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

Respondent Name	*Paraic HIggins*
Contact telephone number	*01 8578717*
Respondent Company	*Tynagh Energy Limited*

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?	The DS3 System Services Tariffs (1 Oct 2017 – 30 April 2018) paper states "*[t]he payments rates should be set at a level that is sufficient to provide industry stakeholders with confidence in the future trajectory of payments while being mindful of the short-term impact of higher system services expenditure on consumers*". The TSOs may have carried out the first four steps of the SEMC's approach for establishing a tariff methodology[1]. However, the TSOs do not appear to have applied step 5. TEL believe step 5, "*the TSOs then use the resulting additional budget for each service to calculate the tariff rate increase, if any, for each service*", is required to attract the necessary DS3 investment. The current proposal is detrimental to one of the key benefits of the tariff rates i.e. *providing industry stakeholders with confidence in the future trajectory of payments*.
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?	TEL think there is not enough information provided in this consultation to make a comment on the TSOs' recommendation. In section 4.2, the TSOs "*consider that it would be beneficial if the Regulatory Authorities could provide further information on the timing of the introduction of long-term market mechanism arrangements in order to provide greater contract certainty which would facilitate greater investment certainty in the interim period*". Subsequently in section 4.5, the TSOs briefly introduce a "minimum defined time duration".

[1] The DS3 systems services future programme approach information paper (SEM-17-017), section 4.3.2.

	Considering the significant delays to the implementation of the high level DS3 design it is worrying to see a proposal to introduce a minimum defined time duration period which allows the development of the long-term mechanism for system services to slip with impunity. The proposed regulated arrangements provide little investor confidence. Thus, TEL does not agree with the TSOs' recommendation of a minimum defined time duration. TEL believes if the long term DS3 system services benefits are to be achieved the RAs need to develop the long-term mechanism for system services as soon as possible.
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?	TEL do not agree with the TSOs' methodology for determining a minimum contract length. The characteristics of other jurisdictions (revenue from energy markets, capacity payments and ancillary service payments) may result in a contract length being acceptable to investors within that jurisdiction. Each jurisdiction is different and therefore a more scientific approach is required. A bottom up approach, similar to the DS3 System Services Finance Arrangements Consultation[2], should be used to determine the length of contract that is required to attract both new and upgrade investments. TEL agree that contract certainty is required to provide the right environment for investment. However, any benefit to potential investors from a defined contract length is undone by the TSOs recommendation to replace an annual tariff with a conditional

[2] DS3 System Services Finance Arrangements Consultation 2012

	tariff, this is discussed in more detail in TEL's response to Question 4. This coupled with the TSO proposal of including a "*no earlier than*" clause strips all investor confidence from the DS3 project.
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?	TEL believe that the consultation does not outline simply and clearly how the scalars, tariffs and volumes will be set/adjusted year on year. This lack of clarity affects the ability to forecast future DS3 revenue. The concerns of over expenditure have resulted in the development of recommendations that significantly reduce investor confidence. The current tariff and scalar proposals direct the majority of the DS3 cap through the SNSP scarcity scalar. This proposal exposes the investor to wind and interconnector activity risk. This coupled with a conditional review, that appears it might be sporadic with proposals that could be dramatic, exposes an investor to regulatory and market risks. TEL recommend an annual review is performed with a limit on the annual scalar and tariff deviation. This methodology would achieve the level of investment the RAs and TSOs desire for the successful implementation of DS3 and reduce the risk of over spending.

Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	As per the answer to question 4, TEL do not believe that there should be a conditional review, but a structured annual review following the 5 step methodology described by the RA's in the Information Paper.
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?	TEL believe the TSOs' logic of "[s]*hould a high annual wind capacity factor occur, the over-expenditure of system services will likely be more than negated by the decrease in energy prices seen in that year*" should be applied to the overall Enduring Tariff and Scalar design and not just as a trigger for a conditional tariff review. A holistic analysis including (a) savings in the energy market due to dynamic competitive bidding behaviour, (b) potential reduced CRM payments due to increased certainty in calculating CRM auction price caps (USPC determination), (c) reductions in Dispatch Balancing Costs due to plants targeting DS3 payments and (d) potential DS3 payments should be performed for determining the regulated tariffs and scalars. As this TSO proposal illustrates the DS3 programme needs to be considered in conjunction with the energy markets.
Question 7: Have you any comments on the TSOs' recommendation to use the 'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	TEL do not agree with the proposed high scarcity scalars of 6.2 from 60% to 70% and 8.2 for above 70% SNSP. As stated in previous answers, the high scarcity scalars significantly increase the risk in estimating annual DS3 revenues. TEL believe that there is no benefit in the Stepped Scalars over higher tariffs in terms of consumer benefit

