

DS3 System Services Market Ruleset RECOMMENDATIONS PAPER ADDENDUM

DS3 System Services Implementation Project

30th August 2018

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1. Introduction

This addendum should be read in conjunction with the DS3 System Services Market Ruleset Recommendation Paper¹, as well as the DS3 System Services Market Ruleset Decision Paper SEM-18-032². The role of both EirGrid and SONI, a detailed introduction to the purpose of the Market Ruleset, as well as the specific recommendations for the ruleset are all provided within the TSOs' Recommendations Paper.

In March 2018, the TSOs consulted³ on the DS3 System Services Market Ruleset. This consultation outlined a ruleset which would be applied with respect to the remuneration of System Service availability, including consideration of various I-SEM interactions. The TSOs considered ten responses received for this consultation, and on the 31st May 2018 published their Recommendation Paper.

The TSOs have been made aware that an additional (non-confidential) response to the consultation was submitted, ahead of the response deadline, by Moyle Interconnector Ltd. This was not considered in the drafting of the Recommendations Paper. This addendum therefore gives further consideration with respect to that response.

The respondent noted in its response that they wished to *“comment solely on the proposal in Section 3.3 that “Interconnectors will be remunerated for System Services based on physical dispatch position only”.*” This addendum will therefore only address Section 3.3. of the Consultation on DS3 System Services Market Ruleset, this being in relation to treatment of interconnectors.

¹ 'DS3 System Services Market Ruleset RECOMMENDATIONS PAPER' <http://www.eirgridgroup.com/site-files/library/EirGrid/DS3-System-Services-Market-Ruleset-Recommendations-Paper-16052018.pdf>

² 'DS3 System Services Market Ruleset Decision Paper SEM-18-032' <https://www.semcommittee.com/sites/semc/files/media-files/SEM-18-032%20SEMC%20Decision%20Paper%20on%20DS3%20System%20Services%20Market%20Ruleset.pdf>

³ 'Consultation on DS3 System Services Market Ruleset' <http://www.eirgridgroup.com/site-files/library/EirGrid/DS3-System-Services-Market-Ruleset-Consultation.pdf>

2. TSOs' Recommendation

Treatment of Providing Units and Services

The recommended ruleset aims to provide clarity regarding the approach to remuneration, specifically with respect to the principle of paying the higher of market or physical dispatch position, for various types of potential service providers. Section 3.3 of the consultation outlined the approach for interconnectors who are providing System Services. It is the treatment of this technology class that this addendum addresses.

Treatment of Interconnectors

Consultation Paper Background and Proposal

The Market Ruleset Consultation noted that the market position of interconnectors is an implicit outcome of the Day-ahead and Intraday Market scheduling platforms. This market position is not within the control of either the TSOs or the interconnectors themselves and as such, cannot be incentivised in a certain way to provide System Services. In most circumstances, the market position of an interconnector will match its physical dispatch position. However, the connecting TSOs (at either end) may counter-trade across the interconnector in either direction, which may increase or decrease service availability.

Given the above, as well as the potential for system conditions in other jurisdictions to alter interconnector flows and potentially reduce service availability, the TSOs' consultation proposal was that physical dispatch position only should form the basis on which these units are remunerated.

Stakeholder Comments on Interconnectors

The additional response to the consultation, under consideration in this addendum, disagreed with the TSOs' proposal. The respondent was of the view that interconnectors should be remunerated for System Services based on the higher of their market or physical dispatch position.

The respondent disagreed with the rationale proposed by the TSOs, with respect to the impact of counter-trading by TSOs and the ability for a third party TSO to alter System Service availability, as well as the implicit nature of the interconnector flow position.

The respondent was of the view that although interconnectors do not directly control their market position, there remains *"an implicit commercial trade-off between provision of system services and earning market spreads from the energy market"* and that these commercial decisions were similar to those made by synchronous generators.

The respondent therefore viewed it as unreasonable that remuneration could be negatively impacted due to countertrading which results in reduced System Service availability, *"over which it has no control (but SONI/EirGrid does) and receives no benefit (but SONI/EirGrid does and, in the case of providing assistance to National Grid, SONI/EirGrid has discretion over*

whether the counter-trade is facilitated)". The respondent's view, therefore, was that interconnectors are controllable by the TSOs and, given shared characteristics with synchronous generators, should be treated similarly.

The respondent viewed such an approach as both implementable and having a relatively low impact on system services expenditure. It was also highlighted that post I-SEM go-live *"interconnectors should largely be at max import or export at different times of the day"* and therefore have lower System Service availability and therefore negligible impact on over-expenditure.

TSOs' Recommendation for Market Ruleset

The TSOs recognise that the ICRP provided by an interconnector is similar to an FPN from a synchronous generator and therefore could be used to calculate a market position based availability. We do however view interconnectors as having significantly different characteristics to synchronous units due to the manner in which they participate in multiple markets.

A fundamental issue which the TSOs' view as remaining, is the extent to which service availability, which may be unavailable due to the actions of a third party TSO, should be remunerated at a cost to the consumer in Ireland and Northern Ireland. The respondent indicated that, in their view, for such system operator countertrading an interconnector *"has no control (but SONI/EirGrid does) and receives no benefit (but SONI/EirGrid does and, in the case of providing assistance to National Grid, SONI/EirGrid has discretion over whether the counter-trade is facilitated)"*.

Whilst the TSOs have discretion over whether a counter-trade is facilitated, this is not with a view to management of System Service expenditure. A counter-trade initiated by a third-party TSO could significantly reduce System Service availability. If the availability based on market position was remunerated, this would represent additional expense to the consumer. Whilst we understand that, in the stakeholder's view, this represents a negative impact on system services payments as a result of TSO actions, in this case this includes third party TSOs. We would therefore not recommend a solution which increased System Services expenditure in Ireland and Northern Ireland, on an ongoing basis, for the benefit of another system, without significant consideration as to whether such arrangements were fair for all consumers across all relevant jurisdictions.

As such, the TSOs' recommendation with respect to treatment of interconnectors would not have been materially different to that which was published in Section 3 of the TSOs' Recommendations Paper.

In summary, whilst the recommendation remains the same, the TSOs are of the view that the ruleset with respect to treatment of interconnectors should be further considered. The SEM Committee has *"requested that the Regulatory Authorities engage with the TSOs to begin work on the development of the next iteration of the Ruleset in advance of I-SEM go-live"*. The treatment of interconnectors, including further consideration of the response outlined above, will be included as part of this process.

3. Next Steps

This addendum to the Market Ruleset Recommendation provides stakeholders with information in relation to the recommended Market Ruleset to apply from I-SEM Go-Live, specifically with respect to treatment of interconnectors. As outlined in the Recommendation Paper, the TSOs recommends that all contracted DS3 System Services parties from the 1st May 2018 will be remunerated based on their physical dispatch position only until I-SEM Go-Live.

The TSOs are reviewing the final SEM Committee decision and developing a plan to implement the various aspects of the arrangements as soon as possible.