
Single Electricity Market Committee

DS3 System Services Implementation Project

Consultation Response from



May 2016

Introduction

Bord na Móna is again pleased to have the opportunity to contribute to the ongoing design of DS3 System Services Workstreams. Bord na Móna, as a market participant with conventional and renewable assets is fully supportive of the objective behind the DS3 System Services project in achieving an SNSP rate of 75%, ensuring that national obligations and targets are realised by 2020.

With the transition to I-SEM and prospective continuing low energy prices and the introduction of CRM with reduced remuneration for capacity, Bord na Móna, in common with service providers in general, is acutely aware of the importance of being able to capture secure and adequate revenues from System Services to help underpin the business case for both existing, as well as new investments. We are also conscious of the role and responsibilities of the TSO, the need to deliver value to the consumer, and ultimately in providing a power system which is both sustainable and secure at these high levels of non-synchronous penetration.

In this response we express our commercial concerns regarding aspects of the implementation of DS3 System Services Interim Tariffs which have been set out in the consultation paper.

Summary

Bord na Móna's response is based on the commercial imperative for secure revenue streams to be reasonably attainable from the provision of DS3 System Services. This need is all the more acute given the volatility of energy prices which at high levels of SNSP, such as those envisaged, are more likely to remain low than to rise from their current depressed levels. Compounding investor confidence issues are the forecast reduced levels of remuneration for capacity under the CRM as well as commercial uncertainties for suppliers inherent in the Reliability Options mechanism.

In this context we have welcomed the premise that the levels of payment for the seven existing services in 2016/17 at least equals the existing budget for these services. However, we believe that the proposed DS3 rates are too low given that total remuneration to service providers under DS3 would, very optimistically, be lower by between c. 18% and 20% than in 2015/16. This suggests the need for higher tariffs.

This shortfall may be further compounded where providers are data poor thereby being eligible to receive only the average service payment. This is another vector reducing the total aggregated payment to all service providers which could impact adversely on investor confidence. So too the uncertainty around the impact of scalars.

Finally we refer to one of the core principles that the TSOs consider to be most relevant in the design of system services which is 'non-discrimination'¹ and highlight the need to financially compensate service providers which are connected to the distribution network, which are potentially capable of providing the services required, but which, by virtue of being on the distribution network, do not communicate directly with the TSO. Under the current regime such assets cannot receive DS3 payments. There should be a mechanism devised which would allow such an asset receive DS3 payments over the Interim period, either from the get-go or from sometime within the interim phase. There is no provision for any form of

¹ DS3: System Services Review TSO Recommendations

participation within the DS3 supplier framework which seems unfair, most especially as this interim period could potentially be extended.

High level points

Responses to Individual Questions

Relative Importance of Services

Question 1: Should we take any other factors into account when determining the relative importance of each service during the Interim period?

We do not believe that other factors need to be taken into account unless the Interim period is extended beyond 2 years.

Interim Tariff Methodology

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

We note the intention for the total 'pot' size to be designed such that the total payment for the seven existing services² at least equals the existing budget for these services when allocated according to the 2016/17 relative weightings for all provider units for these seven services. We have set out in our response to Question 4 below that we believe that the proposed rates for these services fall well short of delivering on this objective given that total remuneration to service providers under DS3 would, very optimistically, be lower by between c. 18% and c.20% than in 2015/16. This suggests the need for higher tariffs to be used within the methodology for these services.

This shortfall may be further compounded where providing facilities are data poor and which will therefore be remunerated only at the average rate across all service providers. Allied to this will be the uncertainty around the impact of scalars, most particularly in the early stages. Both of these could impact adversely on investor confidence.

In relation to enduring regulated tariffs which will apply where there is insufficient competition we note that there will be further stakeholder engagement on the methodology and on the resulting tariffs during 2016 and that the methodology to be used in the enduring arrangements is not the subject of this paper. We look forward to responding on same.

Benefits Provided by the Interim Phase

Question 3: Are there any other benefits from the interim arrangements that should be considered?

The Qualitative Benefit which is not listed is the benefit to the State from Service Providers helping to facilitate higher levels of SNSP thereby helping the State in its delivery of its renewable targets. Given

² In fact this descriptor is not totally accurate as one of these services is changing from being Reactive Power Leading & Lagging to Steady State Reactive Power – where the SSRP payment is subject to an RP multiplier which for most providers has a value considerably less than one

Ireland's binding targets from the Renewables Directive it is clear that successful scale delivery of DS3 services will go some considerable way towards reducing potential fines from Europe.

Impact on Service Providers

Question 4: Have we set out the relevant impacts on service providers over this interim period?

Three very relevant impacts on service providers have been omitted:

- 1) There is a missing revenue issue given that the total payment for the seven existing services in 2016/17 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

HAS Service	14/15 Cost (€)	HAS 14/15 Rates (€/unit)	2014/15 Volume (unit)	DS3 Service	DS3 Int Rates (€/unit)	Cost (€)	Difference (€)	Cost DS3 vs 14/15
POR	5,997,822	2.34	2,563,172	POR	2.47	6,331,034	333,212	5.6%
SOR	8,961,140	2.24	4,000,509	SOR	1.37	5,480,697	- 3,480,443	-38.8%
TOR1	8,941,887	1.87	4,781,758	TOR1	1.19	5,690,292	- 3,251,595	-36.4%
TOR2	5,373,694	0.93	5,778,166	TOR2	0.99	5,720,384	346,690	6.5%
RRS	2,656,983	0.20	13,284,915	RRS	0.13	1,727,039	- 929,944	-35.0%
RRD	5,313,966	0.54	9,840,678	RRD	0.64	6,298,034	984,068	18.5%
Reactive power	7,230,863	0.13	55,622,023	SSRP _ Lead	0.2	5,562,202	- 1,668,661	-23.1% **
Reactive power	4,153,649	0.13	31,951,146	SSRP _ Lag	0.2	3,195,115	- 958,534	-23.1% **
	48,630,004					40,004,797	- 8,625,207	-17.7% *

* This -17.7% figure increases to -19.9% 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, RRS and Reactive power – most notably due to the RP factor in the case of the last.

The reduction in cost across the seven existing services, which of course is the flip side of revenues to service providers, is estimated at -17.7% when comparing 2014/15 volumes and rates with DS3. The gap increases to 19.9% when using the same volumes but at HAS 2015/16 rates.

Consequently 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.

- 2) Service providers who are data poor will receive only the average service payment. This will be another vector reducing the total aggregated payment to all service providers which could impact adversely on investor confidence. So too the uncertainty around the impact of scalars.
- 3) 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 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 2013³.

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-discrimination⁴
- 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 should be a mechanism devised which would allow such an asset receive DS3 payments over the Interim period, either from the get-go or from sometime within the interim phase. There is no provision for any form of participation within the DS3 supplier framework which seems unfair, most especially as this interim period could be extended.

This concludes our formal responses to the questions contained in the consultation paper which have focussed primarily on the Impact on Service Providers – given the importance of this perspective.

Finally, if there is any clarification or additional information you require, please do not hesitate to contact me.

For and on behalf of Bord na Móna



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³ DS3: System Services Review TSO Recommendations

⁴ 'In so far as possible, incentives should be designed so that any service provider who is capable of providing the services in a reliable manner is eligible to participate and be remunerated. When combined with transparency and proportionality these incentives should efficiently and effectively deliver the needed system services without unduly locking out the inclusion of innovative technologies over time.'