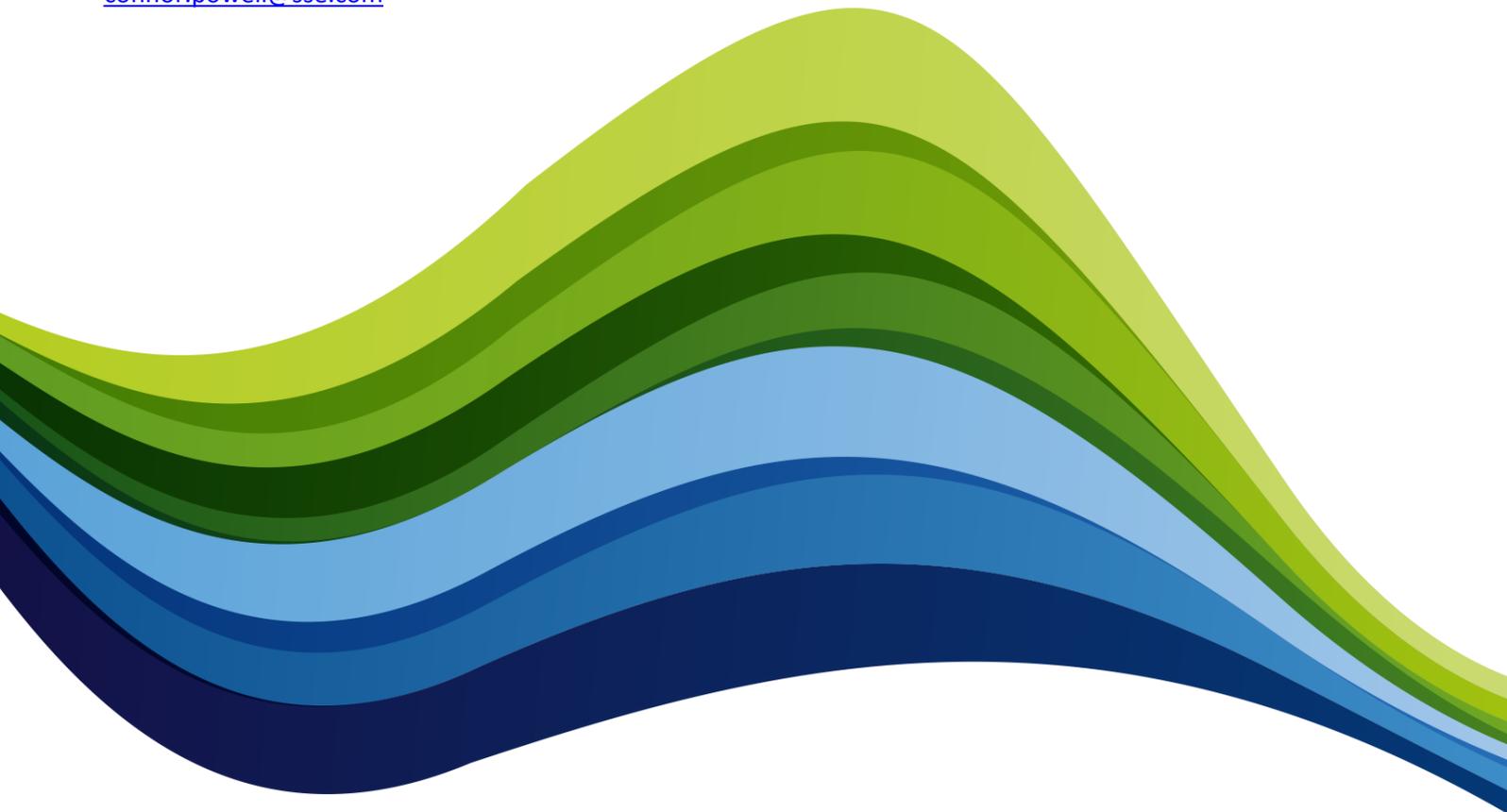


# DS3

## Consultation on Volume Calculation Methodology and Portfolio Scenarios

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



## Introduction

Thank you for giving SSE the opportunity to comment on cross border trading arrangements. 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 not currently convinced that DS3 framework meets the following SEM Committee objectives:

