DS3 System Services Consultation – Enduring Tariffs

This questionnaire has been prepared to facilitate responses to the consultation. Respondents are not restricted to this template and can provide supplementary material if desired.

Please send responses in electronic format to DS3@eirgrid.com or DS3@soni.ltd.uk

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Note: It is the TSOs' intention to publish all responses. If your response is confidential, please indicate this by marking the following box with an "x". Please note that, in any event, all responses will be shared with the Regulatory Authorities.

Response ☐ **confidential**

The closing date for responses is Monday, 21 August 2017.

Key Points

PPB wish to highlight some key areas for concern in this consultation and the other which is open in parallel (Enduring Scalar Design).

Underlying Principles

The underling principles set out by the SEM Committee in SEM-14-108 are not being met in these new proposals. We have already provided our comments on this in the DS3 System Services Tariffs Response submitted on 30 May 2017, and we refer the reader to our comments in that response.

Revenue Certainty

An important part of this DS3 workstream is to encourage development and investment and it is clear that to enable such investment to take place there needs to be revenue certainty. While we acknowledge the TSOs have invested significant time and effort into this proposal, we do not believe it provides the industry with the certainty of income that is required. This uncertainty is caused by:

a) Contractual details:- the detail to be contained in this new contract has not been published and the TSOs have stated that there will only be a 3 week consultation on this documentation once it is published. This is not adequate considering it is different to the existing DS3 contracts. It is also not clear what scalars will sit in this contract and what ones are subject to change and are to be situated in the Protocol document.

b) Contract term:- the length of these contracts must be more than 2 years to provide any stability to providers and investors.

c) Minimum payments are unclear:- There is no clarity on minimum payments from this consultation except that the current rates appear to be the new enduring rates (DS3 providers expected an increase in line with the SEMC glide path). The SEMC previously stated, in SEM-17-017, that the glide path would 'provide industry with increased certainty of income and signals to invest', but if the glide path is no longer being followed for all providers, then there is no certainty.

d) Potential changes in the weightings that apply to the DS3 revenue pot:- The revenue pot is distributed based on the TSO estimate of value as stated in Table 3 of the Interim Tariffs Consultation published on 8 April 2016. This showed a potential change in rates in 2020, this latest consultation does not mention any changes in weightings so it is unclear if that view has now changed or if that change is still expected.

e) Scalar impact and levels:- The suggested scalars are exceptionally high and very difficult to forecast which, along with the risk of intervention by TSOs and RAs, leaverevenue streams very volatile. The potential of €140m linked to scalars is unacceptable for investors.

The scarcity scalar is also temporal, portraying the fact that they may not even endure for the length of the contract, making them even more difficult to forecast.

f) Forecasting of SNSP:- The SNSP levels cannot be forecasted by providers or investors due to lack of knowledge of new connections, output from wind and solar generation, interaction of interconnectors and RoCoF. It is impossible to see how investment will occur or increase given all these uncertainties. The TSOs state in section 4.4 that they have uncertainties. Providers will have even greater uncertaintygiven they do not have access to all the information, forecasting and dispatch tools, etc that the TSOs have. Such uncertainty is evident from Table 6 (on page 34 of the paper), which shows that the time when SNSP is expected to be greater than 60% ranges between 7.8% and 29%. This represents a significant difference in periods where SNSP > 60%.

g) Availability forecast further affecting performance:- The proposal to introduce an availability forecast and so again reduce the payment streams. Given, as highlighted above, the problem in relation to forecasting difficulties, this represents a further blow for providers. This approach will only incentivise low estimates and manipulation of outputs in real time as well as adding an additional workload that will have a significant impact, particularly for already very stretched small providers.

h) Potential TSO intervention on SNSP:- The paper states that it is possible that challenges could arise and operation above 60% SNSP could be stopped for a period, which may be perfectly reasonable but any such interruption would likely create issues for new providers who would otherwise have been expecting income due to the system running above 60% SNSP.

