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3rd December 2021

RE: TSO PR5 Imperfections & Constraints Multi-Year Plan 2022-2026

Dear consultation team,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this consultation on PR5 imperfections and constraints Multi Year Plan (**MYP**) 2022-2026.

1. BGE's key ask

BGE believes that the proposed MYP falls short of the extent of information that the CRU's PR5 decision¹ on this incentive envisaged the TSOs would provide in this MYP to enable effective annual assessments around improving constraints on the system and related imperfections. Without this information an annual assessment via the balanced scorecard approach will not be effective given the baseline against which the effectiveness of actions is assessed has not been determined. **We therefore ask that the baseline against which annual assessments are to be measured are determined as soon as possible and for 2022. At the very least, we need to understand what the total number of constraints on the system are, their drivers and what the costs related to each constraint are and the expected reduction in imperfection costs from measures planned by the TSO** – these cannot be set in hindsight at the point when the TSO is reporting on their annual actions and their effectiveness.

To recap briefly the PR5 decision outlines that the intention of the incentive is to reward actions that reduce the cost of constraints on the system. Though the CRU recognises that other factors outside constraints affect imperfection costs, which is why a balanced scorecard approach is being used to assess performance, the CRU's decision clearly requires that the TSO identifies constraints that are in place for longer than 12 months and sets out:

- i. the technical scarcity that is causing the constraint;
- ii. the estimated annual cost of the constraint;
- iii. the options considered to remove the constraint, at least including, market-based measures; infrastructure-based measures; and operational-based measures;
- iv. the TSO's plan to remove the constraint (if the TSO considers it is not economic to resolve the constraint the CBA should be included).

Insights under point (ii) in particular (*'the estimated annual cost of the constraint'*) are important to understand as soon as possible from a market participant and end consumer perspective. We ask that these insights are provided early in 2022. Quantifying the cost of constraints and the likely reduction in imperfection costs if certain constraints are tackled would help determine which plans– be they grid development or operational – should be the focus of the TSO pursuant to this incentive. If the quantification of constraint costs and likely imperfection cost reductions of alleviating particular constraints is not set at the outset, then the usefulness of this incentive is undermined. Furthermore, as part of the TSO's annual report the CRU expects the TSO to include for example information on the number of constraints that are on the system and how many were removed in the last year and the total cost of imperfections relative to the expected cost of imperfections for that year. These insights are not something that should be baselined in hindsight at the end of 2022 – they need to be set before 2022 (and

¹ CRU/20/154

2023, 2024) to ensure the incentive is achieving its core objective.² We therefore ask that the MYP is revised to include the information under points i-iv above so the baseline for assessment is set appropriately.

2. Why insights on constraints, their drivers, costs and plans to alleviate these are urgent

The TSO can no longer work on the basis that security of supply, constraints and negative market implications (financial flows and consumer cost impacts) are unrelated. Our view is that fixing constraints will lead to more efficient markets, lower consumer costs and overall better enable investor signals to materialise which in turn helps the TSO with its security of supply objective.

The urgency for which we need to understand these constraints issues and costs with a view to ensuring appropriate plans are put in place to mitigate them is driven by the market inefficiencies which have come increasingly to the fore in the last year. The negative impacts of grid constraints on market outcomes undermines the efficiency of markets with knock-on impacts for consumer costs, investment decisions and thus security of supply. For example:

- a. Due to constraints, non-energy actions under the flagging and tagging process in the energy balancing market (BM):
 - are polluting the BM price leading to higher prices for consumers;
 - are diluting the signal for investment in the grid (by not being appropriately reflected in dispatch balancing costs) leading to an incomplete view of grid development/ operational process change needs, and;
 - mean the BM price is not suitably forecastable which undermines investor signals overall.
- b. In the capacity market, constraints have led to locational constraint areas resulting in auction outcomes where new and existing investors often obtain pay-as-bid prices. Results that lead to more pay as bid than pay as clear price outcomes effectively dampen price signals for new investors and the viability of existing business cases. These signals are needed in the near term to allow competition to flourish and ultimately lead to more competitive prices for consumers.
- c. In DS3, locational scarcity scalars for certain DS3 products in Dublin alone give arbitrary investment signals which gives these units competitive advantages when bidding into ex ante markets. Constraint driven DS3 solutions thus have cross-market distortive impacts which undermines investment cases.
- d. The recent security of supply programme of actions paper from the CRU³ outlines the need for tenders for emergency short term generation of up to 650MW. While details around locations are still lacking, our understanding is that the focus will be on Dublin-based capacity due to constraints limiting capacity from outside Dublin meeting demand and grid services needs within Dublin. In effect the competition for these tenders will be limited as a result of ongoing, and in most cases long-standing, constraints in the Dublin area. Overall costs for consumers increase on the back of such measures at least in the short-medium term.

