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*
BnM Overall Response:	Please note that BnM has supplied a single Supplementary Note, which is in fact labelled as a 'Summary Note' of the BnM viewpoint in respect of both DS3 Enduring Tariffs and Enduring Scalar Design Consultations - combined.
Question 1: Have you any comments on the proposed tariff rates for the Enduring Regulated Tariff arrangements?	Yes – the new rates are too low, and there is insufficient visibility to investors of future revenues on which to make commercial investment decisions on exisiting or new assets. We refer to our supplemental paper notes which accompany this response in regard to: a) balance of risk against service providers b) lack of visibility of future AS payments on which to make commercial decisions c) the fact that Payment for HAS services under the new proposed rates will not be maintained – which is a core design criterion and d) recommendations in light of a), b) and c). There are four important points in summary, and three recommendations: **Four Points:** **1) Insufficient visibility for existing and new service providers** Current proposals to have an agreed 'base rate' which is subject to many other multi dimensional revenue changing influences which are largely dependent on scalars is not attractive to new or existing investment. Influencing factors are set out in our supplemental paper summary notes and we kindly refer you to same – to avoid repetition.

2) **Payment for HAS services still too Low**

The design criterion to equalise total payment for the seven existing services in the changeover from HAS contracts to the DS3 interim period will not be maintained with the new proposed rates.

There is a missing revenue issue given that the total extrapolated payment for the seven existing services in 2017/18 (ie at the proposed increased rates) under DS3 falls well short of equalling the existing HAS budget for these services. This is evident from the table below:

Table 1 Difference between HAS and DS3 remuneration to Service Providers

				Proposed New Rates					
HAS Service	14/15 Cost (€)	HAS 14/15 Rates (€c/unit)	2014/15 Volume (unit)	**DS3 Service**	DS3 Int Rates (€c/unit)	Cost (€)	Difference (€)	Cost DS3 vs 14/15	
POR	5,997,822	2.34	2,563,172	POR	3.09	7,920,201	1,922,379	32.1%	
SOR	8,961,140	2.24	4,000,509	SOR	1.87	7,480,952	- 1,480,188	-16.5%	
TOR1	8,941,887	1.87	4,781,758	TOR1	1.48	7,077,001	- 1,864,886	-20.9%	
TOR2	5,373,694	0.93	5,778,166	TOR2	1.18	6,818,235	1,444,541	26.9%	
RRS	2,656,983	0.20	13,284,915	RRS	0.24	3,188,380	531,397	20.0%	
RRD	5,313,966	0.54	9,840,678	RRD	0.53	5,215,559	- 98,407	-1.9%	
Reactive power	7,230,863	0.13	55,622,023	SSRP _ Lead	0.22	6,118,423	- 1,112,440	-15.4%	**
Reactive power	4,153,649	0.13	31,951,146	SSRP _ Lag	0.22	3,514,626	- 639,023	-15.4%	**
	48,630,004					**47,333,377**	**- 1,296,627**	**-2.7%**	*

* This -2.7% figure increases to -5.0% assuming 2014/15 volumes at HAS 15/16 rates

** Assuming an 0.5 RP factor multiplier for the active power range for which this reactive service is available

There are clearly very large % reductions across SOR, TOR1, and Reactive power – most notably due to the RP factor in the case of Reactive Power.

The reduction in cost across the seven 'existing' HAS services, which of course is the flip side of revenues to service providers, is estimated at -2.7% when comparing 2014/15 volumes and rates with DS3. The gap increases to 5.0% when using the same volumes but at HAS 2015/16 rates.

	3) Only Limited Payments for Distribution System Ancillary Services Due to no fault of their own, assets which are producing services which are of value and benefit and which do not have access to the transmission system and instead are linked to the distribution network (for other than aggregators) will not be eligible to collect revenues during the interim period. This is of concern. In this regard we note the TSO's recommendations in respect of 'Principles Covering the TSO's Approach' as set out in the Report on DS3 System Services Review to the SEM Committee of May 2013[1]. This report sets out a range of core principles that the TSOs consider to be most relevant in the design of system services which can help guide the design of pragmatic arrangements: ➢ Value to the consumer ➢ Transparency ➢ Proportionality ➢ Non-discrimination ➢ Provision of a long-term signal consistent with electricity policy objectives It would be difficult to position that such a service provider who is capable of providing the services in a reliable manner is not eligible to participate and be remunerated. There is insufficient provision for participation within the DS3 supplier framework, which is unfair and which is a concern especially given that the interim period could last for several years. **Recommendations:** Consequently there is a need for: 1) **Higher proposed tariff rates for enduring Regulated Arrangements** Rates need to be higher so as to compensate for this gap thereby satisfying the design criterion to equalise total payment for the seven existing services in the changeover from HAS contracts to the DS3 interim period.

