



Energy for
generations

A decorative wavy line that starts as a dark blue curve on the left, rises to a peak in the middle, and then descends to a yellow curve on the right.

Generation & Wholesale Markets

Response to:

**ACER Public Consultation on Incremental Capacity Proposal and further
NC CAM amendments - PC_2015_G_05**

ESB Generation and Wholesale Markets (GWM) welcomes the opportunity to respond to the ACERs Public Consultation on the Incremental Capacity Proposal and further NC CAM amendments.

The focus of this response is to highlight ESB GWM's concerns that the proposals in this Regulation, with regard to the annual and quarterly capacity auctions, will significantly impact the flexibility needed for power generators in the Irish electricity market. These risks and costs will only increase as European Member States continue on the path of increasing intermittent generation as a result of their renewable energy obligations. We have also set out of number of issues with regard to the impact that these changes will have on the retail market in Ireland. Ultimately these changes will reduce the liquidity in both the wholesale and retail market leading to a greater risk exposure and potentially higher costs to the consumer – all of which we assume is not the intent of the design changes.

As requested we set out our response by directly addressing the questions posed by the consultation.

Should you have any queries in relation to this response please do not hesitate to contact me.

Yours sincerely,



Regulation Analyst
ESB GWM Strategy & Regulation

- 1. Do you support the changes suggested by the Agency on Incremental Capacity (new chapter IVa and related articles)? If not, please list which new or amended articles you disagree with and explain why.**

ESB GWM does not have any comments with regard to the changes on Incremental Capacity.

- 2. Do you support ENTSOG's envisaged proposals to change the default auction calendar in relation to the discussions on the draft Network Code on Tariffs (i.e. to move the annual yearly capacity auctions from March to July, the annual quarterly auctions from June to August and the rolling monthly auctions' start from the third to the second Monday of each month)? If not, please explain why.**

ESB GWM agrees with the proposed change to move the yearly capacity auctions from March to July for annual yearly capacity auctions and from June to August for the annual quarterly auctions as it allows participants to have improved forecasts of their expected gas requirements.

However these proposals only allow for one auction to be held each year for annual and quarterly capacity. This is a significant departure from the current annual capacity booking process in the Republic of Ireland (ROI). Currently shippers in ROI have the ability to book rolling annual capacity at monthly intervals. Given the relatively small electricity system in ROI and given that it is a central dispatch market, gas fired power stations do not know what requirements the system operator will place on them over an annual period. The monthly annual capacity booking process gives shippers the necessary flexibility required for operational and economical efficiency within the electricity market (SEM) as it allows annual bookings to be staggered through time until it becomes apparent what the requirements on power generators will be.

Hence, having only one yearly auction for the Gas Year period and one quarterly auction per year will tend to push generators to purchase capacity on a short-term basis. This will be further exacerbated into the future as the requirements on gas-fired generation due to renewable intermittency will only increase the need for flexibility in these products.

Furthermore such flexibility should not be removed in a traded market since these capacity booking arrangements lend themselves to an open and competitive retail market where both I&C and residential gas customers can switch between gas suppliers. The removal of the current annual booking system towards a system where annual product can be booked only once a year for the duration of the Gas Year will be detrimental to consumers ability to switch suppliers, since suppliers may not wish to offer changing tariffs or be able to accommodate a changing volume of customer demand. It will also push all contracting to take place at one time, in line with the capacity auction timing (so that suppliers can secure capacity and know its cost), which in the past was shown in several markets to have an upward effect on wholesale traded prices in the tender window. In ROI and several other markets, I&C customers have contract starts spread throughout the year; this change will be a barrier to

entry and switching – and an advantage to the incumbent supplier once annual auctions are fixed to a single date and for the sole period of the Gas Year.

As an example annual capacity bookings will be made in July for retail contracts that start in October. A potential scenario could be an expectation of a number of large tenders with a 1st October start and hence purchases are made in July to obtain the capacity required to supply all of these potential tenders. Then, if for a number of different reasons, this new business is not realised, the supplier has over purchased capacity and is left with this cost. This arrangement makes it very difficult to target new business for any shipper unless they are willing to risk purchasing capacity that may not be used. While the cost of short term products is unknown at this juncture there is a reasonable expectation that they will be more expensive than the annual costs which will further exacerbate the issue.

In conclusion, ESB GWM is of the opinion that the annual capacity booking process for CAM is not suitable, and specifically not for a small market such as ROI.

Lastly, ESB GWM notes that paragraph 4 of Article 11 of this proposed Regulation states that *'Annual yearly capacity auctions shall start on the first Monday of July each year unless otherwise specified in the auction calendar.'* The end of this paragraph appears to allow for changes in the timing of the annual auctions. Clarity around the criteria for specifying a time other than July in the auction calendar would be welcome.

- 3. Do you support the further technical changes introduced (e.g. on the auction algorithms (Art. 17 (16) and Art. 18 (3d) & (9)); on the bundling of existing capacity (Art. 20(1); on the allocation of interruptible services (Art. 21(9)) etc.? If not, please list which amended articles you disagree with and explain why.**

ESB GWM does not have any comments with regard to these proposed changes.

- 4. Do you have any other comments related to the proposed NC CAM, changes, and if so which?**

ESB GWM does not have any further comments.