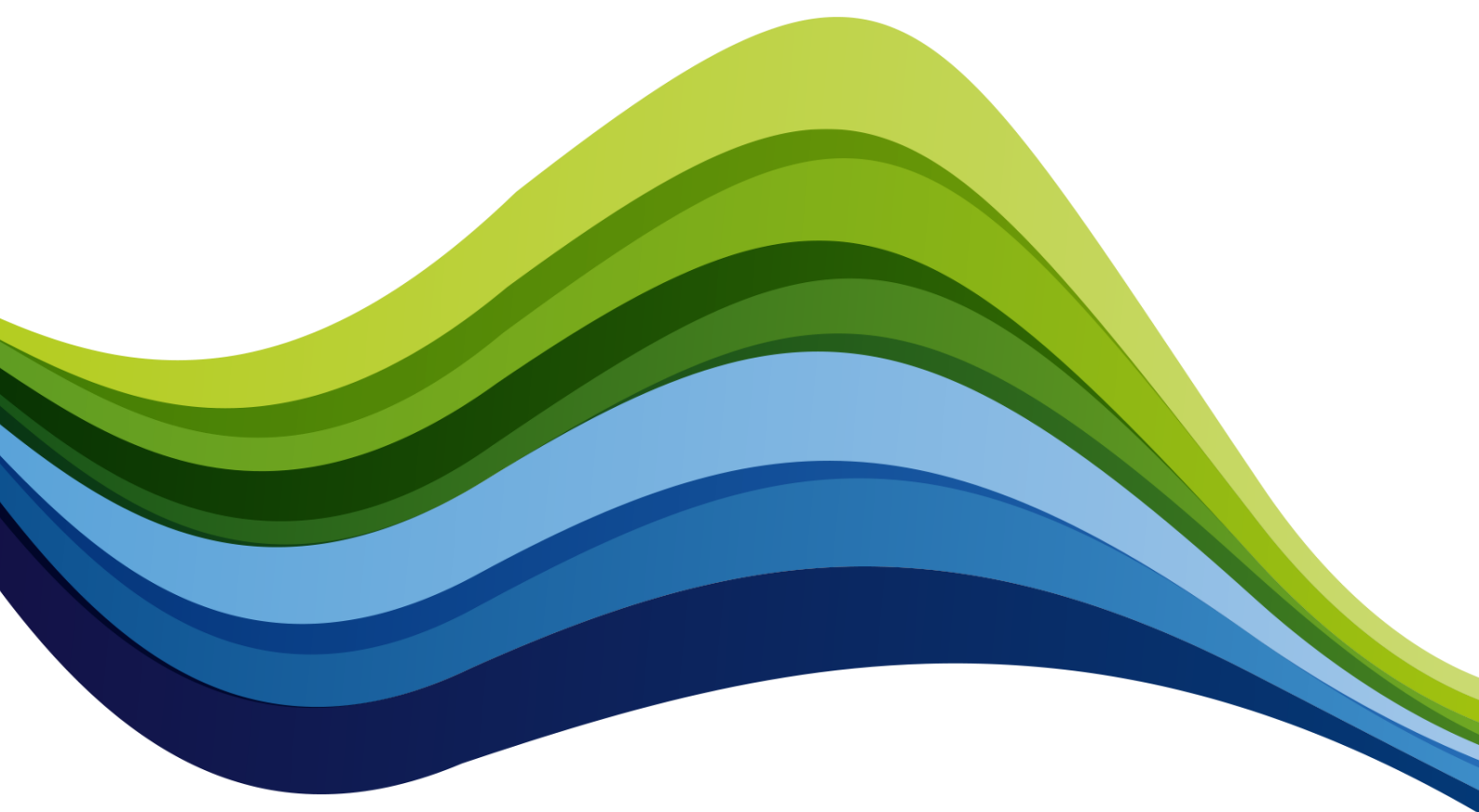


DS3

DS3 System Services Interim Tariffs

If you have any questions in relation to our response, please don't hesitate to contact me at connor.powell@sse.com



Executive Summary

Thank you for giving SSE the opportunity to comment on DS3 Interim Tariffs. Our long-term priority for the businesses in our Wholesale segment is delivering sustainable, flexible energy production through a diverse portfolio of assets. We have already enhanced stations in our existing thermal fleet in GB to meet system challenges. As a major producer of electricity in Ireland, SSE can enhance its existing fleet and bring forward innovative development projects if the TSOs and Regulatory Authorities create a stable, investable DS3 framework.

We are pleased to see that the TSO has adopted a practical approach to interim tariffs – attempting to unlock some of the additional flexibility within existing units in the absence of enduring contract arrangements.

Our response is general, rather than covering the specific questions within the consultation paper.

Pricing New and Existing services

We believe that the two factors used to price new and existing services are appropriate, although we would note that **the GPIs and Other System Charges in place tend to penalise units that declare higher levels of flexibility¹**.

To give one example, when you move from an existing system requirement of 21% for TOR1 to 10% by reallocating revenues to new services, a marginal generator is faced with two bad choices:

- Either a loss of revenue from TOR1, SOR etc
- Or an uncertain new revenue stream from RM3, RM8² with both increased system charge and performance scalar risk.

They might not be able to justify demonstrating the new services as the negative value of the penalties under the second might outweigh the small expected loss of revenue under the first. We think that the existing GPIs and system charges may need review by the TSO to ensure that they do not run counter to the DS3 interim arrangements.

The paper notes that:

“The proposed payment rates also have the effect of rebalancing income towards service providers that provide greater value for consumers”.

This is an important benefit of the interim arrangements that should be realized through the final published tariffs – inflexible units that do not meet the 2016 system requirements should not be kept whole at the expense of more flexible units.

¹ Even if they are technically capable of providing the service in certain circumstances

² With their own performance arrangements

Demonstrating actual Increases in System Service Revenues

We would request that the whether the 'notional pot' sizes and the assumptions used to underpin the assumed increase by €20m are clearly outlined in the final paper. **Our own volume calculations show that existing providers are only likely to receive a €10-15m increase from the existing system service arrangements.**

Again, returning to penalties and charges currently in place – a small increase on existing system service revenues might not be enough to justify testing and demonstration of any additional flexibility at existing units, particularly using an aggressive performance scalar of 1 and no assumptions around any new charges incurred.