



**Response by Energia to Transmission  
System Operators (EirGrid/SONI)  
Consultation**

***DS3 System Services Tariffs  
01 Oct 2017 - 30 April 2018***

**30<sup>th</sup> May 2017**

## 1. Introduction

Energia welcomes the opportunity to respond to this Transmission System Operators' (TSOs; EirGrid/SONI) consultation on DS3 System Services Tariffs (1 Oct 2017- 30 April 2018). Delivery of the DS3 is crucial for the realisation of renewable targets and the associated benefits. If there is a desire for Non-Synchronous Penetration (SNSP) to continue to grow to 75% there will be a need for increased System Services which will be delivered by a combination of new and existing plants. In order to ensure that the necessary infrastructure is in place to deliver the required System Services there needs to be appropriate market signals sent to existing plant to incentivise upgrades and to new plants to develop. The proposal in the paper does not provide the necessary signals with the seemingly arbitrary and inadequate 5.3% increase being far short of what would be expected of the stated 'glide path'<sup>1</sup>. Furthermore, there is a level of detail lacking in the paper that hinders analysis of the proposal, specifically how the TSOs arrived at the 5.3% figure.

## 2. General Comments

The SEM Committee paper 'DS3 System Services Future Programme Approach' (SEM-17-017) outlines some of the core principles of the DS3 programme, primarily that *"the DS3 programme is to put in place the required changes to system policies, tools and performance to allow the electricity system to operate safely with a high penetration of wind"*<sup>2</sup>. The TSOs outline in this consultation paper how this is to be achieved by sending the right investment signals to new and prospective System Service providers by:

- Providing certainty to new providers of System Services that the procurement framework provides a mechanism against which significant investments can be financed;
- Providing clarity to existing providers of system services that they will receive appropriate remuneration for the services which they provide.

However, the approach taken by the TSOs in this paper, as well as the recent paper on scalars, appears to be focussed on underpaying for system services which will fail to deliver the system services that are needed to reach SNSP of 75%. This is exacerbated by overly punitive performance scalars that seem to go beyond incentivising performance and appear to be designed to again strip revenue. This approach will not give investors confidence that they will be adequately remunerated for investing in generation assets and as such will not prompt the desired investment.

The CRM parameters decision paper SEM-17-022 stated figure of €75 million for 2016/17, however the projected amount for the same period is €69.5 million<sup>3</sup>. The paper also refers to this figure as being the 'budget' that is available for the DS3 programme in this period. SEM-17-022 further outlines the expectation for the budget to increase up to €155 million for 2018. Conversely, the proposal in this consultation paper now outlines that the upper figure, previously described as a budget, is now a cap, with no obligation to reach this amount. It should be remembered that the

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<sup>1</sup> [http://www.eirgridgroup.com/site-files/library/EirGrid/OPI\\_INV\\_Paper\\_DS3-SS-Rollover-Tariffs-Consultation-FINAL.pdf](http://www.eirgridgroup.com/site-files/library/EirGrid/OPI_INV_Paper_DS3-SS-Rollover-Tariffs-Consultation-FINAL.pdf)

<sup>2</sup> SEM-17-017 at page 3.

<sup>3</sup> This information was provided by EirGrid (16/05/17) in response to queries submitted by EAI.

'budget' was an amount calculated and capped by the SEM Committee, not at the value of the system services but at a value assumed to reflect the benefit to consumers. This apparent change in approach further undermines investor confidence as stakeholders were lead to believe that there was a significantly larger budget available.