[1] DS3: System Services Review TSO Recommendations

	2) Annual Indexation of DS3 Tariff Rates for same Underpinning these two recommendation is the need for the TSOs/RAs to Realise Commercial Imperatives and need for an Incremental/Staged approach. Investors need to have visibility of future revenues by having clearly marked out annual increase rates in the regulated tariffs, in place of the current proposal. The recommendation is for TSO's and Authorities to recognise that there is a need for an incremental/staged approach which will be aligned with the four Guiding Principles, but which will take into account the 'missing' Guiding Principle of 'Secure Energy Supply' which is notably omitted. What is required is a realisation on the part of the Authorities that this will lead to pockets of overspend which will ultimately be levelled out both within the Regulated Tariffs period as well as further in the Auction period. For perspective, consideration on overspend should be taken within the scale of CRM expected savings over coming years, where such spend may reduce from c€530m to €150m - €350m depending on source. **3) Greater Initiatives for remuneration of Ancillary services being provided by Distribution System service providers** There needs to be an improved mechanism in place which would facilitate eligible Distribution System assets receive DS3 payments over the Interim period, either from the get-go or from sometime within the interim phase.

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?	Yes - we support the thinking behind the recommendation which we believe is to improve investor confidence beyond the limited two year duration certainty for the Enduring Regulated Arrangements. We note and welcome consideration by the TSOs that there is need to commit to as long a period as possible before changes are introduced and the 'minded to' position of the TSOs to recommend to the RAs, a minimum of six year contract certainty for AS products. However, while we welcome the general thinking we are very concerned that long term 4 to 6 year contracts potentially applying to DS3 services <u>in isolation of consideration of Capacity and Energy revenues</u> could lead to an inappropriate bind rather than a bonus to service providers – potential for a sort of 'locking in' to an unfavourable contract. While we note the limited potential powers of the 'conditional' tariff and scalar adjustments, while potentially representing a benefit are, we believe, from an investor perspective, more likely to represent a threat to future revenues. An investor might take a similar view on the powers underpinning the Protocol document whereby changes can be made on a quarterly basis. Finally, we reject the notion expressed In the consultation papers that the longer term contracts (up to 4 or 6 years) for DS3 services, along with the fixed unchanging base Tariff Rates, will prove the appropriate certainty of DS3 payments to potential DS3 service providers. BnM disagrees with the TSOs' apparent assumption that this certainty will provide the appropriate incentives for participants to make investments in order to provide DS3 services. **Recommendation:** The Authorities need to realise that in implementing ISEM that there simply needs to be some form of overlap in DS3 policy which reflects <u>the three revenue streams</u> and this policy needs to be far more reactive than 4 to 6 year periods will allow. It is not fair to expect industry to go blind into longer term DS3 contracts with no reference to Capacity and Energy revenues.

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?	With respect to contract certainty we firmly believe that there is a need for: a) flagged annual indexation from the beginning of the proposed panel framework – so as to give some basis for investor certainty b) clear and unambiguous commitment for regulated arrangements to remain in place for a minimum defined time duration (we note the 'minded to' position of 6 years) but ONLY where there is clear and transparent consideration of DS3 revenues which reflects the three revenue streams, ie, to include both Capacity and Energy revenues.
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?	<u>Investors need to have visibility of future revenues by having clearly marked out annual increase rates in the regulated tariffs, in place of the current proposal.</u> We firmly support the need for an annual tariff review and are aligned with the EAI's proposed modification which involves industry being provided with a clear increasing trajectory for the DS3 base tariff rates to 2020 so as to provide greater certainty as to the total DS3 revenues that will be paid out each year, acknowledging that the application of scalars will still make up any shortfall in revenues with reference to the SEM Committee approved glidepath. While we acknowledge that this may not mitigate cost uncertainty for the TSOs/RAs we would urge that there is the need for acceptance by the TSOs/RAs to <u>realise Commercial Imperatives and the need for an Incremental/Staged approach</u> which will be aligned with the four Guiding Principles, but which will take into account the 'missing' Guiding Principle of 'Secure Energy Supply' which is notably omitted. What is required is a realisation on the part of the Authorities that this will lead to pockets of overspend which will ultimately be levelled out both within the Regulated Tariffs period as well as further in the Auction period.

