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	*Derek Russell*
Contact telephone number	*+44 28 90 380 647*
Respondent Company	*Energia*

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?	Energia do not support the TSO's proposal to keep the tariff rates fixed for the period of the enduring arrangements. Energia supports a modified version of the TSOs proposed regime whereby the base tariff rates increase yearly along an approved trajectory, which may or may not (subject to analysis and consultation) track the SEM committiees glidepath. The application of scalars would then bridge the monetary gap each year to the SEM committee approved glidepath spend.
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?	Energia supports the TSO's recommendation that the regulated arrangements be put in place for a minimum defined period and suggests that this timeframe could be up to 10 years given it is not essential for the term of such contracts to align with the period of the Enduring DS3 arrangements. However Energia only supports this recommendation if the TSO proposal as outlined in the consultation paper is modified as outlined below. In addition the Scalar values must be clearly set out in any such contract for DS3 services and not be subject to change over the contract term. Energia does not support the proposal as outlined in the consultation whereby base DS3 tariff rates will not vary for the foreseeable future. Such a regime Energia argues does not reflect the true value to the system of DS3 services into the future as the system evolves to accommodate higher SNSP levels. Further it is argued that the application of scalars as large as some proposed by the TSOs are unreasonably high, suggesting the base tariff rates fundamentally need to increase. Energia supports a modified version of the TSOs proposed regime whereby the base tariff rates increase yearly along an approved trajectory, which may or may

	not track the SEM committees glidepath. Our analysis indicates that the increase in tariff rates should be in excess of 25% in both 2018/19 and 2019/20 to achieve scalar values by 2019/20 that are more reasonable, while providing an improved incentive for potential investors in the provision of DS3 services. The application of scalars would then bridge the monetary gap each year to the SEM committee approved glidepath spend. Energia argues that the TSO current proposal does not create the correct balance of risk between the parties. The TSOs wish investors to invest in the provision of DS3 system services, but such investors have very limited guarantee of the likely DS3 revenues they will receive given the many variables at plan in setting the SNSP level in the new I-SEM market. If the TSOs want a high level of comfort that the DS3 services they need will be there when they need them, they need to provide a higher level of comfort to investors that their investments in DS3 are secure with more predictable 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?	The consultation paper does not outline a regime for DS3 which has what is commonly understood to be "contract certainty" given it is not possible to accurately forecast SNSP levels on which DS3 payments are dependent. Acknowledging this reality, but in an attempt to provide a higer degree of contract certainty the following measures should be adopted: (1) the term should be up to 10 years (2) the DS3 tariff rates should increase yearly along a published trajectory to 2020 (of in excess of 25% each year), with the scalar values ensuring the bridge the gap between standard paymens based on rates and the SEM Committee glidepath amounts. Scalars and tariff rates must be contract terms which must not be subject to change over the term of the contract. (3) Commitment must be given on the details of how SNSP levels will be reported by the TSOs, how the TSOs will call on DS3 services in real time, and how the rationale for daily Interconnector flow decisions will be published. (4) The TSOs should operate a five year rolling DS3 payment regime such that an overspend in total in any one year will not prevent payments being made if

	there has not been an overspend over the previous five year review period. Such a regime will improve investor confidence.
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?	Energia supports a review of the DS3 tariffs at the end of year 1 and again at the end of year 2 of I-SEM operation given (a) I-SEM is a significant change from how SEM operated, and (b) many assumptions have been made as to how the I-SEM market and participants in same will operate which may not all be accurate. However thereafter Energia supports a move away from the mechanical annual tariff review, and supports a move to a "review as required" regime subject to (i) clear and agreed criteria and (ii) the tariff rates shall be gurranteed not to reduce (iii) there will be a mandatory tariff review every 3 years.
Question 5: Are there other considerations on the conditions under which a conditional review would be triggered?	Energia believes the considerations as outlined in the consultation appear sufficient but Energia suggests that the criteria is amended to take a five year rolling DS3 payment review period into account. Such a regime would mean that an overspend in total in any one year will not prevent payments being made if there has not been an overspend over the previous five year review period. An additional benefit of this is that this will not force an unnecessary fundamental change in the DS3 payment regime.
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 proposal, outlined in Setion 4.4.3 is not supported by Energia. Energia agrees with the principle of the proposal set out in Section 4.2 that a conditional review would take place in the event of an over-expenditure in any one year in a certain technology types given the desire to have a mix of technologies providing DS3 services in I-SEM. Energia does not support the proposal of a review in any year of an over- or under-spend in total, but alternatively propose a rolling five year DS3 payments regime whereby an overspend in any one year allowed to be paid out if there

