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.

Question	*Response*
Question 1: Have you any comments on the proposed tariff rates for the Enduring Regulated Tariff arrangements?	**A1** As a general comment, individual service tariffs appear acceptable when complemented by the proposed full spend 'stepped' scalar design and operating under the assumption that higher SNSP will occur over the forthcoming four to six year period and beyond. However this should be viewed in the context of revenue variability during the contracted period, and the associated impact on commercial certainty. Any allowance for future actions which could dilute revenues, such as tariff and scalar adjustment, are strongly likely to negatively affect investment in new technology to deliver the desired system services, by increasing lending risk. Although reasonable for existing assets, potential variation of revenues during a contract of only 4-6 years will stymie investment in new assets.
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?	**A2** AES supports the approach of the TSOs that the enduring regulated tariff structure **should not** be replaced by a different procurement system (long term system service market mechanism) within 4 to 6 years. This shall give some confidence in projected revenues in the short term. We also stress the need to maintain the tariff and scalar approach, so as to provide a similar level of confidence.

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?	**A3** AES is keen to stress that DS3 procurement arrangements do not align with the forthcoming Capacity Remuneration Mechanism (CRM) T-4 auction, to be held in August 2018. This is creating significant issues surrounding investment assessment for the T-4 CRM auction. The lack of clarity has a profound impact on investment risk and is likely to have a similar impact on the cost to customers. AES notes that the proposed four year contract term would expire before COD of any successful new entrants from the first T-4 CRM, therefore timing prevents any business case for new generation assets considering contracted revenue sources from **both** DS3 and CRM to support investment. Bidders of new entrants into the first T-4 Capacity auction will not be able rely on DS3 revenue in order to reduce their offer to the most competitive position. Likewise AES does not believe the incentive is currently sufficient to support tailoring the technology and design of new capacity market entrants to provide maximum system services, suggesting that less flexible assets reliant on energy margin will dominate the CRM auction. To achieve the stated outcomes of "incentivis[ing] flexibility, reliability, value for money and performance" it is imperative that revenue under DS3 and CRM are aligned: for example the current DS3 contract period should be in excess of four years to enable debt financing for new assets. It should also be set at a term that provides sufficient overlap with the T-4 Capacity Auction timing, in order that any CRM bid could be tailored accordingly to take into account DS3 revenue. Note that a longer DS3 contract duration would result in a lower CRM bid. Obtaining a grid connection may add significant delay and risk for any new Non-Synchronous Technologies (and others) that could otherwise be deployed relatively quickly. These wouldcontribute to reaching 75% SNSP and 40% RES Targets. The connections process needs to be amended to prioritise connections that provide a high volume of system services. The DS3 procurememt process and agreements must also be structured so that longer term developments are assured of DS3 revenue, in advance of achieving finance and beginning construction.

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?	**A4** **Fixing tariffs and scalars for the duration of the contract would provide greater investor security and encourage maximum investment.** A conditional tariff review is preferable to an annual review, provided that the frequency of conditional reviews is fixed at no less often and that scalar values are fixed for the duration of the Enduring arrangements. AES is keen to ensure investors have stability to forecast future revenues and as such all reviews should be light and not lead to significant changes. Significant changes to revenues mid-contract would freeze future investment by increasing risk associated with existing and new assets. Should an additional new or an existing provider be further incentivised due to the locational scalar being adjusted, and this were to cause the annual cap to be exceeded a conditional review should not be triggered. Investor uncertainty would be created as this would in effect be redistributing revenue from previously contracted providers. Likewise, all other scalar factors must be fixed for the duration of the enduring arrangements or a floor should be introduced and the conditional review should never be triggered by their adjustment.
Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	**A5** Forecast under expenditure should trigger the conditional review. This could be a reflection of lack of investment and product provision and this may limit the ability to operate above 60% SNSP. AES understands that the TSOs have calculated the uncertainty with sensitivities around the installed capacity.Base case figures reflect the existing generation for 2017 in GCS howeverthere may be a requirement to re-run these sensitivities considering the outcome post I-SEM go live, exisiting generators may have left the market and there may need to be

	adjustments to generators bidding during times of high SNSP as generators compete to avail of DS3 revenue.
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?	**A6** AES agree that any high wind capacity should not trigger a conditional tariff review. Should the annual cap be exceeded due to higher than anticipated levels of wind/solar generation, then this should be considered as a successful outcome and the annual cap should be increased accordingly demonstrating greater than budgeted progress toward achieving >75% SNSP and >40% of electricity generated from renewable sources.
Question 7: Have you any comments on the TSOs' recommendation to use the 'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	**A7** A stepped scalar reduces sensitivity to wind capacity factors and improves forecasting of revenue compared to a linear approach, hence encouraging financing by new service providers. Whilst it is understood that the two approaches could arrive at the same expenditure, we believe that the 'Stepped' approach give more comfort in assessing future investment decisions.
Question 8: Should we decide to use a 'Stepped' scarcity scalar, are there other considerations which we should consider in its design?	**A8** There is a significant difference between reaching 60% and 70% SNSP and an additional step at 65% would be appropriate given that it is proposed to increase the SNSP limit in increments of 5%. With a step at 65% any delay in reaching 70% SNSP would have less of an effect on the certainty revenues received by investors.

	This would also give investors and operators comfort of future revenues if the TSOs were limited to an SNSP lower than 70%. This may be due to other system support work streams, such as RoCoF, not being successful.
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?	**A9** The risk of over-expenditure as a result of potential overinvestment by high availability technologies would discourage investment if the resulting action would be to trigger a review of the enduring tariffs. Limiting the volume of services rewarded during trading periods would result in additional uncertainty for investment and should be avoided. In this scenario investors would not have certainty that they would be paid for all services provided. This option contradicts the benefit of scalars to encourage availability during periods of high SNSP.
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?	**A10** A published glide-path volume limit for new DSU and Non-Synchronous technologies would be preferable as this would provide the greatest visibility of annual expenditure and inform potential investors of the system needs. However more information is required on how the first come first served basis would be administered, to provide certainly that new providers would be operational when required.

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?	**A11** The proposal to ensure that any TSO despatch within the energy market does not impact the DS3 revenue to a generator is welcomed by AES. Generators shall position their units in I-SEM in line with their commercial strategy, and despatches away from that position could impact projected revenue. At the same time the despatch by the TSOs of units, with zero I-SEM energy position, that provide additional benefit to the system should receive the full DS3 revenue It is understandable that the decision on whether to implement this shall be delayed for at least 12 months, in order to assess the interaction of such approach. It is unclear at present how energy bidders shall be impacted by the DS3 provision during periods of high SNSP, and it would be best to see how the I-SEM Market settles prior to making a connection between it and DS3 settlement.
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?	**A12** The details of this mechanism interacting between both markets is not clear at present. Because of this it is difficult for participants to put strategies in place to compensate for any resettlement. Therefore AES does not support resettlement for this 12 month period due to the high risk associated with it.