Energy for generations

ESB Generation and Trading's Response to Short Term Exit Capacity Consultation

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Contents

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1. EXECUTIVE SUMMARY

ESB Generation and Trading (GT) welcomes the opportunity to respond to the consultation on short term exit capacity for gas transmission in Northern Ireland.

ESB GT supports the introduction of short exit capacity products. We believe the introduction of short term exit products is an important step to support a level playing field across the SEM market and increase the flexibility provided to fired generation by the gas capacity arrangements.

The introduction of short term exit capacity products will help to promote the security of supply in the electricity system in Northern Ireland as it will support the ability of new generation projects to come forward on a more equal footing with new generation projects in Ireland.

Given the target to achieve 80% RES-E by 2030, the role of conventional generation is fundamental changing towards facilitating the integration of renewable generation by acting as a back-up when renewable resource availability is low. This will increasingly see the utilisation factors for conventional generation fall. The introduction of short term exit capacity products will allow conventional generation to align their booking of exit capacity with their running profile.

ESB GT believes that there is a need to increasingly consider the interactions between the electricity and gas markets in Northern Ireland. Building understanding of the system capabilities and limitations across electricity and gas will support the secure operation of both systems through the decarbonisation transition.

2. ANSWERS TO CONSULTATION QUESTIONS

Merits of introducing short term exist capacity products.

Do Respondents consider that short term exit capacity products should be introduced? Please explain the reasons for your view and provide supporting evidence.

ESB GT supports the introduction of short exit capacity products. We believe the introduction of short term exit capacity products will support a level playing field across the SEM. Currently, gas fired generators in NI are unable to access to a suite of regulated products that are available in Ireland. This has established a discriminatory signal for generators in Northern Ireland as an unintended consequence of regulatory decisions. ESB GT recognises that gas network costs differ between Northern Ireland and Ireland and so gas capacity products in both jurisdictions will be priced differently

(as is the case with annual capacity products currently). The absence of the availability of short term exit capacity products has created an unequal playing field for Northern Irish generators.

The introduction of short term exit product will help to promote the security of supply in the electricity system in Northern Ireland as it will support the ability of new generation projects to come forward on a more equal footing with new generation project in Ireland.

Further, in the context of the target to achieve 80% RES-E by 2030 the role of conventional generation is fundamental changing towards facilitating the integration of renewable generation by acting as a back-up when renewable resource availability is low. This will increasingly see the utilisation factors for conventional generation fall. The introduction of short term exit capacity products will allow conventional generator to align their booking of exit capacity with their running profile. Aligning exit capacity bookings of conventional generation to the periods when they are required to maintain the secure operation of the system will ensure that the appropriate pricing signals are relayed to electricity system operators in these periods supporting the efficient operation of the electricity system.

ESB GT believes there needs to be an increased focus on the interactions between the gas and electricity systems and asks that any analysis that underpins a decision on the introduction of short term exit capacity product would include the impacts on the electricity system.

We are interested in views on which exit capacity products should be available at exit. Do you agree that these options should mirror those currently available at transmission entry points with the exception of quarterly products? Please explain the reasons for your view

ESB GT believes that the short term exit capacity product to be introduced should be aligned with those currently offered at entry, namely quarterly, monthly, daily and within day daily entry capacity products. This will maximise the flexibility offer to shippers in booking their requirements.

Are quarterly products required at the exit point? If so, why?

ESB GT consider that including quarterly products within the suite of short term exit capacity products would have a low incremental implementation effort and related costs and as such represents a low regrets inclusion. A decision on the exact make-up of the short term products that a shipper would book would be subject to the prevailing commercial conditions at the time, the addition of quarterly products would improve the granularity of this decision-making process.

Are there any further risks or consequences that may arise as a result of introducing short term exit capacity products that we should consider? Please identify whether these consequences impact the gas or electricity market/consumers and provide supporting evidence.

ESB GT notes that under the current electricity market rules generators cannot include the cost of long term exit capacity booking into the prices offer to the electricity system operator to resolve electricity system constraints through the Balancing Market. As a result, the electricity system operator's decision making in selecting the units to solve the constraints does not reflect the appropriate gas network costs. This increasingly risks inefficient outcomes as the level of grid scale Battery Energy Storage System (BESS) on the electricity system grows.

The introduction of short term exit capacity products would allow generators the potential to reflect these costs, where marginal, in their offers to the electricity system operators, termed complex offers, ensuring these costs are reflected in the electricity system operator's decision making processes. This would support efficient decision making and potential avoid unnecessary carbon emissions.

Are there any further mitigations which could be considered, including any that respondents may suggest from experience in GB and Ireland? Please outline how these might be implemented.

ESB GT notes the concern in the consultation paper that the introduction of short exit capacity product will result in an increase in the volatility of end of year reconciliation. ESB GT notes that under the SEM Capacity Market arrangements there is provision for a socialisation fund. At its core the socialisation fund looks to avoid a situation where the money paid to the SEM Market Operator by generators through Difference Charges is less than the money to be paid out to suppliers in Difference Payments. In this situation if there were insufficient funds available for the payment the capacity market would fail to act as a hedge for suppliers.

