

**Power NI Energy Limited
Power Procurement Business (PPB)**

**DS3 System Services Tariffs
(1 Oct 2017 – 30 April 2018)**

Response by Power NI Energy (PPB)

30 May 2017



Introduction

Power NI Power Procurement Business (PPB) welcomes the opportunity to respond to the consultation paper on DS3 System Services Tariffs for 1 Oct 2017 to 30 April 2018.

PPB is the counter-party to Power Purchase Agreements that were established in 1992 as part of the restructuring and privatisation of the electricity supply industry in Northern Ireland. PPB purchases both the capacity of the contracted generating units and any electricity generated by those units on terms specified in the agreements. The generating units are extremely flexible and reliable and therefore with the changes in the generation mix and typology of the system these units are likely to play a significant role in helping the System Operator manage the system. Flexibility is required to securely operate a system, which is being re-designed to accommodate ambitious renewable targets.

Underlying Principles

It is very difficult to provide a response to a consultation paper which provides little new information but is indeed a regurgitation of the principles of DS3 which have been around since the outset. We agree with these underlying principles however we fail to see how Eirgrid is applying these. These principles are:

- *‘Provide a framework for the introduction of a competitive mechanism for procurement of system services’* – this principle is currently a work in progress so is being addressed.
- *‘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’* – while this has been very slow there is some progress in this area but with no certainty.
- *‘Provide certainty to new providers of system services that the procurement framework provides a mechanism against which significant investments can be financed’* – An increase of payments from HAS to DS3 for 16/17 was planned to be €20m which provided no certainty for investors and the evidence that the outturn payment is even less highlights there is no incentive to invest. The publication of the proposed glide path in the SEM-17-017 paper was encouraging however this has now been totally undermined by the interim tariff rate proposal of a 5.3% increase for this extension which merely reflects how much higher the tariffs should have been in 2016/17 to pay out the target amount. Some of the additional money anticipated in the DS3 glide path should be allocated to the interim tariff rates.
- *‘Provide clarity to existing providers of system services that they will receive appropriate remuneration for the services which they provide’* – The small increase in payment of DS3 from HAS does not encourage the existing generators to increase levels of provision of services either. The application of arbitrary scalars which can wipe out any revenue stream only adds to the

uncertainty and so do not provide any stable revenue. DS3 is designed to reward generators who provide the TSO's with tools to manage the system, therefore we would expect the settlement tools to facilitate payment for this flexibility too but that is hindered by IT systems. Provision of settlement data is either extremely slow or missing and it is difficult to make progress on queries and ultimately final settlement and as a result existing providers are being discouraged and frustrated. These uncertainties may drive existing generators to offer less DS3 product and more energy in the future markets.

- *'Provide clarity to the TSOs that the required system services can be procured from 2016 onwards in order to maintain the secure operation of the system as levels of wind increase'* – As mentioned above, until there is greater certainty of payments this will not be the case.
- *'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'* – The existing process, as documented by Eirgrid, will no doubt provide some assurances however the providers themselves are unlikely to portray the same view.
- *'Ensure that Article 16 of Directive 2009/EC/28 is being effectively implemented (duty to minimise curtailment of renewable electricity)'* – The proof of this will become apparent as a result of the above principles.
- *'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'* – Due to the failure to properly reward the provision of DS3 services consumers are receiving disproportionate value for money. This principle has been weighted with much greater importance than any of the others and while it may appear to provide benefits to customers, the inequitable treatment of providers will damage the scope for investment and will deliver a worse overall outcome in the longer term. A more balanced approach must be established.