3. BGE views on the 3 areas the TSO proposes to focus for this incentive

With regard to the three specific measures the TSO does outline as its plan to address this incentive, BGE's views are as follows:

1. **Reserve policy:** the TSOs state that the ongoing review of reserve policy in 2022-2024 will enable the TSO to determine whether new technologies' contributions to reserve policy can enable the relaxation of Transmission Constraint Groups (TCGs) associated with reserve and over time reduce costs and allow increased renewables online. We see that this is a core part of the TSO role however and falls within business-as-usual processes. We suggest that the 25% share of the incentive would be better assigned to identifying and quantifying constraints as envisaged under PR5 and outlined in section 1 above.
2. **Transmission Constraint Group reviews:** we accept the role that reducing the minimum number of large synchronous units on the system from 8 to 7 and reducing the inertia floor from 23,000 to 20,000 MWs may be able to play in alleviating TCGs but would welcome more insight on the actual constraints that are being targeted and the expected benefit in terms of reduced imperfection costs. We agree that the Moneypoint synchronous condenser and Ballyvouskill reactor will help alleviate the TCGs. The Ballyvouskill Reactor should help constraints (voltage in SW) particularly during low wind in summer but it

² This is the case given that the balanced scorecard annual assessment is to include an assessment of the TSO's performance in "reducing the total number and costs of constraints" on the system and the effectiveness of any "interim measures" taken where enduring solutions have a long lead time.

³ CRU/21/115

is unclear as to how the Reactor will be procured and whether its revenues will be payable under DS3 or not. We ask for transparency around this. We would also welcome confirmation that use of the Reactor, given as we understand it is in ESBN's ownership, will not undermine the development of competitive procurement of the service the reactor is providing in the longer term. It may be necessary in this regard to ensure that the contractual arrangements applicable to the reactor consider the option to allow prospective new providers of the voltage service being provided by the reactor, to come on in its place during PR5 as that may be the more competitive outcome for consumers.

3. **Imperfection costs reports:** BGE supports this proposed idea of increasing accessibility to Imperfection Cost Reports but we believe it should be happening as a matter of business as usual and that the % incentive revenue should be re-assigned. Furthermore, we note that the TSO believes it is difficult to indicate what the final improvements will be and that they will report on those in future updates which does not establish an appropriate baseline against which an ex-post assessment of performance can occur. Nor is it clear as to how the effectiveness of this proposed increased accessibility will be measured – for example would questionnaires be issued to all stakeholders to assess “user experience”? We ask that this enhanced transparency in imperfection costs workstream is taken on as a business as usual item. In enhancing this transparency, with a view to enabling the market to help mitigate imperfection costs, we also ask that better day to day reporting occurs on matters including:

- unit availability, and
- the likelihood of constraints becoming binding ahead of time,, and
- the TSO view on generation capacity margins much further in advance than they currently are reported. This in particular will enable market participants to better position themselves to meet their reliability option obligations. Current reports of amber alerts are too ad-hoc in their timing. Furthermore, alerts are not sufficiently detailed as ‘alerts’ at present currently only indicate the system is somewhere in the amber state.

Ultimately, we believe that the TSO should be providing access to these imperfection costs improvements and the above reports as a matter of business as usual and that the proposed 25% of the incentive weighting assigned to this third area (in addition to area 1) would be better focused on rewarding the TSO for providing the data around numbers and quantitative impacts of constraints as decided upon in the PR5 decision and outlined in section 1 above.

4. Conclusion

In conclusion, of the three areas being focused on in the consultation we believe that the work around the transmission constraints groups has the most merit in terms of being incentivised. The other two areas – reserves policy and access to imperfection costs – we see more as issues that should be considered “business as usual”. They are however important BAU issues, and we do ask that they be applied during PR5. Ultimately however at least 50% of the incentive and the focus in terms of next steps in our view should be on ensuring that the TSO gets the baseline for this incentive correct. Getting the baseline correct and in line with the PR5 decision in our view requires determination of what constraints are most negatively impacting the market, the imperfections costs correlated to those constraints and the actual measures that are to be taken over the course of PR5 to mitigate these steps by 2022. Please see section 1 regarding this key ask.

There is arguably some overlap between this incentive and the investment planning and development (IP&D) incentive but unfortunately we are not seeing the work on constraints and plans to mitigate them arising pursuant to the IP&D incentive either.⁴ We therefore ask that the work around identifying constraints and where most efforts should be focused in terms of alleviating those constraints, urgently starts to materialise under this imperfections and constraints incentive. Choosing plans that focus on alleviating priority constraints will lead to more efficient markets, lower consumer costs and overall better enable investor signals to materialise which in turn helps the TSO with its security of supply objective. Ideally the TSO would work with the DSO and incorporate a view on constraint areas on both the transmission and distribution system.

Given the Dublin centric market inefficiencies outlined in section 2 above, determining the range of constraints cost information for Dublin in the first instance would be beneficial. Consideration should also be given to constraints around the Greenlink interconnector and the Celtic interconnector areas and how they can be improved (or mitigated against) during the PR5 period. As it stands in the Cork area for example, the area is already very heavily constrained and can objectively be expected to get much worse when Greenlink connects.

⁴ Please see BGE's response to the IP&D incentive submitted on 26th November 2021 for our views on that incentive

Similarly the area is likely to be further negatively constrained when the Celtic interconnector connects. BGE has not seen any plans to date in the Transmission Development Plan or otherwise that would appease our concerns about this Cork constraint getting worse. Given Greenlink is expected to be connected during the PR5 period and Celtic very early in PR6 we ask that urgent consideration be given to these constraint areas and that plans are put in place around the alleviation of these bottlenecks and knock on negative consumer impacts which include imperfection costs. Determining the level of constraints information and the range of insights PR5 requires as per points i-iv of Section 1 above would also help with providing locational investment signals on the grid for prospective investors and ultimately contribute to making optimum use of the grid.

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

Yours faithfully,

Julie-Anne Hannon
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Bord Gáis Energy

{By email}