	has not been an overspend in aggregate over the last five years, and no conditional review will take place. Such a rolling payment regime is likely to provide greater certainty in relation to DS3 payments. Without such a rolling five year payment regime the entire conditional review process is undermined and thus a return to the mandatory annual review would have to be reconsidered.
Question 7: Have you any comments on the TSOs' recommendation to use the 'Stepped' scarcity scalar design rather than the 'Linear' scarcity scalar design?	The proposed application of a "linear" scarcity scalar as outlined graphically in Figure 4 would not be desirable to Energia for a number of reasons, including the fact the slope of the linear scalar is excessively steep. As such, given the two options as outlined graphically in Figures 4 and 5, Energia would support the use of the "Stepped" scarcity scalar design. However Energia believe there is considerable merit in evaluating further the linear application of the scarcity scalar regime if the starting point for this is not 60% as per Figures 4 and 5, but instead a SNSP value in the range 40-45%. The TSOs are asked to consider this as a credible alternative to the stepped scalar regime, and provide details to industry of how this might work so as to fully inform the final decision.
Question 8: Should we decide to use a 'Stepped' scarcity scalar, are there other considerations which we should consider in its design?	Based on the information contained in these consultation papers, and in particular the fact that it is proposed that the linear scalar regime would not start to be applied until SNSP levels exceed 60%, if one assumes the papers outline the only two options available, Energia could not support the Linear Scalar regime as proposed, and as such support the proposed application of the stepped scalar. However as per our response to Question 7, Energia would like to see the analysis of the application of a Linear Scalar which would begin at SNSP levels of 40-45% before making a final decision on its preferred option, and believe the TSOs and industry should have access to the same information in order to ensure they make an informed decision on this key aspect of the Scalar regime. This alternative application of the Linear Scalar regime may be the preferred solutions depending on the results from the TSOs analysis in this regard.

	In making the decision to opt for Linear or Scalar, consideration should be given to the fact that operationally the TSOs will be making decisions with a view limited to non-deminimus generation units only, yet settlement will be made across all generation of the basis of these real time imperfect decisions. Slight "imperfections" in the TSO decisions based on this real time imperfect information may result in materially different outcomes depending on whether the Stepped or Linear scalar regime is selected.
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?	It is assumed this question is related to Section 4.4.1 of the consultation paper. Energia does not support Option 1 involving redefining the definition of "availability" for new entrants as this may be viewed as discriminatory towards new entrants. However the application of a Volume Scalar or the use of a volume limit as options do appear to have potential merit, with the volume scalar in Energia's view appearing to be the most logical approach, and the most simple to implement. However Energia agree with the assertion outlined in the paper that further work and further consultation on this matter is required before an informed decision can be made. In advance of applying any of the potential remedies outlined in the paper by the TSOs the TSOs should operate on the basis of a five year view of DS3 expenditure as outlined in our response to Question 5. The RAs and TSOs are asked to consider the potential for the TSOs to be conflicted in their decision making given they are the owner of the EWIC interconnector, and decisions related to flows on this asset can have a material impact on SNSP levels, imports/export volumes, and DS3 payments, given it is normally the largest import/export source in the system. It is imperative that the right operational decisions are made at all times for the safety, stability, security and integrity of the system. The RAs and TSOs are asked to provide comfort to industry that steps have been taken, and procedures are in place, to ensure operationally the TSOs will at all times make decisions in the best interests of

	the system as a whole, and that there is a robust, stringent monitoring and reporting regime in place to ensure this is always the case? A related concern revolves around the fact that the TSO will seek RA approval in order to make investments in EWIC. In the case being made to support this investment application the TSO will have to outline forecast volumes, and like many investment decisions it is likely a prudent view will be taken concerning volumes. If approval is given for investment, and the resulting volumes exceed those forecast in the business case (which it is assumed will also be used in setting tariffs and budgets), an over-expenditure may result primarily due to these prudent forecast volumes. The TSOs and RAs are asked to advise how they would guard against such a situation, and/or how they would prevent adverse negative impacts on the market if such a situation were to arise?
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?	It is assumed that this question related to Option 3 in Section 4.4.1 of the paper. Option (3)(ii) involving the use of a “glide path” volume limit appears the most reasonable. Option (3)(i) is an alternative option but it is suggested to be second to Option (3)(ii). Option (3)(iv) involving the use of a separate tendering process, presumably for DSUs and non-Synchronous DS3 system providers is not supported, as it implies a form of special status to such DS3 service providers, and probably fails the derired criteria for a technology neutral assessment. Option (3)(iii) is also not supported as having a separate competitive tender process has the same flaws in its approach as outlined above for Option (3)(iv). Energia agrees with the assertion in the paper that further work and further consultation on this matter is required before an informed decision can be made.

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?	Energia strongly opposes the TSO's recommendation to delay the implementation of taking the higher volumes of a service providers market position or physical dispatch, and believe the SEMC decision should be implemented fomr I-SEM go-live. To delay the implementation of this SEMC decision risks the perverse situation where a DS3 services provider is economically disadvantaged by responding to requests made to it by the TSO for the provision of other services required by the system, including those outlined in the grid code. Such a situation cannot be allowed to arise.
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?	Energia strongly opposes the TSOs proposal for a 12 month delay in the the implementation of the SEMC Decision. As such this resettlement issue should not arise. As outlined in Energia's comments made in conjunction with this consultation, there are already significant concerns, given experiences to date, in relation to how well settlement will occur in the I-SEM market given the material increase in complexity between I-SEM and SEM. These concerns are only multiplied if there is the potential for resettlement, and this further supports Energia's view to oppose any delay in the implementation of the SEMC decision.