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3 August 2012

DS3: System Services 2nd Consultation – new products & contractual arrangements

Dear EirGrid and SONI

Energia welcomes this opportunity to comment on the 2nd consultation on systems services reform. Energia appreciates the considerable challenges associated with the intermittency of wind on the all-island electricity system, for both thermal plant and wind generation, and for achievement of renewable energy targets, and would like to work with the transmission system operators (TSOs), regulatory authorities (RAs), and government departments on appropriate and effective solutions.

Clearly the TSOs have already made a significant contribution given their role and technical expertise, and this is evidenced by the DS3 programme. Another critical stakeholder group is the thermal and renewable generators, both existing and future, that will have to deliver the capacity, energy, and performance required to run a sustainable power system securely, safely, and efficiency whilst also being able to finance their activities. The challenge is immense and will require the active participation and shared understanding of all concerned. Potential technical solutions crucially have to be commercially viable and commercially enabled to succeed. Delivery of the necessary services will require bankable and sustainable revenues. Unless these are appropriately remunerated the required services will not be achieved.

It is Energia's strong view that technical solutions cannot be progressed in isolation from financial information, details of commercial design and an understanding of all revenue stream interactions.

In our view this is a weakness of the current consultation and we therefore submit provisional comments with that caveat in mind, noting the need for the RAs to consult comprehensively at the end of the TSO-led process before any decisions are taken.

In previous submissions Energia consistently stressed the need for no interaction between system services and other revenue streams (capacity or energy) as this would create a net revenue shortfall for generators. We recognise the current interaction that exists between the BNE calculation and ancillary services but strongly submit that this would be particularly inappropriate in the context of a significantly revised ancillary services regime. Capacity payments are there to remunerate capacity to stay in the market. This becomes more important as more wind comes onto the system and conventional plant sees lower utilization and greater utilisation volatility and uncertainty. If capacity payments are reduced through increased ancillary services deductions then capacity which is needed to support the system will not be economically viable and could exit the market. Ancillary services should be remunerated separate from capacity payments. These additional ancillary services should be self funding through reduced levels of constraints and system inefficiencies, and will also reduce curtailment payments for firm access generators.

In the accompanying RA note to the current consultation (SEM-12-035) it is stated that "if the SEMC is provided with a proposal for increase in system services, the RAs consider at this point that there will need to be re-balancing or contribution (in some form) from the other revenue streams in the SEM paid for by the all-island customer". In light of the above high level remarks Energia strongly cautions against this mindset and would also support the Electricity Association of Ireland (EAI) position that this perspective is too narrow a focus.

We submit in Appendix 1 of this response a completed questionnaire, as requested in the consultation paper. Please note these are *provisional views only*, pending publication of more detailed information as the workstream progresses. We would also welcome the opportunity to discuss further in a bilateral meeting and to engage closely with the RAs and the TSOs throughout the process.

Supplementary to the completed questionnaire and the important points noted above, we have the following high level comments (that should be read in conjunction with previous Energia submissions in the context of DS3 and the systems services review):

Eligibility

- Energia strongly supports the principle that wind and distribution connected generators should be eligible to provide system services, this should be progressed.
- The potential for conflict of interest in certain circumstances and how this would be addressed needs to be explicitly considered and discussed.
- A better understanding of the proposed link between eligibility and grid code compliance is required and needs to be clarified with more detail. Investors would be extremely concerned about retrospective application of new more onerous grid code requirements that would compromise their remuneration for system services. New services and requirements should be incentivized through payment, albeit enhanced grid code requirements might be reasonable for new connections.

Remuneration

- The consultation paper states on page 9 that "where there is sufficient existing capability in the portfolio then utilization [versus capability] payment may be more appropriate to maintain levels of performance". It further states that "…there is merit in paying for capability independent of whether the unit is synchronised in some situations, particularly where new investment is required". We accept that there may have merit in certain circumstances, but this should not discriminate against or disadvantage existing generators who could provide the necessary services. Payment should be made on the basis of capability rather than utilisation when a service is valuable to system operation whether utilised or not, and this principle should apply to both new and existing services.
- The principles for remuneration (relating to payment based on utilisation, capability and performance) that apply to new system services should also apply to existing ancillary services to the extent practicable.
- Energia supports the principle of incentivising reliable performance but this should be achieved through both positive and negative incentives. Only negative incentives are proposed in the consultation paper. We strongly suggest that reliability bonus payments should be made to units with better than average reliability. This could be combined with negative incentives for units with less than average reliability. There is also precedent for a bonus payment structure from the previous ancillary services regime for operating reserves.
- In the context of a sliding scale for incentivising performance it would be important to understand the process for dealing with situations where there are too few events to statistically ascertain performance levels.
- The consultation paper vaguely refers to the possibility of introducing and incident specific non delivery incentive. More detailed information is required to comment further on this.

Contractual terms

- Energia broadly supports the proposal for using bilateral regulated contracts given the small size of the market and the bespoke nature of the technologies and services in question. However, Energia considers the suggested contract duration of between 3 and 7 years too short to support the investment required. In our investment experience there needs to be the flexibility to contract for a minimum of 10 years. Bankability of investments would require a 10 year contract as a minimum. The RA's have expressed concerns about contracts being longer than 3-5 years. However there is no point implementing a medium term approach if that fails to deliver investments, which need to be underpinned by bankable contracts. In general, the longer the financing term, the lower the annual cost required to underpin the investment. The real comparison should be between a 3-5 year contract at a high price level or a 10 year contract at a lower cost. Energia supports 10 year + contracts to ensure the necessary investments are delivered.

