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21st July 2021

RE: Discussion Paper and Call for Evidence on Scarcity Pricing and Demand Response in the SEM, SEM-21-042

Dear Gina and Kevin,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this Discussion Paper and Call for Evidence on Scarcity Pricing and Demand Response in SEM (**the 'paper'**).

The stated focus of this paper is on identifying measures, particularly from a demand side response perspective, that can be implemented on an interim basis for Winter 2021/22 to help with the security of supply situation. BGE's view is that if any of the measures discussed, aside from advanced notice of amber alerts, are adopted now it will significantly undermine existing and future investor confidence in SEM at a time when considerable investment in new capacity is required. The Regulatory Authorities (**RAs**) also state that some changes could be applied on an enduring basis, albeit following further consultation, which further heightens investor ambiguity. It is widely recognised that SEM faces a security of supply issue today and for the foreseeable future. Adopting interim security of supply driven measures that will in parallel undermine investor confidence should be avoided. We outline on page two of this response and in our conclusion some suggestions on possible ways forward. We do however ask the Regulatory Authorities (**RAs**) not to progress any of the measures around administered scarcity pricing (**ASP**) or demand side response outlined in this paper given:

- i. The recent announcement,¹ since this paper issued, of a 200MW contract with a Dublin based site which should greatly alleviate immediate security of supply concerns in 2021/2022.
- ii. The need to avoid taking short term measures for a perceived short term 'fix' to security of supply when the measures could have detrimental longer-term impacts on regulatory certainty and consequentially on investor confidence at a time when investment in considerable generation capacity is required. The next T-3 and T-4 capacity auctions in SEM are scheduled to occur over the next 9 months – any considerable changes to market design now with possible negative connotations for bidding into these auctions should be avoided.
- iii. Making changes to better align reserve scarcity pricing (**RSP**) with system alerts or altering administered scarcity pricing (**ASP**) price points would not necessarily result in the perceived benefit of better incentivising delivery during scarcity. If DSUs are not reacting as expected or required under contract, re-consideration should be given to performance testing DSUs to address their lack of response.
- iv. Recognition in the paper that changes around reserve scarcity pricing (**RSP**) may be limited by the ability of market systems to systemise these changes. The TSO's and market operator's time this year and next year should be spent focusing on more core market design issues such as the integration of renewables in markets, the future system services arrangements, interconnector trading and how the market and related systems can cater / need to be replaced if necessary, to interact with European balancing platforms.
- v. The proposed direction by the CRU to EirGrid regarding the connection of data centres which we understand the majority, if not all, of industry supported which should also help alleviate short-term security of supply concerns too.

The paper's suggestions, while stated to have short term application, will have the effect of undermining investor confidence at a time when confidence in the market and regulatory certainty is necessary if generation adequacy is to materialise by 2024/25. We understand the short-term security of

¹ <https://www.irishtimes.com/news/ireland/irish-news/electricity-supply-concerns-spark-emergency-plans-for-dublin-1.4608199>

supply concerns that the RAs and indeed industry have for 2021/2022. The RAs ask for ideas on *alternative delivery incentives* during times of system stress which could be implemented in the short term and suggest changes around the trigger for, and level of, prices on the reserve scarcity pricing curve. It appears to us that a key driver for the RAs' suggestions is that during times of system stress units are not delivering. Theoretically if prices were sharper one would expect response to scarcity signals would be higher. However, from the generation capacity perspective, if the generation capacity is not there it cannot respond to price signals no matter how they are altered. If the concern however is that capacity is available but not responding to the RO payback signals when they could this is a matter that needs separate consideration, but we have not seen evidence of this. We urge the RAs to consider undue impact on existing units and on the confidence of all types of investors to invest in generation or demand capacity at a time when signals to invest in capacity adequacy are critical, before making decisions pursuant to this paper. If the maximum value of full ASP was set to a higher percentage of the value of lost load (VoLL) at this point in time for example it would further heighten investor ambiguity given that VoLL is expected to be revised in SEM later this year. We ask too that the matter of the level of VoLL as between the balancing market and capacity market is considered more fully in the context of the wider consultation on VoLL in SEM expected to issue later this year. Overall, the proposals do not bode well for the investor foresight and predictability needed for upcoming capacity auctions.

If a key problem here is the lack of demand side response at times of system stress, we suggest that the RAs look at applying existing levers e.g. performance testing, to address the issue.

