



SONI
12 Manse Rd,
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Eirgrid
Block 2, The Oval,
160 Shelbourne Rd,
Dublin 4, D04 E7K5

30th May 2017

Dear Sir / Madam,

RE: RESPONSE TO DS3 SYSTEM SERVICES TARIFFS (1 OCT 2017 –30 APRIL 2018) CONSULTATION

The Demand Response Aggregators of Ireland (“DRAI”) is an association of eleven Demand Side Unit (DSU) and Aggregated Generating Unit (AGU) providers in the SEM. Collectively, we believe there is a significant role for demand-side participation in any future market arrangements in Ireland and are committed to the development of this market. Our purpose is to provide a single voice on policy and regulatory matters of common interest -- in response to the recent consultation we have developed the response set out below, and trust that you will consider it in your deliberations.

WHY DR/DSU ARE IMPORTANT?

DR/DSUs are capable of responding to signals from the system operator within an hour and therefore provide an effective means of reducing the demand requirement, which can assist in balancing the system and avoiding constraints. Facilitation of DR/DSUs increases demand flexibility and improves overall system stability by:

- providing reliable distributed capacity to the system;
- contributing to avoided investment in peaking plant by delivering peak load reduction;
- providing flexibility to mitigate the uncertainty of wind output; and
- helping mitigate transmission and distribution network constraints.¹

This capability is expected to become increasingly important as the proportion of generation from variable renewable energy sources continues to grow. We therefore consider that Demand Response (‘DR’) is well positioned to support the TSO in meeting its objectives of market efficiency and security of supply.

¹ Single Electricity Market (SEM) (2011), Demand side Vision for 2020 Decision Paper, SEM/11/022.

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FACILITATION OF DR/DSU IN THE I-SEM

Fundamentally, the DRAI expects that DR/DSUs/demand-side capacity will become increasingly important in the design of the Irish electricity system and we believe that the TSO and the regulators need to give further consideration to how DR/DSUs² can be facilitated when developing the new I-SEM market arrangements.

Across Europe, DR/DSUs are increasingly recognised as an effective and highly efficient means of balancing the supply of electricity with consumer demand, and within the I-SEM the requirement to balance an increasing proportion of variable wind generation is expected to be an increasing challenge. In Ireland the delivery of the 2020 and 2030 renewable energy targets is projected to result in one of the highest penetrations of variable non-synchronous generation on any power system in the world and is expected to create very challenging future operational scenarios for the grid system operators³. It is therefore paramount that this advanced and progressive electricity system is supported by appropriate market arrangements within the I-SEM to encourage the growth of demand-side participation and other system balancing measures.

Whilst the DRAI recognise that flexible dispatchable generation (peaking plants/OCGT) is effective at providing real-time balancing of renewable generation variability in the today's electricity system design, we also expect that DR/DSUs will have an increasing role in delivering system balance in the future -- to continue to rely on conventional plant with ever lower utilisation factors would be unaffordable. The DRAI therefore believe that the TSOs and the regulators need to be mindful of this growing potential in order to ensure that the I-SEM market arrangements provide adequate support for DR/DSU participation into the future.

RELEVANT BACKGROUND

The DRAI consider that the following information and decision papers are particularly relevant to the upcoming decision on DS3 system services tariffs:

SEM-14-108

In SEM-14-108 (DS3 System Services Procurement Design and Emerging Thinking Decision Paper), the SEM Committee's decision framework aimed to achieve amongst other objectives,

“...certainty to new providers of System Services that the procurement framework provides a mechanism against which significant investments can be financed”.

SEM-17-017

In SEM-17-017 (DS3 System Services Future Programme Approach: Information Paper), the SEM Committee decided on a straight-line glide path for the System Services expenditure to,

“....provide industry with increased certainty of income and signals to invest, in the absence of a competitive procurement mechanism before 2019”.

The SEM Committee also noted that,

“...[the straight-line glide path] approach strikes the appropriate balance between limiting consumer expenditure, where uncertainty exists in terms service provision, and providing the clarity and incentives necessary to facilitate investment”.

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

In the current consultation paper, EirGrid/SONI state that in determining the proposed tariff rates to apply for the seven month contract rollover period, that they have been guided by a number of principles, including:

² The term 'DSU' has been used throughout this letter. It should be understood to refer to both DSUs and AGUs as appropriate. The term 'DR' refers to Demand Response as provided by DSUs and AGUs.

³ EIRGRID GROUP ANNUAL RENEWABLE REPORT 2013 Towards a Smart, Sustainable Energy Future.

“The payment rates should be set at a level that is sufficient to provide industry stakeholders with confidence in the future trajectory of payments while being mindful of the short-term impact of higher system services expenditure on consumers.....”.

DS3 SYSTEM SERVICES TARIFFS – CURRENT STATUS

A straightforward application of the originally proposed straight-line glide path to the development of DS3 system services tariffs would result in an increase in the tariff rate of approx. 53%. The DRAI agree that it important to factor in the potential short-term impact of such increases on consumers, and therefore accept that to achieve a balance it will be necessary to moderate the full-intended growth indicated by the straight-line glide path.

We do however disagree with the proposed level of tariff increase of 5.3%, as we do not consider that it is sufficient to attract investment and develop the DS3 services market. We would also argue that this proposed level of increase goes against the preceding objectives, which sought to provide certainty to new providers regarding future trajectory of payments, against which they can finance investments. In fact, the DRAI believe that instead of providing investor certainty, the proposed tariff increase of just 5.3%, will only serve to perpetuate investor nervousness and stifle DS3 system services development.

The DRAI consider that the provision of a reasonable tariff increase, in line with a moderated straight-line glide path, has the potential to attract investment, as it would assist industry in recouping the costs associated with the development of innovative solutions for these services. However, an insufficient increase in the DS3 system services tariffs will not encourage further investments in DS3 system services.

For these reasons, the DRAI strongly urge the TSOs to revert the original proposals for DS3 system services tariff increases, i.e. based on a moderated straight-line glide path. We recognise that this *moderated* trajectory will need to include discounts for consumer protection and certain other factors noted in the consultation paper, and will therefore result in the tariff glide path needing to be reduced accordingly. However, we would question how these factors could result in lowering the anticipated tariffs growth to just 5.3% and therefore ask the TSO to reconsider this proposal.

On behalf of the DRAI I hope that you find our comments helpful and constructive, and we look forward to hearing from you in due course. We would also welcome the opportunity to discuss with the TSOs matters relating to the DS3 System Services tariffs.

Yours sincerely,



PATRICK LIDDY
DRAI Chairman