DS3: System Services Consultation –
Finance Arrangements

This questionnaire has been prepared to facilitate responses to the consultation. Respondents are not restricted to this template and can provide supplementary material if desired.

Please send responses in electronic format to DS3@eirgrid.com or DS3@soni.ltd.uk

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Respondent Company	*Mutual Energy*

Note: it is the TSOs' intention to publish all responses. If your response is confidential, please indicate this by marking the following box with an "x".

Response confidential ☐

The closing date for responses is Wednesday, 13th February 2013.

Question	*Response*
Value of System Services to the Electricity System	
Do you agree that the proposed value based approach to informing the amount of funding available for System Services is necessary and appropriate to deliver the required services to achieve the renewable targets?	Yes we broadly agree with this approach. There is an inherent assumption that the "output" of this approach is a level of funding that is sufficient to deliver the required services to achieve the renewable targets. Were this not to be the case a "cost plus" (or other) approach would be necessary in order to ensure that RES targets are met and the less quantifiable environmental benefit through reduced emissions achieved.
Financial Modelling and Analysis Approach	
To what extent, if any, should the capital costs inform the decision regarding future system services?	Capital costs should be used to inform the decision as to how the forecast cost savings achieved by System Services should be split between investors in System Services and consumers. Given that the capital cost shown in the Generation Investment scenario is less than half of the Alternative Investment scenario it would appear that the former is the much more attractive option (assuming that the lifecycle costs of this option are not excessive to the point where they negate the capital saving). In order to sufficiently incentivise generation sources to provide the necessary System Services the regulatory decision should ensure that the rewards available (i.e. the investors share of the aggregate available "pot" for System Services) provide an appropriate potential return on capital in light of the risks and investment costs to be incurred. How to determine and deliver a suitable return is another complex question, the answer to which would also determine how much of the forecast savings from System Services are passed through to consumers.
Do you agree with the proposed methodology for	We have concern about the impact on the modelling results of the assumption that interconnector flows are determined by the ex ante run and are a fixed input in the constrained run. This doesn't seem to be consistent with the EU Target Model where continuous intraday trading is a feature and interconnector flows would be expected in be much more variable in real-time.

determining the aggregate available pot for System Services?	We also note that Moyle's NI-GB capacity appears to have been assumed to be 300MW. While this is the case at present, this is due to fall to 80MW in 2017. A TSO study is underway to determine the case for investment to increase this capability. While we recognise that 300MW is a current best estimate, future modelling should take account of the outcome of this study. As noted in the SEM Committee cover note, not including network limitations and localised constraints is a significant assumption. If the level of transmission capacity assumed to be built by 2020 is too ambitious this will likely result in an increase in constraint costs, curtailment and system services costs. Notwithstanding the above, the proposed methodology seems broadly appropriate.
Allocation of System Services Revenue	
Which of the four methods outlined to allocate the funds between the System Services products would you prefer or is there another approach which should be considered?	A combination of options 2 and 3 would seem more likely to come up with an appropriate allocation than either option taken on its own. While option 3 is preferred there is a risk that an allocation based solely on model outputs does not fully capture any interactions between different services and any idiosyncrasies of the system that experienced TSOs would be aware of. Similarly, while option 2 would capture such issues, reliance on TSO experience/judgement lacks transparency. A method whereby allocation is *informed* by modelling as described in option 3 but the final decision is made by TSOs as per option 2 (with allocations which deviate significantly from the model outputs to be explained and justified for transparency) seems preferable.
Remuneration Approach	
Is the rationale for proposing dispatch-dependent payments clear?	While pros and cons of dispatch and capability dependant payments are clear, as is the TSOs intention to avoid overpaying for services, it is not clear how the preference for dispatch dependant payments has been reconciled with the need to reduce investment risk. While the paper sets out that there will be a mix of dispatch/availability payments it is difficult at this stage to determine whether

	the level of risk/return will stimulate investment.
Is there further justification, not included in earlier consultation responses, for adopting a more capability-based approach?	No – the key argument for capability based approach is stability of revenue to drive investment which has been discussed.
Proposed Contractual Arrangements and Payments	
Are the proposed general contractual and payment arrangements clear?	The principles are clear but further consultation on the detail will be required e.g. reliability penalties or bonuses could be used, arrangements for where there are too few events to statistically determine performance levels examined etc. One point that is not clear is where the paper states *".....the service provider pays for the initial capital cost of these [recorders], their installation and commissioning at agreed locations.* *The TSO then takes ownership of the recorders after commissioning and provides the external communication links to their offices."* - it is not clear how the TSO takes ownership, what the contractual arrangements are and what the responsibilities of each party are.