i) TSO operational processes:- Flows on the Interconnectors and SNSP curtailment are subject to change by individual control room operators within the TSO and differing decisions in any particular hour could change revenue streams for DS3 providers. It will therefore be important that the TSOs are not incentivised to keep the DS3 budget lower than the cap and are free to make the correct operational decisions without regard to price caps or indeed to skew revenues to improve the economics of EWIC or other TSO owned assets. The Network Code relating to Energy Balancing encourages TSOs from adjoining Networks to share Spinning Reserve which may change Interconnectors flows which in turn changes the SNSP calculation that would as a consequence affect the DS3 revenues of a service provider.

j) Potential Grid Code changes as mentioned in this paper for the new services:- This causes major concern for investors as the TSO (albeit with consultation) can change the Grid Code and remove any requirement to pay for additional services. This has already been seen with RoCoF where a change was brought about with no recompense until Industry objections were finally acknowledged and while some remuneration has been provided, it was inadequate and temporary.

k) Availability definition change proposal:- It is suggested that an availability definition could be changed for particular technology types and that this change, along with other definition changes, could be rolled out to all or any product or technology. This fluidity leaves the investor with a high degree of risk that everything is changeable within the DS3 arrangements.

This is a long list of uncertainties and risk which will render new investment virtually impossible while disincentivising existing service providers from continuing to provide services.

PPB suggest that in order to improve this situation there needs to be:

a) Fixed contracts containing minimum payments and providing adequate time to develop the arrangements with industry input. This should detail what can be changed and how e.g. annual tariff review which can only be an increase in tariffs. The Protocol requires greater governance and the TSOs should consult (in line with agreed time lines) with the Industry and RAs on any change to Scalar levels contained within.

b) Contract term should be up to 10 years (aligned with the contract term under the I-SEM CRM).

c) A minimum glide path showing an increase of tariffs. The existing tariffs should be increased to give both the developer and the TSOs more certainty. Tariffs provide much less volatile revenues and will help the TSO keep closer to the glide path rather than huge scalars potentially pushing above the cap. Such an increase in tariffs would help cover the cost of RoCoF, FFR and SIR which are being used currently by the TSOs but are not being remunerated. Should the glide path be underspent in any year it should be used to roll over into the next year on a 5 years rolling basis to help incentivise providers that the money is being used for DS3 and not being diverted into anything else.

d) Fixed weightings. Any changes in weightings must be clearly defined and form part of the contract so participants will know how they will be impacted in future years under their contract.

e) Fixed scalars for the length of the contract. All scalars need to be controlled and not just imposed by the TSOs decision. The scarcity scalar should have more steps, possibly in line with the 5% rises in SNSP, i.e. 50%, 60%, 65%, 70% and potentially start at a lower SNSP level so as to incentivise providers in the absence of any certainty of SNSP rising above the current 60% level.

f) Minimum payments to match a forecast of SNSP, provided by the TSOs, i.e. the TSO publish a forecast showing the minimum number of times the system is expected to operate >60% etc and the provider will be guaranteed payments for at least this number e.g. 7.8% as displayed on Table 6 on page 34 of the consultation paper.

g) No intervention that reduces payments.

h) The TSO must not be able to change interconnector flows or apply curtailments to keep SNSP a little below the threshold above which the higher payments apply and if the TSOs cap SNSP at 60% for system reasons they must still pay out on any periods where >60% could have been achieved.

i) Incentives and controls on the TSOs to ensure the best outcome for the system as that payments are based on the operational decisions and not on hindsight.

j) No changing of Grid Code to impose new products on providers without any associated revenues.

k) No availability definition changes or any other definition changes.

Other Interactions

There are important linkages into the wider I-SEM workstreams which need to be considered along with this consultation e.g. CRM USPC has a link to DS3 revenue which does not appear to tie up with this documentation. CRM bids and energy bids have the potential to be reduced due to DS3 revenue however the uncertainties that this produces will not give the providers enough comfort to reduce their bids and so will cause increases in the prices in these markets.

The suggested delay to the implementation of the decision that providers should receive the greater DS3 payment that would be determined from either their FPN or their Physical dispatch further increases the risks and uncertainties for providers.

There is a significant interaction with the Settlement Systems. These systems do not handle the complexities of the current DS3 regime so will be totally inadequate for these new proposals and payment has been delayed beyond what was previously the norm in Northern ireland.