To do this the socialisation fund solution pools all of the money from payments (Capacity and Difference Payment) and charges (Capacity Charge, Difference Charges and Termination Charges) together with the expectation that a surplus in one will offsets that a deficit in another. In addition, a charge, known as the Difference Payment Socialisation Charge, is levied on suppliers to ensure there is sufficient funds available in the socialisation fund. This Difference Payment Socialisation Charge can be thought of as all Suppliers pre-paying into the fund to ensure that payments to those suppliers owed them can be made at the correct time.

In the context of volatility of end of year reconciliation payment, ESB GT asks that consideration be given to putting a similar arrangement in place whereby shippers would contribute to a socialisation

fund in line with their use of the system and the fund would be drawn down in the event of a reconciliation payment being required.

Gas Scenario analysis

We would welcome views on the assumptions underpinning the scenario analysis set out in chapter 3.

ESB GT believes the assumptions applied are appropriate but is concerned that the analysis undertaken only focused on the impacts on the gas system and did not consider the impacts on the electricity system.

Do respondents consider there are other scenarios which should usefully be modelled at this time?

ESB GT notes that it has been assumed that entry capacity forecast booking for the two existing power stations (Ballylumford and Coolkeeragh) in '24/25 as detailed in the '22/23 forecast tariff has been applied to estimate the seasonal profile of forecast daily capacity at exit. In the context of the new Kilroot gas generation ESB GT believes at a credible scenario to consider would be the displacement of running at Coolkeeragh and Ballylumford, and therefore utilisation of the gas network, towards Kilroot rather than an increase in the system utilisation overall.

In chapter 3 we have attempted to model the future use of gas capacity by the power sector and the impact this could have on cost allocation between the power and distribution sectors and on the reconciliation. We would welcome:

a) *Commentary from respondents in the power sector on whether our assumptions on future use of gas capacity by the power sector are robust.*

   As noted above the role of conventional generation is increasingly to support the integration of renewable generation. On this basis and given the 2030 target of 80% RES-E, ESB GT believes consideration should be given to a scenario where progress towards this target is achieved and the utilisation of the gas system for the power generation sector falls over the course of the remaining part of the decade.

b) *Further information from respondents in the power sector which would assist us to refine these scenarios in chapter 3 for the 24/25 gas year*

   No comment at this time.

c) *information from respondents in the power sector which would assist us to model a scenario for the 26/27 gas year.*

ESB GT notes that there are several initiatives in the power sector that are currently in development that will significantly impact the gas system utilisation by the power. These include the electricity system operation plans to operate the system at lower level of system inertia and reduce the minimum number of conventional generation sets on the system as per the TSOs operational policy roadmap. Once implemented this will reduce the number of hours conventional generation is constrained on to the system. Similarly, the second North-South electricity interconnector in forecast to be commissioned in 2026 by SONI, this will further reduce the number of hours conventional generation is constrained on and increase the ability of the electricity system to flow power between the jurisdictions. Also, the electricity system operators are finalising plans to procure inertia system services from synchronous compensators. This process is proposed to include a priority zone in the north-west around Coolkeeragh to ensure a service provider is contracted in this zone. The services provider will be obliged to be online by Dec'26. The availability of a synchronous compensator in this area is expected to further reduce the number of hours Coolkeeragh is constrained on to the system.

Impact on prices in the SEM

Do respondents have any views on the impact that short term exit capacity products would have on prices in the SEM?

The introduction of short exit capacity products would be beneficial to the SEM arrangements as it will allow generators to book exit capacity that more closely reflects schedule and dispatch patterns. Under the current market rules generators cannot include the cost of long-term exit capacity booking into the prices offered to the electricity system operator through the Balancing Market to resolve electricity system constraints. As a result, generators are required to look to other electricity market provisions to recover the cost of exit capacity. For generators that have significant in merit running it may be possible that this cost can be recovery as part of the inframarginal rent earned in the Day Ahead and Intraday Market timeframes but for generators with little in merit running this cost must be recovered through the Capacity Market. The timelines for the Capacity Market are centred around a T-4 and T-1 auction interval for each capacity year with most of the capacity requirement being procured by the electricity system operators in the T-4 timeframe. As a result, generator under the arrangements face the

challenge of forecasting the exit capacity tariffs for the delivery period and will look to reflect the resulting in their capacity market bids.

The introduction of short term exit capacity products will open up an alternative route to the recovery of exit capacity costs for constraint running through the Balancing Market through their inclusion in the submission of complex offers prices. These offers are formed close to real time and so can be based on the relevant exit capacity tariff rate.

This will tend towards a reduction in the both the level of exit capacity costs and the related risk premium within the Capacity Market act to reduce the clearing price in that market. While as constraint running in the Balancing Market will be flagged out in the imbalance pricing setting process therefore the inclusion of short term exit capacity costs in complex balancing market offers will not lead be an increase in imbalance price during the period of constraint running.

Ratchet mechanism

Irrespective of whether short term exit capacity products are introduced do you consider that the ratchet mechanism needs to be reviewed? If so, why?

