



Energy for
generations

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Gas Security of Supply Significant Code Review

ESB has been following the development of the SCR since its launch in January 2011, and recognises the work undertaken by Ofgem in this area. However, whilst we appreciate the certainty that the conclusion of this work may bring, we still have fundamental concerns about the intended reform of cash out.

With a view to a future market that will increasingly rely upon gas-fired plant to mitigate the system effects of a growing proportion of intermittent generation technology, we can appreciate and support the aim of maintaining and enhancing security of supply. However, we do believe that the market will continue to deliver gas supplies as it always has, and that Britain will continue to meet its security of supply standards.

We – with others in industry – retain major concerns in relation to the interaction between the gas and electricity markets in GB. We believe that the lack of a Force Majeure in the DECC proposals for the electricity capacity mechanism is a serious issue, and leads to an incentive for gas-fired plant in the capacity mechanism to remain on the system even when gas is scarce. This, of course, has significant safety implications as well as the potential to make a gas emergency more likely; it also adds additional risk for CCGT operators, and makes the market less attractive to investment. In a time, as noted above, when gas-fired generation is going to have a greater role in balancing the impacts of RES penetration, this seems ill-advised.

DECC's capacity mechanism team believe that the penalty regime under the capacity mechanism should incentivise gas-fired generation to invest in on-site distillate back-up and storage. This is contrary to DECC's recent statement that additional gas storage is not required and would be, under the terms of COMA, difficult for the majority of CCGT power stations in GB to install. These contradictions need to be considered and addressed before implementation of any aspect of the SCR takes place.

As an active shipper of gas across the Moffat Interconnector to our significant generation and supply interests in the SEM market we are particularly concerned about the potential impacts of the SCR upon security of supply to the Republic and Northern Ireland. We have concerns that the increased cash out risk upon shippers in the GB balancing arrangements will incentivise domestic delivery above those contracts delivering to the Moffat interconnector, and seek information on the discussions that may have taken place with the Irish regulators regarding mitigation measures.



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Our response to the consultation on the proposed DSR auction is below; please contact me using the details below should you have any queries.

Best wishes,

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Consultation questions

CHAPTER: Two

Question 1: What are your views on a SO-run DSR tender? Do you think it is an appropriate addition to the Gas SCR?

As long as there is the possibility for gas-fired generation to participate, an SO-run tender could be useful. However, there remains a lack of clarity about the volume of DSR to be contracted, as well as interactions with the electricity market which are a cause for concern.

Question 4: What costs do you see arising from a DSR tender?

Tender costs; potential option fee costs; potential maintenance costs for those offering DSR. Should no force majeure/emergency clause be worked out in the electricity capacity mechanism, there will be prohibitive costs on gas-fired generators who choose to participate in the tender.

Question 5: Do you think a DSR tender should have a role subsidising investment in back-up facilities? If so, why?

This relates back to a lack of clarity about the volume of DSR required; if levels needed are high, back-up facilities are more likely to be needed and as such the DSR tender may have a role in their funding having been factored in to the bids of participants.

CHAPTER: Three

Question 2: What are your views on having variable option fees in the tender? Do you have any concerns about the costs that these could impose irrespective of a GDE actually occurring? How should these be funded?

Variable option fees would better reflect the individual costs of optionality for different plants. However, the cost could be prohibitive and as such a fixed option fee may be more financially manageable and incentivise tender participation. Given that the SCR is for the benefit of consumer security, it might be appropriate to fund via a bill item although we would be eager that the overall cost is kept as low as possible. A test tender and cost benefit analysis is advisable.

Question 3: What are your views on the eligibility of gas-fired power stations? How should the interactions with the electricity market be managed?

Gas-fired power generation should certainly be eligible to participate in the tender; there would be a point of discrimination were they to be excluded. There should be a Force Majeure clause in the electricity capacity mechanism penalty in the case of gas emergency, or where DSR tenders need to be taken; this could be signalled by a certain margin being reached when other NGG balancing actions have been taken.



Question 4: Could participation of gas-fired power stations have a negative impact on the tender, or on the gas market as whole? If so, can you suggest any steps that could be taken, or an alternative mechanism that could be created, that would help mitigate these concerns?

If the object is to reduce gas consumption in the event of system tightness, excluding the largest consumers of gas – who, under the capacity mechanism, have an incentive to remain on the system – seems unwise.

Question 5: Do you have any views on what consumers whose bids were unsuccessful should be paid if they are firm-load shed?

Some sort of weighted average price of accepted bids seems sensible.

Question 6: What are your views on the response type the tender should contract for?

If going outside purely determining DSR by price (i.e. through an auction), it makes the auction and governance of it complex and difficult. Who would determine the different types of DSR/response time, etc?

CHAPTER: Four

Question 3: Do you have any suggestions for how the volume cap in straw man 2 or 3 should be set?

There is a difficulty in knowing what level of DSR is needed in order to prevent an emergency; if a number is not to be arbitrarily set it would seem sensible to run a trial tender to ascertain likely bid levels received, and use the results in consideration of volume cap levels.

Question 4: Do you think the volume cap in straw man 2 or 3 is sufficient to prevent inefficiently high DSR bids from being accepted?

Not necessarily, although it depends how this is calculated. If the cheapest 30% (for example) of bids were accepted regardless of the number of bids received overall, this could still result in inefficiently high accepted bids.

Question 7: Should any volume cap or fixed budget be known to the market ex ante?

There would be a benefit in knowing the volume cap if the security standard changes; we do not see a benefit in knowing the budget ex ante.