Benefits Already Obtained from DS3

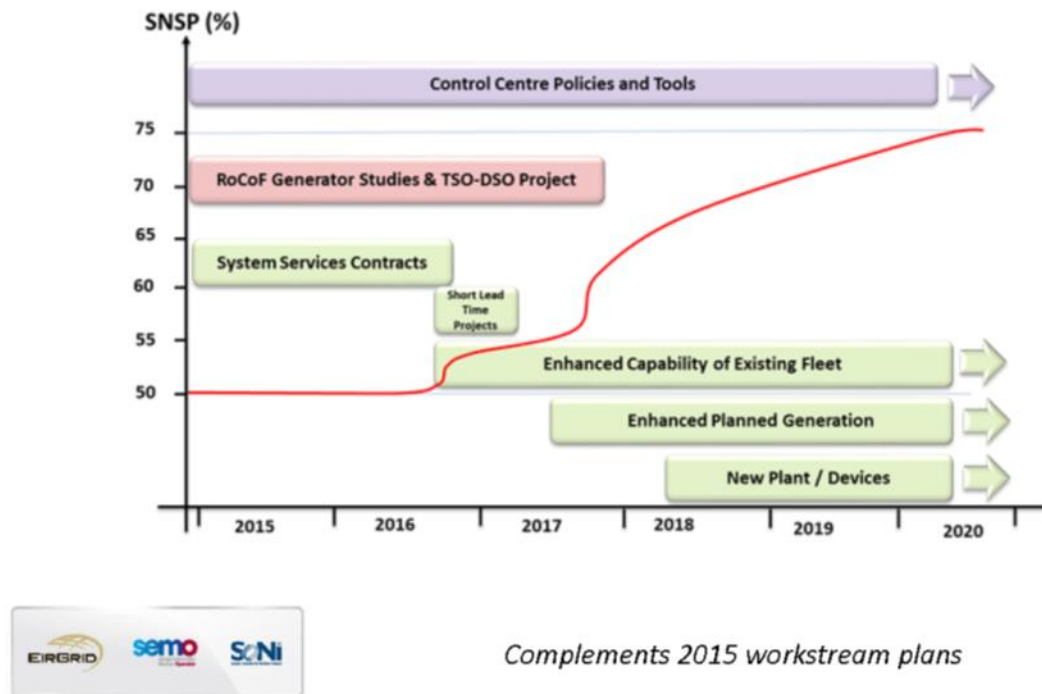
As stated in the paper SNSP is has been increased to 60%. This is clearly an important step forward for the renewable industry and is welcomed, however this has been facilitated by the current DS3 providers who are not receiving due reward for their service provision. It was stated in SEM-14-108:

'The RoCoF Implementation Project is a key part of the DS3 Programme and the achievement of the increase in the SNSP limit to 75%. This project will implement the new Grid Code standard of 1Hz/s over 500ms in both the Northern Ireland and Ireland Grid Codes. Full implementation of the new RoCoF standard will

essentially, along with other aspects of DS3 allow for an increase in the SNSP limit of up to 10% from the current limit of 50% SNSP.'

This is shown below in a presentation given in June 2015:

Operational Capability Outlook



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It must be noted that this level of 60% has now been achieved much earlier than anticipated without the new RoCoF standard and yet the reward that providers were promised has not occurred. The concern for providers is that the glide path proposed in SEM-17-017 will never be realised as the providers are currently supplying the system with the DS3 products but are capturing very little additional reward and as a result the TSO's have secured the products required without providing the proper remuneration. If another 10% increase in SNSP will be provided by RoCoF then that leaves only an additional 5% required. Investment is impossible against this backdrop of under-remuneration and failure to deliver the promised DS3 revenue growth.

The CRM pot for 2017 was reduced to reflect the expected increase in DS3 revenues but as is evident, actual DS3 payments have been less than expected and as a result the CRM pot is understated. The has artificially reduced generator revenues and a solution would be to retrospectively resettle the DS3 payments for 2016/17 using the

rates uplifted by 5.3% which would redress the shortfall and with no impact for customers since the TSO will be recovering the Target revenues from them (and any lower payment will just result in an over-recovery).

Tariff Proposal

This tariff consultation paper contains little information upon which comment can be provided. The 5.3% increase proposed appears to only cover the money which wasn't paid out in the early months and therefore the 5.3% uplift merely reflects what the 2016/17 rates should have been to pay out the 2016/17 target amount¹. This does not, in any way, provide potential investors or existing providers with any confidence that the additional money previously promised, will be paid in the future. Looking at the glide path published in SEM-17-017 we would have expected something more in line with a 50% increase to keep the target payments increasing along that glide path as was previously communicated. We understand the glide path is a maximum and dependant on system needs but we would have expected there to be some move towards increased payments as otherwise the principles laid down by the SEM Committee are being totally ignored.

We agree with the rationale to keep the weightings of products at the same level for the extended interim period, however to enable participants and potential investors to understand the requirements going forward the volume requirements for each product must be provided along with the current provision of each product. Until this is published the TSO's cannot expect any level of participation or investment by new providers.

This proposal to merely increase existing rates by 5.3% is therefore inadequate and provides no incentive to existing providers or potential investors to commit further resources.

¹ As clarified in the Eirgrid email to the EAI on 16 May 2017