCs. We support the application of ex-post refinements to the baseline against which an assessment of whether, and what level of, incentives are payable. Critically however, BGE has considerable concerns with the proposal that there may not be an incentive mechanism in place for the first year of I-SEM. This is particularly concerning from a DBC perspective as we move into the new I-SEM arrangements. DBCs, as recognised in the Consultation, are the main contributor to Imperfection Charges. The 2017-2018 DBC forecasts are made up entirely by constraint payments. The TSOs note that moving into I-SEM there are many uncertainties, including in the area of dispatch considering the change in approach to dispatch scheduling in I-SEM as compared to SEM. BGE had understood that a consultation would be forthcoming this summer on system operator incentives and we have strong views in this regard. We urge consideration of the need for incentives in I-SEM from go-live, at least from a DBC perspective. Given that the LNAF value has been set to zero from go-live, additional incentives are believed to be necessary to ensure that early energy actions are minimised insofar as possible. BGE is of the view that a DBC incentive will have a critical role to play in this regard.

In conclusion, BGE is concerned at the large step change increase in Imperfections tariffs this year as compared to last year's decrease. Unpredictable and unforeseen large changes are unacceptable from a supplier and consumer perspective. We urge the RAs to consider the elements of the proposals we suggest could be subject to further review above. We further urge the RAs to consider the need for: (i) a mid-year review of the status of Imperfections charges, with industry participation, in order to ensure reasonable assumptions are applied and to mitigate against drastic tariff increases. A mid-year tariff change is not however supported given the uncertainty this raises for suppliers and consumers alike; and (ii) an incentive regime to apply from I-SEM go-live considering that constraint costs are a major component of the tariff and their continued monitoring, and incentivisation of the TSOs to minimise these, are critical to avoid another large unforeseen increase next year.

I hope that you find the above comments and suggestions helpful. Please do not hesitate to contact me should you wish to discuss further.

Yours sincerely,

Julie-Anne Hannon
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Bord Gais Energy

{By email}