ESB GT considers that the racket mechanism acts as significant barrier to entry in Northern Ireland. This effect has been mitigated to an extent by the recent Code modification to introduce a commissioning racket for the new Kilroot generation units. However, ESB GT believes that the need for this modification to be introduced to support the commissioning of new generation capacity highlights the benefits of introducing short exit capacity products for all shippers.

Do you agree with our proposal to replace the ratchet mechanism with a capacity overrun mechanism? If not are there any other alternatives to capacity overrun mechanism you can suggest?

ESB GT supports the introduction of an overrun mechanism at exit but considers that the current multiplier applied at entry should be reviewed before the introduction of an exit overrun mechanism. The overrun multiplier applied should act as an effect incentive for shippers to appropriately manage their positions on the system without being penal.

Are there any circumstances which would warrant the retention of the ratchet mechanism?

ESB GT does not support retaining the ratchet mechanism but there may be benefit of providing connecting parties with an option to commit to multi-annual exit booking in order to spread their cost of connection over a number of years.

Volatility risks

Do Respondents have any views on whether the introduction of short term exit capacity products will increase the risk of delayed payments to TSOs and what issues the TSOs may face as a result?

ESB GT recognised that at their introduction forecasting the utilisation of short term exit capacity products and the relate revenues that these products will generate for the TSO will be challenging given the new market dynamics that they will introduce. However, this is largely a transitional issue and as patterns of booking behaviour by market participants are established, forecastability will improve.

If so, how should any increased risk of volatility in required shipper payments be managed following the introduction of short term exit capacity products?

Specific allowances for the increased forecast risk in the first year of short term exit capacity products in the tariff setting process may support TSO cost recovery.

Do Respondents have any views on whether the introduction of short term exit capacity products will increase the risk of volatility in the reconciliation payment?

On an enduring basis ESB GT does not see that the introduction of short term exit capacity products would drive significant increases in reconciliation payments.

Does the current level, or potential future level, of volatility in the end of year reconciliation pose issues for gas suppliers? If so, in what way?

Large year end reconciliation payments could result liquidity challenges for shipper and impose high working capital costs that would ultimately need to be recovered from final customers.

We would welcome views on the potential mechanisms to mitigate this risk of volatility set out in paragraph 5.40.

ESB GT believes that a mechanism akin to the socialisation fund under the SEM Capacity Market could act as an effective mechanism to manage year end reconciliation payments.

Do you consider that the concept of a 'buffer account' should be explored further and do you have any additional thoughts on how this should operate?

Yes, ESB GT supports the further development of this concept and would be happy to engage further and share our experience of the operation of similar mechanisms in other markets.

We would welcome a view from MEL as to whether there are monies currently held for the benefit of Northern Ireland gas consumers which could be used as the initial deposit for the buffer.

ESB GT has no comments in relation to this question.

1 in 20 obligation and capacity booking

If short term exit products capacity were introduced, would DNOs avail of these products in order to meet the 1 in 20 obligation? Please provide reasoning for your view.

ESB GT has no comments in relation to this question.

If short term exit capacity products were available who should have responsibility for booking these - the DNOs or gas suppliers? Please explain the reasons for your view

ESB GT has no comments in relation to this question.

What would be the implications of changing the booking responsibility?

ESB GT has no comments in relation to this question.

Other

The Northern Ireland Network Gas Transmission Code includes arrangement for secondary transfer of exit capacity. Do Respondents consider that these arrangements would need to be reviewed if short term exit capacity products were available? If so, in what way?

ESB GT believes that in order to maximise the value from the introduction of short exit capacity products the secondary trading arrangements under the Northern Ireland Network Gas Transmission Code should be updated to align with the short products introduced, that being the facilitation of secondary trading up to daily granularity.

We note that a potential introduction of an ex-ante entry:exit split, which would recover a higher proportion of cost from entry capacity, could reduce the impact of the 1 in 20 obligation. Do Respondents have any views on this?

ESB GT notes that under current arrangements while DNO are subject to a 1 in 20 obligation they also benefit from the fact that in the case of a congestion event on the gas system power generation will be constrained off the system before DNO customers are affected. This is an appropriate customer protection measure during cold weather events, but it also means that DNOs receive a firmer capacity product than the power generation sector. Partially because of this measure generators are required to maintain secondary fuel capability and related fuel storage to assure the security of the electricity system which in turn imposes significant costs on generators. ESB GT believes this should form part of the consideration in relation the balance of recovery between the distribution and power sectors.

We are interested in views on how forecasting of gas capacity bookings could be improved at entry and exit points.

ESB GT believes that there is a need to increasingly consider the interactions between the electricity and gas markets in Northern Ireland. We welcome that fact that there was engagement with SONI that helped to support the development of this consultation and believe that the challenges that will face by the gas and electricity markets through the decarbonisation transition are intrinsically linked. From a generator's perspective the ability to accurately forecast gas capacity bookings across all timeframes are a function of both the electricity market dynamics but also the scheduling and dispatch requirements of the electricity system operator. Building the understanding of system capability and limitation across electricity and gas will support the secure and efficient operation of both systems.

Are there any further matters that should be considered?

ESB GT has no additional comments at this time but would be happy to discuss any of the points raised in this response.