	(through reduced SMP, lower DBC's, reduced RO payments). Stepped or linear scarcity scalars provide no security to generators in the case of forecast error. On page 52 of the consultation (section 4.5), the TSOs state that "*[b]ased on experience in other jurisdictions, the scalar should not be lower than 3.1 from 60% up to 70% SNSP, and 4.3 above 70% SNSP, as it will not drive sufficient investment in new Non-Synchronous Technologies. However, the scalars can only be set this low if there is an equivalent increase in certainty of the arrangements for over four years*". If there was to be a scarcity scalar, a linear scalar of the Day Ahead Market position would provide more consumer benefits and higher investor certainty once the slope of the curve was considerably shallower.
Question 8: Should we decide to use a 'Stepped' scarcity scalar, are there other considerations which we should consider in its design?	The scalar value should be as low as possible and have higher tariffs. The impact on future auctions should be considered. As should the impact on investors if there is yet another change from the 2014 Decision on DS3 procurement.
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?	The DS3 systems services future programme approach information paper (SEM-17-017) highlights that "*scalars will be applied to the unit price of a given service received by a given provider to incentivise best outcomes and performance in service provision*". If there is a clear risk of over expenditure due to over investment it must be determined

	if the proposed scalars are achieving their desired outcomes. The scalars should be reassessed if there is an over spend risk from the proposed scalars. The Volume Scalar was identified to protect the consumer from overpayment. The Scalar Design Consultation proposes not to implement the volume scalar (section 3.8) and refers to the Tariff consultation's "conditional review" as a replacement. The volume scalar had one role which was to minimise overspend. TEL would support the retention of the Volume Scalar, and the reduction of the portion of the budget applied to the scarcity scalar.
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?	An auction should be held to procure the required volume. TEL have previously responded on this and have presented at the industry forum on DS3 Auctions.
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?	TEL do not agree with the TSOs' recommendation to delay the implementation of taking the higher of a service provider's market position or physical dispatch. This is a critical decision that reduces the impact of TSO actions on plants' (not behind TSO constraints) DS3 revenue. TEL believe this decision should have been implemented at the time DS3

	started and a delay is further inequitable treatment of plants that are not favoured by TSO constraints. There is a risk of over-expenditure on all system services yet it is only the payments due to market position or physical dispatch decision that is proposed to be delayed. TEL do not agree that the impact assessment should "*will allow the Regulatory Authorities and TSOs to make the necessary policy and design decisions and engage with stakeholders, and for the TSOs to put in place adequate measurement and settlement systems to implement this decision*". If there is an overspend at the end of the first year it is not the equitable decision of taking the higher of a service provider's market position or physical dispatch that is the reason. It is the tariffs and scalars that the TSOs recommended that need to be addressed. TEL would like to seek assurances from the RAs and SEMC that the decision of taking the higher of a service provider's market position or physical dispatch will be implemented as per the SEMC's decision? TEL suggest that Market Participants should be encouraged to submit invoices for the DS3 Revenue that they would have received if the higher of Market or Physical was taken. TEL would also suggest that the TSO guarantee that all interest due to participants for the withholding of these revenues will be paid.
Question 12: Do you have any comments on the method by which a resettlement between market and	As per TEL's response to Question 11, TEL does not agree with the delay of the implementation of the higher of the market and physical dispatch. If the RAs agree with

physical dispatch could occur following the 12 month delay?	implementing a resettlement following a 12-month delay there must be no doubt of full reconciliation. The proposed 12-month delay places a financial burden on the cashflow of effected companies. TEL think a quarterly resettlement would be a reasonable delay period. TEL believe that market participants should be encouraged to submit invoices with suitable backup to Eirgrid for the difference between their market and physical dispatch.