- *Provide certainty for the renewables industry that the regulatory structures and regulatory decisions are in place to secure the procurement of the required volumes of system services;*
- *Provide certainty to new providers of system services that the procurement framework provides a mechanism against which significant investments can be financed;*
- *Provide clarity to existing providers of system services that they will receive appropriate remuneration for the services which they provide;*
- *Provide clarity to the Governments in Ireland and Northern Ireland (and indeed the European Commission) that appropriate structures are in place to assist in the delivery of the 2020 renewables targets;*
- *Provide assurance to consumers that savings in the cost of wholesale electricity which can be delivered through higher levels of wind on the electricity system, can be harnessed for the benefit of consumers;*

The approach chosen in SEM-14-108 does not produce contracts that could underwrite development of new projects or enhancement of existing providers of existing system services. Without contracts that are investable<sup>1</sup>, other DS3 objectives cannot be met and both customers and producers will lose out on the benefits of sustainable, low marginal cost generation. Our response to this consultation focuses on the elements of the volumes methodology that could to help deliver investable products.

## Forecasting horizons

Determining system service volumes five years ahead should provide investors with a medium-term view of system requirements. However, given that the lead-time for a typical conventional thermal plant in Ireland is around 5 years, **SSE would request that the TSOs consider providing indicative volumes out to 10 years using the methodology established.** There are too many uncertainties to commit to volumes that far ahead of time, but a likely

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<sup>1</sup> SSE would consider investable contracts to be defined as predictable, transparent, long-term and value based. The products offered in DS3 are cost-based, unpredictable, opaque and of short-tenure – we would consider them complex master agreements with the TSO, rather than firm contracts.

pathway with error bars would be of use to existing and new providers considering future investment.

### Availability of models

Market participants should be free to test volume calculation and future requirements themselves. **The final Plexos models with assumptions used for real-time requirements and limits and refined portfolios should be made available to market participants during this workstream.** This could be achieved through a model licencing agreement made available to participants or new entrants that want to test requirement for their services in a given year. **This also adds transparency to the process and ensures that participants, TSOs and RAs use consistent assumptions across all elements of the DS3 project.**

### Pricing as an assumption

The consultation isn't very specific on the re-dispatch cost caps being employed. It simply states:

*“Where there is not enough of a particular service, or where the results from the Plexos study indicate very high re-dispatch costs, we will add further service capability in line with the theme of the scenario.”*

Given that curtailed wind is effectively free to the TSO, we'd like more clarity on how both constraint and curtailment costs are being reflected in the model. From the workshop, it appeared as though curtailment was being defined as a 'soft', rather than a binding condition – approximately 5% was acceptable. **SSE would request that the TSO clarify their approach to both dispatch balancing costs and curtailment losses in the methodology.**

We would also request that a 'hard' condition relating to curtailment is included in the methodology to provide a relatively firm cap on curtailed volumes that can be treated as a safe assumption by market participants.

### Location as a consideration

The consultation states that:

*“Jurisdictional capability volume requirements will be considered for all the system services in the years prior to the commissioning of the North South Interconnector [and for reactive power requirements]”*

Given that the volumes will be fixed for 5 years, we think that the TSO should assume no North South Interconnector is in place<sup>2</sup> – if the infrastructure is delivered, the TSO can underutilise. If the infrastructure is not delivered, the TSO cannot revisit the volumes or the auction results to deliver greater system service volumes.

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<sup>2</sup> Given delays on the project to date.

## Portfolio Scenarios

The three scenarios identified appear appropriate. It was suggested at the DS3 Stakeholder workshop that a third 2019/20 portfolio with a large proportion of new conventional generation (either from existing projects or as yet unannounced projects). Second-guessing retirement of conventional units within the existing fleet to make room for uncommitted new generation is unlikely to be precise (and given lead-times for conventional generation isn't like to alter the composition of the portfolio in 2019/20 much anyway). **SSE would recommend that the TSOs continue with the two portfolios identified.**