

DS3 System Services Consultation – Interim 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 Friday, 20 May 2016.

Question	Response
Consultation on Interim Tariffs	
<p><u>Question 1</u>: Should we take any other factors into account when determining the relative importance of each service during the interim period?</p>	<p>As stated in the consultation paper, “The SEM Committee based its decision to progress with interim arrangements on the <i>qualitative benefits</i> that could be obtained by using a <i>stepping-stone</i> to transition to the enduring approach”.</p> <p>In summary, the qualitative benefits have been identified as:</p> <ul style="list-style-type: none"> • Attracting interest in the provision of non-mandatory services • Learnings for the TSO • Learnings for service providers <p>When considering the relative importance of each service during the interim period, it is very important not to lose sight of the rationale for the transitional arrangements and the objectives to be achieved.</p> <p>A key consideration that must also be respected, as stated in the consultation paper, is that:</p> <ul style="list-style-type: none"> • “The total payments for the existing seven HAS services in the interim DS3 System Services arrangements should at least be the same as in the HAS arrangements” <p>Despite the above, the consultation paper places a disproportionate weight on the relative importance of DS3 system services from 1 October 2016 which has resulted in a dramatic change and overall reduction in the rates (over 17% by our calculations) and revenues for existing services compared with the rates applicable from October 2015 to September 2016. The consultation paper offer no explanation for this change which is very difficult to reconcile with the principle that total payments for existing services should remain at least the same. It is implausible that the volumes for these services has increased dramatically between tariff years and there is insufficient transparency in the consultation paper to interrogate the analysis that has been done. It would appear, based on the commentary of the relative weightings that is offered that it is influenced by arbitrary considerations and informed by the DS3 System Services Recommendation paper published in May 2013.</p>

Question 2: Have you any comments on the methodology used to calculate the rates?

The derivation of proposed interim tariffs that relies on a 2013 report whose objective was to determine relative values for services in 2020 is not appropriate. The resulting tariffs are arbitrary and based on outdated analysis that was carried out for a different purpose. There is therefore no justification for changing the existing HAS rates on this basis, which only serves to undermine investor confidence and heighten the perception of regulatory risk that the rates are susceptible to arbitrary decisions and discretion in order to deliver short term cost savings to end users, notwithstanding the long term value of delivering the services. It is therefore appropriate to retain the existing HAS rates for the seven HAS services for the interim period. This will ensure the principle of keeping total payments for HAS services at least the same as in the HAS arrangements is respected and will send the right signal to investors.

It is not clear how the rates have been determined, the suggested methodology is heavily caveated with assumptions that do not provide the comfort or transparency as to how each tariff was determined. See comparison of the rates and overall there is over a 17% drop in rates when averaged across the 7 existing products. The drop in revenues could be greater than this average %.

	HAS	DS3	% Change
POR	€2.36	€2.47	4.7%
SOR	€2.27	€1.37	-39.6%
TOR1	€1.89	€1.19	-37.0%
TOR2	€0.94	€0.99	5.3%
RRS	€0.21	€0.13	-38.1%
RRD	€0.54	€0.64	18.5%
SSRP	€0.14	€0.10*	-28.6%
Total	€8.35	€6.99	-17.5%

*assuming Min Gen of 50%

Is it then assumed that because the overall average rates have dropped by over 17% that the volume has increased by an equivalent amount, where is the additional volume sourced from

