Energy for generations

Generation & Wholesale Markets

ESB GWM Response:

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

30th May 2017

ESB Generation and Wholesale Markets (GWM) welcomes the opportunity to respond to Eirgrid/SONI's (TSOs) consultation on the tariff rates to apply to DS3 system services in the period October'17 to April'18.

GWM notes that this consultation follows on from the SEMC information paper on the future approach to DS3 system services (copied). In this information paper the SEMC sets out that the existing Interim Framework Agreements be extended to the end of April 2018. The nature of the Interim Framework Agreement is a bilateral contract between the relevant system operator and the system service provider. The term of these contracts are specified as twelve months from the date of their execution which may be extended by up to a further 18 month by the agreement of the counterparties. It is not for the SEMC to unilaterally inform either party to these contracts that the contract will be extended.

GWM still awaits the anlaysis and methodology used to determine the level of the expenditure cap and glidepath that the SEMC has determined approporiate.

Notwithstanding this GWM remains committed to supporting the objectives of the DS3 programme and considers that the extension of the Interim Framework Agreement offers a practical mechanism to continue to advance these objectives as the industry prepares for the implementation of the ISEM.

However in order to allow GWM to support the extension of the Interim Framework Agreement there are a number of issues raised by the DS3 Interim Tariff Consultation that need to be addressed.

Proposed Tariff Rates

The consultation sets out that one of the principles that guided the development of the proposed tariff rates is to instil confidence in the industry stakeholders in relation to the trajectory of payments. The paper goes on to say that the impact of the Performance Scalar introduced under the Interim Framework has reduced overall expenditure on System Services and that the proposed increase of 5.3% will align the total expected payments with those previously communicated to the industry.

In the absence of further detail on how the proposed increase of 5.3% was derived the direct implication is that the under expenditure resulting from the application of the Performance Scalar is being recycled to increase the tariff rates in the extension period.

This being the case, it would fundamentally undermine the good faith shown by the industry since the beginning of the interim arrangements where issues arising from the current implementation of the performance were raised by the industry and a process of open engagement undertaken to address these issues with the TSOs. During this process the level of service provision was maintained even in cases where there was a significant reduction in the remuneration available to providers due to the performance scalar as a specific result of these issues. The recent consultation on a revised performance scalar framework accepted the validity of these issues and proposes changes to the performance scalar framework to address them.

In this context a proposal to deny resettlement to the revised performance scalar framework while representing the under expenditure as a subsequent increase in the tariff rates is manifestly unfair and damaging to the confidence of industry stakeholders rather than supportive of its instillation.

This point is further emphasised by considering that the increase in expected expenditure from HAS to the interim DS3 arrangements was matched by a reduction in the CRM pot calculated for the same period. In this way, from the end user's perspective, the move to the interim DS3 arrangements was cost neutral but from a service provider's prespective did not provide any increase in remuneration across revenue streams for the value that these services are providing even though these services are required to deliver the target curtailment levels and the transition to a low carbonenconomy

The consultation explicitly states that it expects that increases in the system service tariffs as proposed will act to reduce the CRM pot. Where the proposed increase is derived from under expenditure being recycled from the previous year, in effect the CRM pot will be **reduced twice** for the same DS3 expenditure.

Clearly, this not supportive of building industry confidence and will not provide the relevant signals that the TSO has highlighted are required to ensure that the services can be effectively secured. In addition this redistribution of revenue between capacity and DS3 does not recognise the commitment to given the market sight of the value these services provide and thus will not gurantee that these services will be available as we transition to ISEM, where the market conditions will be very different. As such we advise that the design of these services and their tariffs be future proofed against ISEM and be used to ensure that the TSO's tariffs can send the correct price signal to ensure engagement by all parties to invest and to deliver these services reliably and in a timely fashion. If this is not done then the signals will be further dampenned by the structure of the arrangements being proposed.