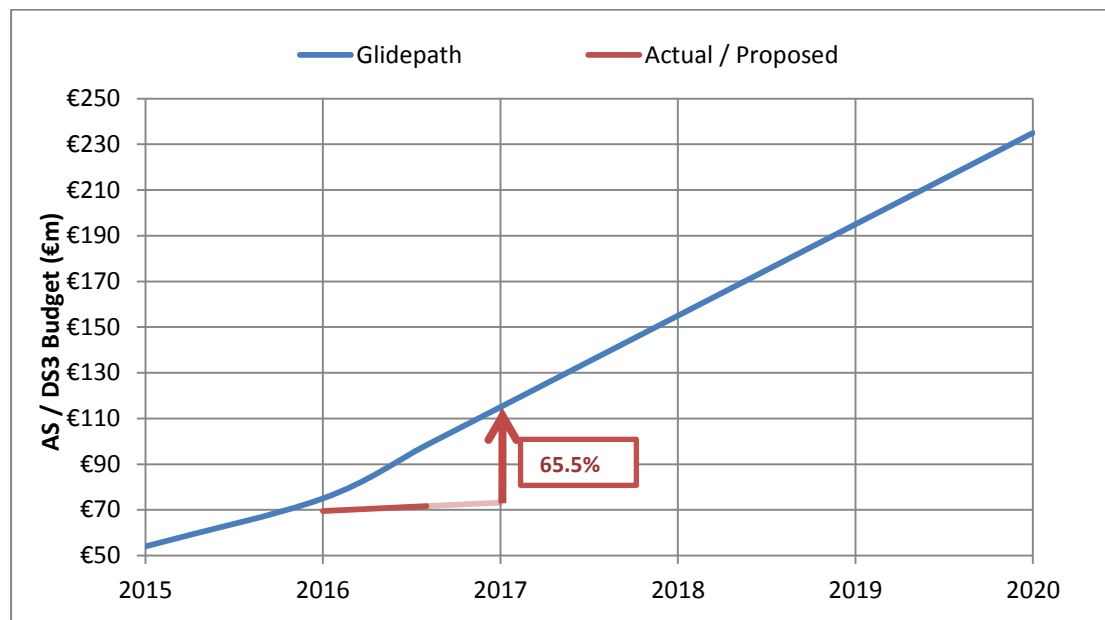


Fig.1 DS3 System Services Glide-Path Vs Actual/Proposed

Notwithstanding the TSOs commitment in this paper to respect the SEM Committee's glide path set out in SEM-17-017, this consultation paper proposes a marginal increase in revenues. This increase appears to falls far short of the amount that would have been made available, if the TSOs adhered to the glide path. Based on the figures provided by EirGrid and, those presented in SEM-17-017 and in the current consultation, it is estimated that the proposed increase will be c.€25m below the glide path by April 2018<sup>4</sup>. If tariffs remained unchanged for the remainder of the tariff year, the estimated differential between the estimated DS3 budget and the SEM Committee published glide path would be c.65.5%. Clearly a failure to align with the glide path in the upcoming period would give rise to a requirement for a significant correction, in addition to already significant proposed increase in the glide path, thus increasing the perceived risk and undermining the case for investment.

The 5.3% uplift is negligible, it is designed to maintain the current position of generators and in reality, a generator could conceivable be in a worse off position as a result of the proposal. Even with some downward pressure on this figure from performance scalars etc, the necessary increase to align with the glide path must be far in excess of the 5.3% proposed. Whilst the TSOs have committed to consulting on enduring scalars and tariffs in July of this year the lack of sight of future tariffs in this paper combined with the wholly inappropriate 5.3% increase will not precipitate the investment needed in System Services.

The additional information provided by EirGrid in response to queries from the EAI, (16<sup>th</sup> May) gives a commitment that the enduring solution will take account of the

<sup>4</sup> Based on applying the proposed increase (5.3%) to the estimated cost of DS3 in 2016/17 (€69.5) and estimating the difference from the glide path at end-April 2018.

glide-path. This commitment provides little comfort to prospective or existing generators who have observed the tone of DS3 papers shift from an “available budget” to a “cap” and with a view expressed that the cap does not need to be reached. Overall, this perceived change in tone and proposed approach give rise to concerns that generators will not be adequately remunerated for the services provided and required by the system in order to reach the DS3 objective of 75% SNSP. Furthermore, as the DS3 budget was set by the RAs on the basis of the expected benefit to consumers of achieving the DS3 objective(s), any frustration, delay and/or failure to deliver services on the basis of signals provided to the market that are artificially restricted below the necessary glidepath, even in transition, will ultimately lead to inefficient outcomes and prevent the maximisation of consumer welfare. The proposal in this paper will give rise to lost opportunities, inefficiencies and harm the interests of final customers, if the objective remains 75% SNSP.

### **3. Conclusion**

Upon review of this paper it is clear that the TSOs have not met their main objectives of sending the necessary investment signals to generators and instead have introduced increased uncertainty and undermined confidence in the purported DS3 ‘glide path’. Unless there is a significant increase in tariffs, DS3 revenue will remain at best flat and possibly decrease following the application of performance scalars. Without adequate remuneration stakeholders will not invest in new or existing generation. Energia would strongly urge the RAs to reconsider the proposal and revert to a figure that is more representative of the stated ‘glide path’ and one that restores investor confidence. Without the necessary investment it is unclear where the TSOs will obtain the required System Services to further increase the SNSP of wind.