To enhance the volume of demand side response that is there and willing to react to system stress and alleviate scarcity issues we suggest that steps are taken to minimise the barriers of demand sites switching between DSU providers. Once a demand site has been tested and is assessed by the TSO as qualified to participate in a particular DSU provider, if that site then seeks to switch to another DSU provider (which provider has itself been tested and qualifies to provide system services for example) minimal if any 'retesting' of the site should be required. This in our view is an existing hurdle to increasing competition in demand side response, and thus to the level of performance and response across competing DSUs, that could be mitigated in the short-term.

The consultation on the enduring solution for DSU energy-revenues should be brought forward. The risk to investor confidence of changing RO strike price levels and reserve scarcity pricing curve points heavily outweighs any immediate perceived benefit to DSUs of making such price changes. We do believe however that there is merit in considering how to enhance the scope of DSU energy-revenue earnings and we request that the consultation on the enduring solution for DSU energy-revenues is brought forward.

Regarding implicit demand response, different suppliers have different risk appetites and capabilities to partake in the type of activity discussed. We are not currently aware of barriers to this type of trading by suppliers.

We do support the prospect of providing more notice to market participants of when Amber Alerts may be expected to occur and have suggestions on this. Where there is any scope for a generator and/ or supplier and/ or DSU to react to amber alerts, advance notice of amber alert periods would maximise that scope. We would welcome further consideration of the UK example where information on the Loss of Load Probability (LoLP) and De-Rated Margin (DRM) is published a day in advance, which provides an information signal for periods of tight margin. What would complement the UK type approach is publication too of wind power forecasts and confidence intervals.

We believe the discussion and related proposals conflict with the intention of the legal provisions referenced in the paper. The relevant legislation is outlined on pages 6 and 7 of the paper. Amongst the legislative provisions are the option to settle dispatched "*resources in the strategic reserve*" at least at the value of lost load (VoLL) or a higher (referenceable) value and the need to consider scarcity pricing in the balancing market prior to adopting a capacity mechanism. Our views on these legislative provisions are that:

- i. The SEM capacity mechanism is not a "*strategic reserve*" as the term is understood in a capacity market sense.
- ii. While scarcity pricing can have an influential role to play in incentivising real-time delivery the interlinkages between capacity mechanisms and scarcity pricing, where they exist, need to be carefully considered to mitigate undue implications for existing and future investments. In the context of this second point, we believe the Commission's view on Ireland's and Northern Ireland's recently submitted implementation plans² is particularly pertinent. In their view on scarcity pricing mechanisms in SEM the Commission noted that the mechanism should be well designed so that '*it does not only provide*

² Pursuant to Article 20(5) of the new Electricity Regulation under the CEP (Regulation 2019/943)

*incentives for short term flexibility but also sends appropriate signals for investments to maintain system adequacy.*³ Changing the scarcity pricing signals / RSP curve in SEM at this point in time, especially to fix an immediate issue that can be managed in other ways,⁴ does not send appropriate signals for investments to maintain system adequacy. The paper's proposals conflict with the Commission's view on the role of scarcity pricing and signals for system adequacy in our view considering the longer-term security of supply risk in Ireland.

In conclusion, BGE does not agree there is an immediate security of supply benefit to be gained from aligning ASP triggers with amber alerts or from altering the price points on the ASP/ RSP price curve. The problem at issue seems to be mainly a lack of demand side response during scarcity. That lack of demand-side response could be addressed in different ways, e.g. performance testing. The negative knock-on impacts of the paper's suggestions on existing investors holding RO contracts and consequential negative impacts for future investment confidence need significant consideration before taking next steps on this paper in our view. If the generation does not exist, it cannot respond better to scarcity signals. Thus, decisions taken at this juncture should be such that it will not impact the generation needed to support security of supply materialising. If the RAs see that generators are however available but are not actually responding, then this is a different problem that needs to be addressed but we have not seen evidence that this is the case. The RAs outline in their paper that they are continuing to work with the TSOs to investigate all possible options to manage the expected tight margins. Since the paper issued, the market has been notified of the 200MW contract with a Dublin-based site. This Dublin contract should considerably alleviate immediate security of supply concerns together with our suggestions around DSU performance monitoring and resolving the scope for DSUs to earn energy revenues as early as possible. Advance notice of amber alerts as per our suggestions above would simultaneously help maximise any existing scope to respond to amber alerts and higher prices in our view. Ultimately, as this decade will see large demand increases and older thermal units exit the SEM, the focus on decisions made in the very short-term should be such that longer-term investor confidence is not undermined. In the next steps on this paper, BGE requests further insights on the quantum of the security of supply concern that persists after the contribution of the 200MW Winter capacity contract is taken into consideration.

I hope you find the above views and suggestions clear and helpful. Please do not hesitate to contact me on any aspect above or related matters.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

³ Emphasis added

⁴ E.g. performance assessment