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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Respondent Company	*Moyle Interconnector Ltd*

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*
Introduction	Moyle Interconnector Ltd welcomes the publication of this consultation paper and the opportunity to respond to the proposals presented within it. In addition to some general remarks and some comments relating to treatment of the FFR product, we have offered responses to specific questions that affect Moyle's business. Note that the inherent overlap in the two concurrent consultation papers means that some of our comments are presented similarly in both responses.
General Remarks	We welcome the evolution of the DS3 system services tariff and scalars so that the value of the products more closely reflects their value to the system operator. We value the proposal by the TSOs that the next round of contracts should last until long term 'enduring' arrangements are in place. In that context, the current proposals for tariff structures and scalar design are welcome, since they set out a longer term framework that demonstrates the value of the portfolio of services to the system and provides improved signals for investment through greater clarity on future remuneration (albeit only until the 'enduring' arrangements). We note that such investment signals are not just for new providers or new units but additionally incentivise improvement of delivery (whether through additional volumes, faster response, etc.) from existing providing units. Noting that SNSP is a factor in proposed scalars, we acknowledge publication of historic SNSP data. Although the consultation paper does include in table 6 a range of estimates of SNSP in the 2019/20 year, we would not expect these figures to be so useful in estimating revenues in the short term. (We note, of course, that historic SNSP is not wholly indicative of future SNSP.)
On the FFR product	We draw attention to a flaw in the arguments presented on scalar design for FFR. The tariffs paper states that '…the system has been, to date, operated in a safe, secure and reliable manner without FFR' (p20). (The scalars paper implies the same – p35.) This is clearly false. The Moyle Interconnector has for many years provided a service that maps directly onto the DS3 system services FFR product and the slower reserve products. Anecdotal evidence from the real time and near time teams in both SONI and National Grid is that the product provided by the

	interconnector is valued very highly. During the recent past both SONI and National Grid have come to Moyle for additional volumes of frequency response, including FFR, when other providers of the service have been unavailable to the TSOs. This is clear evidence that the systems have been operating with and, to some extent, rely on the FFR service provided by Moyle among others. We note that the current consultation paper on scalars in the enduring regulated arrangements proposes a higher scalar for faster response of FFR. This is further evidence that the FFR which is already being provided is highly valued by the TSOs. It is the case that FFR has not been paid during the DS3 system services interim arrangements. This is due the inability of TSOs to measure performance of the fast services, hence the current measurement trials, not due to any doubts over qualifying the performance of FFR-providing units. Two problems are consequent: 1. The proposal to set the temporal FFR scalar to zero below 60% SNSP. (Compared to 1 for eleven other services.) 2. The proposal to set the baseline FFR tariff at the level approved for go-live of the interim arrangements in October 2017, without the +5.3% scaling applied to other products. In each case it is clear that the arrangements for FFR ought to be as applied to POR, SOR, TOR1, etc. In the proposed scalar design these slower reserve products all receive a minimum temporal scalar of 1, recognising their value at all SNSP levels. Given the apparent value of FFR to the system, FFR should also receive a minimum temporal scalar of 1. Further, had the FFR product been paid from the beginning of the interim arrangements, a minimum scalar of 1 would have applied. FFR has been continuously available to the system from providers who formed business plans based on the tariff and scalar structures which were proposed in consultations during 2015 and 2016 and subsequently approved for the interim contracts by the SEM Committee*. The tariff and scalar structures for FFR have therefore been put in place; the only reason providers were not paid was the TSOs' need to develop measurement tools. (We would argue that Moyle's service was already adequately measurable.) There has been no break in FFR delivery. Failure now to reward FFR in at least the same way as originally planned and in the same way that other reserve products are treated undermines the confidence that the TSOs are aiming to provide through the proposed tariff and scalar designs. Specifically, FFR should receive a

	minimum temporal scarcity scalar of 1 and the baseline FFR tariff should be increased in accordance with the tariff increase for the other eleven services. Without such changes to the current proposals for FFR, a reduced level of investment should be anticipated. An increasingly obvious missing piece of the DS3 system services jigsaw is high frequency response. It is our experience that HF events no longer represent the exceptional, emergency condition that justifies an emergency response under the grid code. Rather we understand that HF response has become a routine service which is increasingly highly valued by the SOs, if not yet rewarded financially. While we acknowledge comments made at the 1st August forum that a specific HF product is not required when providers are capable of providing HF response as part of their offering under the existing reserve products, it is appropriate that HF response should be rewarded in accordance with its value to the system. A suitable approach could be application of an additional scalar to the reserve products, offering additional reward for symmetrical response, that is the same shape of HF response capability as LF response capability. We encourage the TSOs to adopt such an approach in the new contracts. * Consultations including: Consultation on DS3 System Services Scalar Design, 11 March 2015; Consultation on DS3 System Services Interim Tariffs, 8 April 2016; Consultation on DS3 System Services Contracts for Interim Arrangements, 21 April 2016.
Question 1: Have you any comments on the proposed tariff rates for the Enduring Regulated Tariff arrangements?	As we have stated above, we find it to be unreasonable not to apply the originally published tariff structure to FFR. Specifically the FFR tariff should be increased in accordance with the tariff increase for the other eleven services (i.e. +5.3%).
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-	We agree with the TSOs' recommendation. Providers require some degree of confidence in the stability of the arrangements to support investment in new and improved plant. Acknowledging that there will be a further change to the procurement arrangements, as the SEM Committee defines the enduring, competed design, there is an opportunity in the intervening years to provide a single, stable contract model, supported by tariffs and scalars that correspond to system needs. This will provide at least shorter term confidence in the stability of arrangements, in turn supporting investment decisions.

term market mechanism for System Services?	
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?	No comment.
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?	In principle we acknowledge the need to provide stability of the tariff structures. We would, however, be concerned if tariffs could not rise in line with inflationary costs.
Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	The key condition should be demonstrable risk of unsatisfied system needs, as presented by the second condition proposed in the paper – a lack of investment in needed services demonstrated by significant under expenditure – assessed for each service.
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?	We agree with this proposal, because high annual wind capacity factor is an indicator of success. The benefits of this result would be apparent in other market segments – e.g. energy. Since the DS3 project does not consider the whole system economic impact, exclusion of high wind capacity factor as a factor triggering a review is appropriate.
Question 7: Have you any comments on the TSOs' recommendation to use the 'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	We agree that the stepped design is appropriate, at least in the first few years of the new contract. We consider that the stepped model gives greater confidence to providers when likely SNSP is not easily estimated (at the possible expense of missing higher payments when SNSP is high) (Although historic SNSP data may be available, this is not necessarily an indication of future patterns, not least due to different weather patterns and interconnector scheduled flows that may change with the introduction of market coupling in I-SEM.)
Question 8: Should we decide to use a 'Stepped'	As we commented in some detail above, there is a strong case for FFR to receive a scalar of 1

scarcity scalar, are there other considerations which we should consider in its design?	below 60% SNSP, which is what FFR would be receiving today except for the measurement qualification trials.
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?	We acknowledge the contract design is likely to reward all qualified providers and note that if a larger than anticipated volume of provision is brought forward there may need to be a method to mitigate over-expenditure.
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.
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?	No comment.
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?	No comment.