There is also a concern over the scope for conflicts of interest in relation to interconnectors where because of Eirgrid's ownership and operation of the EWIC the TSOs could modify the SNSP levels or propose DS3 products/ scalars to advantage their wider interests (including financial and investment in additional interconnection).

Clarity

From the consultation text it is not clear what is meant by:

Certainty of Service Availability:- is this a declaration of availability of the MW output of the unit, a maximum declaration of the DS3 services being provided or a declaration of services available based on a proposed energy output profile?

Physical Dispatch:- Is Physical Dispatch, Paragraph 4.4.2., the metered output of the unit?

Level of Scaler:- Is the level of scalar >=60% or >60% etc - see figures 4 and 5 which differ to the draft text?

Question	*Response*
Question 1: Have you any comments on the proposed tariff rates for the Enduring Regulated Tariff arrangements?	The SEM Committee decision paper (SEM-14-108) set out the criteria for the DS3 process and as mentioned above we do not believe these are being met (see our comments to support this on our response to the DS3 System Services Tariff paper), but in particular we wish to draw your attention to two main points. The existing providers are to receive clarity that they will receive appropriate remuneration and the new providers are to have a mechanism where they can make significant investment. Neither of these are met with these proposed tariff rates. From the outset of the DS3 workstream, existing providers have been led to believe they will be receiving additional payment through the increase in tariff rates as the DS3 payments move along the glide slope proposed. This latest consultation now states the existing tariffs are to become the enduring tariffs and so no additional revenue will be forthcoming, the reason given that there is sufficient quantities of system services available today to maintain the resilience expected. We believe this is unfair to the existing providers who have been providing the stability the system requires for years without appropriate remuneration. It is not even certain if these tariffs will endure given the value of the level of the services as quoted in Table 3 of the Interim Tariffs Consultation published on 8 April 2016. The TSOs have now stated that there is no requirement for an increase in tariffs due to the system being stable with the current DS3 products. However this statement fails to recognise that the Grid Code requirements for connecting generators, along with the inherent nature of the connected machines, means there are products being provided but not being remunerated e.g. small levels of inertia, below the threshold of payment and above the SIR cap, and FFR. Also the SNSP level has been increased twice in the last 18 months, one of which was during the existing DS3 contracted period, and there have been no increases in tariffs. See also our comments above in relation to new provider certainty. With all the new revenue linked to the levels of SNSP which are not certain, investment will be virtually

	impossible. PPB believe the tariff rates should be increased annually below the glide path to provide some room for scarcity scalars. These rates need to provide a minimum payment path for investors which can be used as a baseline to underpin their investment. All scalars (assuming performance) would then provide an upside for investors. Revenue certainty must come from the rates and not just be linked to the scalars since otherwise you have a situation where the current expenditure on DS3 of €80m is the only certainty a provider has with the potential additional €140m (assuming the €235m cap and the €15m to be held back to cover uncertainties) being attached to uncertain scalars, which can be changed by RAs and TSOs with little intervention of the providers. The revenue attached to scalars must be reduced and the tariffs increased to enable investment to occur. This would also create more stability for the TSOs in trying to manage the expenditure and keep it within the the proposed SEMC cap. The rates are supposed to link to the relative importance of the services which we agree is the correct incentive however we question why the RM3 and RM8 product are more valuable than the RM1, since the system would be inherently more stable if all the ramping products were RM1.
Question 2: Have you any comments on the TSOs' recommendation that the regulated arrangements be put in place for a minimum defined time duration until such a time as there is greater information available on the timeline for implementing a long-term market mechanism for System Services?	This proposal is vital to the success of this project. Predictable and stable revenue streams must be forthcoming for a considerable period to enable investors to finance their projects. The length of contracts should be up to 10 years (aligned with the I-SEM CRM contract term), however any longer term contract will only bring certainty if it also contains at least a minimum revenue stream, i.e. it uses base tariffs which will not be decreased and has no scalars sitting in a Protocol (except for performance) which can potentially wipe out a revenue stream.