This approach is also not technology neutral as there are new entrants in to the DS3 system service market that have no exposure to the capacity market and therefore this methodology will see a transfer from tradintional service providers to these new enterants. On average these traditional services providers, who continue to be the mainstay of service provision, are, at best, left neutral even though additional opportunity costs are potentially incurred due to the greater risk of incurring penlaties. Traditional service providers are therefore only being subjected to greater risk and are not being rewarded for greater service provision of necessary products.

GWM strongly urges the TSOs to support re-settlement to reflect the revised Performance Scalar framework from the beginning of the interim DS3 arrangements. GWM also proposed further amendment to the Performance Scalar framework (response to the consultation issued in April'17 on the Performance Scalar Calculation Methodology) which would seek to balance the incentive provided by the Performance Scalar between rewarding reliable services provision and penalising unreliable service provision.

ESB proposed that the tariff rates to be applied would be scaled up by the system average performance for each of the respective services. This level of performance would then applied as the baseline of each unit in the absence of relevant performance data (within 6 months). The Performance Scaling Factor, as described in the consultation, would then be recalibrated so that service providers that are assessed as having a Reserve Event Performance Factor greater than 90% would result a slightly negative value. This would result in the DS3 Performance Scalar being increased above the system average baseline for reliable service providers and could be limited to a unity value.

This would balance the incentive structure and thereby ensure units that are typically reliable have an incentive to invest to maintain their reliability. Over time this incentive will result in the level of system average reliability increasing, GWM asks that the TSOs consider whether this adaption of the Performance Scalar could be applied during the extension to the DS3 Interim arrangements.

If it is not the case that the proposed increase was derived from under expenditure resulting from the application of the Performance Scalar being recycled, GWM asks that the TSOs detail how this value was derived.

New Entry/ Volume Revision

The consultation states that during the extension period, as a result of procurement regulation, it is not possible for new entrants to sign up to a framework agreement nor will existing providers be able to increase their contractual volumes. The consultation gives no further detail as to which procurement regulations are being referred to or why, what is essentially a qualification process, should be so constrained.

It is GWM's view that this limitation places a significant constraint on the ability of the industry to deliver the increase in system services that the TSOs are seeking to incentivise, this is particularly the case given the timescale over which in service delivery is targeted.

GWM asks that the TSOs reassess whether, in the context of a qualification process where there is no competitive volume allocation, there is a requirement to limit new entry during the extension to DS3 interim arrangements. Given the potentially significant impact on new entrants of being effectively excluded from the market for an additional eight months, where the TSOs continue to believe that there a legal limitation on new entry, GWM asks that a detailed description of the relevant regulatory constraints as they are considered to apply be given as part of the TSO's decision.

Value of System Services

The consultation states that the aim of the system services work stream in DS3 is to support the operation of the system with up to 75% instantaneous penetration so as to minimise the need to curtail wind and solar capacity. GWM recognises that the TSOs in establishing and pursuing the DS3 programme are tackling issues that few system operators have yet to face. The DS3 programme has made significant progress and this is shown by the volume of wind capacity that could not be accommodated on the system as reported in the annual Dispatch Down reports. In 2016 some 2.9% of the available wind energy was dispatched down compared to 5.1% in 2015 albeit off a slight lower wind availability base.

The consultation sets the value of system services against the reduction in wholesale energy resulting for increasing the level of zero marginal cost generation while this is one measure of the value of services delivered it is not complete in that in periods of high wind the availability of system services is necessary to maintain system security. In other words, it is possible today to assure system security by curtailing available wind capacity and increasing conventional generation however, in the longer term this will not necessarily be the case and it is not sustainable to value service provision solely based on their availability's impact on wholesale prices.

In summary, GWM remains committed to supporting the objectives of the DS3 programme and considers the extension of Framework Agreement to April'18 offers a practical mechanism to continue to advance these objectives. However GWM cannot support the proposed DS3 System Service Tariffs as formulated in the consultation and at a minimum will require clarification on the points raised above before support can be given.

Should you have any queries in realtion to this response please do not hesitate to contact me.

Yours sincerely,

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William Carr

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