RoCoF issue

- The consultation paper states that the RoCoF issue is being tacked in two ways. One option is to explore the possibility of all generators withstanding a higher rate of change of frequency without significant modifications. The alternative or supplementary solution

is to tackle the RoCoF issue by introducing new system services products to mitigate the risks – these for example include synchronous inertial response and fast post-fault active power recovery. It is clear that the need for and hence value of the above products is inversely related to the ability of all generators withstanding a higher RoCoF. In the interests of consistency, efficiency and expediency Energia therefore suggests that the system services review must account for the system value of RoCoF and as a first step, must compensate prospective providers for the costs incurred for investigations undertaken to establish eligibility.

Transparency

- It is stated on page 9 of the consultation paper that "the TSOs consider that it may be appropriate to publish all revenues earned by system service providers in a similar manner that energy and capacity payment revenues are currently published". This is a matter for the RAs to consider and Energia would suggest that consideration be given to the wider issue of transparency and the potential for conflict of interest.

Availability testing

- In response to the last system services consultation we highlighted a need to test low-merit order plant more frequently to ensure they are capable of reliably providing the capacity declared. We noted that the SEM Committee acknowledged the importance of this issue in SEM-11-088 and that it should be considered in the context of the GPI programme. We would like to understand how this will be progressed if it is not being considered in the context of the system services review.

We look forward to meeting with you to discuss further.

Yours sincerely



Kevin Hannafin

Regulation Manager

Appendix 1 – Response to Questionnaire

Question	*Response*
New Products	
Synchronous Inertial Response Is the need for this product clear? If not, what additional information is required?	Broadly speaking the need for this product is clear.
Is the product description clear? If not, what aspects require clarification or further details?	Further clarification is required on the necessity and rationale for the proposed threshold and Energia would also need to understand the product payment terms.
What are your views on the proposed threshold value of 20s for the SIR ratio	We question the need for a threshold and argue that all providers who are capable of providing this service should be paid to provide this service.
Given the system need, what alternative product design should be considered?	
Fast Frequency Response Is the need for this product clear? If not, what additional information is required?	Given the challenges in achieving RoCoF enhancements, we believe there is merit in this product. However additional information is required in relation to the treatment of the frequency response service during high frequency events i.e. when a response is required urgently to reduce the frequency.
Is the product description clear? If not, what aspects require clarification or further details?	The product description would benefit from more detail and examples.
Which product option do you favour and why?	Further detail on remuneration is required before we could answer this but option 1 would be the preferred option given the information provided. It has been suggested that the value / need for this product would diminish if the RoCoF issue can be resolved. More information would be welcome on this interaction.
Given the system need, what alternative product design should be considered?	
Fast Post-Fault Active Power Recovery Is the need for this product clear? If not, what additional information is required?	Broadly speaking the need for this product is reasonably clear.
Is the product description clear? If not, what aspects require	The product description is not clear and would need more information.

clarification or further details?	
Given the system need, what alternative product design should be considered?	
Ramping Product Is the need for this product clear? If not, what additional information is required?	The need for this product is reasonably clear.
Is the product description clear? If not, what aspects require clarification or further details?	The product description and its detailed workings are not clear. We understand that a ramping-down product has not been included because it is not deemed to be scarce.
Which product option do you favour and why?	Further detail on remuneration is required before we could answer this. However option 2 is preferable, subject to adequate remuneration and better description of the product.
Given the system need, what alternative product design should be considered?	
Steady State Reactive Power Is the need for this product clear? If not, what additional information is required?	Broadly speaking the need for this product is clear
Is the product description clear? If not, what aspects require clarification or further details?	The product description would benefit from more detail and examples
Given the system need, what alternative product design should be considered?	A product which values a providers' full reactive power capability is preferable.
Dynamic Reactive Power capability Is the need for this product clear? If not, what additional information is required?	Broadly speaking the need for this product is clear.
Is the product description clear? If not, what aspects require clarification or further details?	The product description and its workings are not clear. More information is needed.
Given the system need, what alternative product design should be	

considered?	
Revised Replacement Reserve Is the need for this product clear? If not, what additional information is required?	The need for this product is reasonably clear.
Is the product description clear? If not, what aspects require clarification or further details?	Further clarifications required.
Given the system need, what alternative product design should be considered?	
Remuneration Approach	
General Approach What are your views on our proposed remuneration approach? Do you support the increased focus on performance reliability?	It is Energia's view that reliability should be rewarded with bonus payments as opposed to the proposals attached. Further clarity is required on the cost allocation of phasor measurement equipment. Energia assumes this equipment will be installed and provided by EirGrid at its cost and not levied on individual participants.
It is proposed that payment rates will be reduced where performance reliability is shown to be below a defined level (e.g. 90%) and reach zero at 50%. Do you believe this will be a more effective approach than applying charges for failures ?	It is Energia's view that reliability should be rewarded with bonus payments as opposed to the proposals attached. it is imperative that there be sufficient data/events upon which the payment will depend irrespective of whether bonus payments or the performance reliability scalor is applied Also in principle it is Energia's position that were penalties to apply they should be capped so that a service provider should never be worse off than if it had not contracted at all.
Contractual Arrangements Bilateral contracts are proposed. What are your views on the proposed range of possible durations of 3 to 7 years?	Contract duration should be much longer than proposed to be investable – ranging from 10-15 years. Energia supports bilateral contracts. Flexibility should be inherent in each contract Bankability of investments would require a 10 year contract as a minimum. The RA's have expressed concerns about contracts being longer than 3-5 years. However there is no point implementing a medium term approach if that fails to deliver investments, which need to be underpinned by bankable contracts. In general, the longer the financing term, the lower the annual cost required to underpin the investment. The real comparison should be between

	a 3-5 year contract at a high price level or a 10 year contract at a lower cost. Energia supports 10 year + contracts to ensure the necessary investments are delivered.