	For perspective, consideration on DS3 potential overspend should be taken within the scale of CRM expected savings over coming years, where such spend may reduce from c€530m to €150m - €350m depending on source.
Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	As set out, BnM favours a conditional review in the case of underinvestment but not for over investment as we do not believe that the main approach of base rates plus scalars is conducive to a sound investment environment. We have already expressed in the previous response the need for potential DS3 over spend not to be taken in isolation but within the broader context of overall anticipitated savings from ISEM. That said, in responding directly to the question BnM would favour review of a scarcity scalar over the potential application of a volume scalar. We note, and welcome the minded to position in the DS3 System Services Enduring Scalar Design NOT to implement a specific Volume Scalar for Regulated Arrangements.
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?	This is sensible. Wind blowing one year, and associated high levels of SNSP, does not infer that the same will happen the following year. In absence of any such correlation BnM welcomes this approach.
Question 7: Have you any comments on the TSOs' recommendation to use the	A 'stepped' scarcity scalar design rewards SNSP levels close to whatever the threshold is, in that the scarcity scalar value at 65% SNSP for FFR is higher than that for the linear alternative. We believe that this encourages earlier investment by reducing the barrier to entry.

'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	The alternative view is that the potentially higher levels of marginal investment needed to achieve SNSP levels greater than c65%-70% may look on the 'stepped' scarcity scalar as a disincentive. BnM's current view is that the Stepped scarcity scalar is more appropriate, given the current stage of DS3 market development.
Question 8: Should we decide to use a 'Stepped' scarcity scalar, are there other considerations which we should consider in its design?	We believe however, that there will be instances where the 'Step' nature needs to be modified. For instance we agree strongly with the proposal to implement a Temporal Scarcity Scalar for FFR. However we take issue with the proposed nul payment under the temporal scalar for SNSP levels less than 60%. Our counterproposal is that there should be a scaling up of the temporal scarcity scalar, ramping up between the values of 'zero' at 55% SNSP and 'one' at 60% SNSP. Non payment to service providers (ie the severity of no payment) for FFR at times where less than 60% SNSP prevails does not seem appropriate for what is in effect a new service which needs to be 'seeded' and which is forecast to become the highest revenue generating service by 2020. Our belief is that potential changes can easily be re-modelled within Plexos modelling.
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 comment on the balance of risk being against the investor as a consequence of too great an emphasis on cost control. We have already referred to the need for the TSOs/RAs to take a measured perspective on potential DS3 overspend in the context of anticipated savings from ISEM including the Capacity and Energy revenues. That said we applaud the TSOs in recognising the need to have appropriate contingent capital facilities.
Question 10: Have you any comments on a preferred method to	With regard to the alternative proposals we favour the reviewing of the definition of 'availability' for any further new entrants classified as DSUs and Non-Sychronous Technologies (or any other technology with high 'availability'

implement a procurement based volume limit on the level of high availability technologies to obtain system service contracts?	levels) after a certain point (provided this was at a 'reasonable' point). This approach would be preferable to the volume scalar or competitive tender alternatives.
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?	BnM is aligned with the EAI positon. The TSOs propose delaying the implementation of this decision by 12 months due to their view of the risk of over-expenditure as a result of forecast error relating to this. However, the TSOs also suggest deducting €15m from the total potential DS3 payment of €235m to deal with this issue. The seemingly arbitrary proposed delay and deduction undermine potential forecasts of DS3 revenues by participants as other such delays or deductions may occur unexpectedly in the future. We strongly urge this SEMC decision is implemented on day 1 of I-SEM, assuming the higher revenue is what the participant receives.
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?	Our only comment is that we cannot understand that resettlement could be expected to occur as late as 12 months after get go. We do not see a reason as to why resettlement could not occur after say 2 months.