Question 3: With respect to contract certainty, are there other considerations which we should take account of or other options that we should explore further?	See our proposal set out in the Key Points section above
Question 4: Have you any comments on the TSOs' recommendation to replace an annual tariff review with a conditional tariff review, or are there alternative approaches that you think are better?	PPB believe the certainty required by investors is a minimum glide path and therefore providing an increase in tariffs annually. This lower rate would assume that all scalars have a minimum of one. PPB do not have a preference whether annual or conditional increases of this minimum are the way forward. All reviews due to under-expenditure will always be welcome but investors cannot invest if a conditional review or annual review has the potential to reduce the base rates and/or result in dilution of previously expected revenues.
Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	PPB have no additional suggestions.

Question 6: Have you any comments on the proposal to exclude a high annual wind capacity factor as a consideration for triggering a conditional tariff review?	PPB agree with this proposal.
Question 7: Have you any comments on the TSOs' recommendation to use the 'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	PPB have not got a strong opinion on which scalar to use except that we believe the scalars are excessively high and some of the money should be directed towards increased tariffs to provide greater certainty to providers. We also believe that there should be additional steps e.g. they could be in line with the current prudent approach by the TSO which has been to increase the SNSP in steps of 5%, or if the linear were chosen the slope should start earlier, to include some increased incentive for providers who are available at times when SNSP levels are currently high, say >40 or 50%. The levels of >60% are not guaranteed and with the uncertainty of RoCoF and the uncertainties the TSOs have highlighted in section 4.3 (*the system may need to be operated below 60% if any challenges occur with the operation above 60%*) and it would at least provide investors some incentive to begin development. The introduction of the scarcity scalar poses an additional complexity to the settlement which is already strained and it is extremely important that a rigorous reporting and testing of these SNSP levels are available to participants. It must also be noted that the real time provision on SNSP data will be different than the values retrieved after all the metering is gathered. The TSO decision may be made on different data than the provider will be paid against. It is therefore important that this is addressed and providers are not penalised in any way due to any data mismatch.

Question 8: Should we decide to use a 'Stepped' scarcity scalar, are there other considerations which we should consider in its design?	See comment above. Large amounts of money are associated with these scalars with no certainty they will be paid out. It is important that this revenue is rolled forward to the years ahead and is not lost from the DS3 workstream. We suggest this operates on a 5 year rolling basis. The consultation paper spends a lot of time talking about keeping the payments below the expenditure cap and this highlights a concern that the TSOs are more interested in keeping the spend down and managing their cash flow volatility than they are at ensuring that the right services are available. There must be no incentive for the TSO to keep levels of SNSP down to stay below the expenditure cap.
Question 9: Do you agree with the TSOs' recommendation on the method by which to mitigate over-expenditure as a result of potential overinvestment by high availability technologies?	PPB agree that over-expenditure must be mitigated by some sort of a volume cap or scalar. We do not agree with availability definition changes for certain technology types as this is discriminatory. However it should be noted that these new providers may not provide the same quality of service as the existing providers e.g. if the existing provider provides FFR or POR the ability to restore these services for reuse is extremely quick whereas other new technologies take much longer before it can restore these services. Perhaps a product scalar should also be considered.
Question 10: Have you any comments on a preferred method to implement a procurement based volume limit on the level of high availability technologies to obtain system service contracts?	No comment, except to agree that further work is required on these matters.

Question 11: Do you agree with the TSOs' recommendation to delay the implementation of taking the higher of a service provider's market position or physical dispatch, to determine the available volume of a service, for a minimum of 12 months post I-SEM go-live?	We do not agree with this proposal. With all the risk of I-SEM and associated revenue streams, this must not be delayed as it will add even more uncertainty to this DS3 revenue stream. DS3 providers need to be able to factor in their revenue streams to their energy bids to ensure they are profitable and competitive. If this is not implemented it will cause market distortions as providers try to mitigate risks associated with different dispatch instructions away from their FPNs.
Question 12: Do you have any comments on the method by which a resettlement between market and physical dispatch could occur following the 12 month delay?	The settlement and resettlement is already difficult to manage for participants, with the introduction of new scalars and now with this potential resettlement it will become very difficult to reconcile. The settlement needs to be carefully considered and all systems ready and tested before any payments are issued under the new contracts such that the need for resettlement is minimised.