DS3 System Services Consultation – Contracts for Interim 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	*Energia*

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". Please note that, in any event, all responses will be shared with the Regulatory Authorities.

Response ☐ **confidential**

The closing date for responses is Friday, 3 June 2016.

Question	*Response*
Contracts for Interim Arrangements	
General Comments (To be read in conjunction with response to all questions below)	Energia welcomes the opportunity to respond to this consultation paper. We have a number of concerns with the proposed interim contractual arrangements which are broadly shared across industry as reflected in the EAI response to this consultation which we support. Our principal concerns relate to the governance process in respect of the Protocol (including its incomplete nature), the proposed scalar design, invoicing and settlement arrangements, and the termination clause in the Framework Agreement. We discuss each of these matters below before addressing the specific questions in the consultation paper. We also resubmit our response to the DS3 Scalars Design Consultation which is referenced herein. We request that the concerns raised in this response be considered and addressed through further engagement with industry as appropriate. **Governance** In our response to the DS3 Scalars Design Consultation we emphasised the need for DS3 to be a stable, predictable and unambiguous system from a commercial perspective to support investment and provide clarity to service providers that they will be appropriately remunerated for their services at all times. In this regard, we strongly cautioned against arbitrary changes to the rules and called for a commitment: to (1) transparency; (2) consultation and (3) evidence-based, proportionate, and objective decision making. We raised a concern that many of the proposals within that consultation paper were unsettling and potentially damaging to investor confidence because they implied arbitrary decisions, scope for considerable discretion on the part of the TSO, unpredictable change to scalars in future, potential for some system services to become Grid Code requirements in future, and a lack of clarity about how scalars would apply in the context of services procured through auctions. The absence of locational signals in the DS3 design was also identified as a key concern. The current consultation further reinforces the above concerns because the proposed interim contractual arrangements completely ignore the locational need for system services and would appear primarily designed to give the TSOs as much discretionary flexibility as possible,

	particularly with respect to compliance requirements, the performance scalar design and performance monitoring methods administered through the Protocol. The interim arrangements to be introduced under the Protocol will have a significant financial impact on service providers. Yet the Protocol itself remains in draft form and lacks sufficient detail and clarity to fully assess, limiting the certainty for service providers as to the requirements for compliance and performance monitoring. Furthermore, the Protocol itself is stated not to be subject to industry consultation except where a material change is proposed. With the potential for direct financial consequence we consider this approach to be contrary to principles of best regulatory practice and the necessary commitments outlined above. We therefore share the EAI view that: • A complete Protocol document should be published for consultation (following the outcome of the Scalars Design consultation) and should include all relevant details required for service providers to assess the requirements for compliance and performance monitoring. • Changes to the Protocol should only be permitted annually when contracts are renewed. Any changes should also be subject to industry consultation and regulatory approval. • The Protocol and its governance should be incorporated into the Framework Agreement. **Scalar Design** As the Scalar Design Consultation is ongoing, with significant concerns raised by Energia and (we assume) others on the performance scalar design, we do not believe it is appropriate to implement decisions on the interim arrangements through the Protocol. This is premature and, in our view, undermines the Scalar Design Consultation. Service providers have a legitimate expectation that procedural fairness will be followed and therefore we share EAI's view that feedback on issues relevant to the Protocol from the Scalar Design Consultation responses should be integrated into the design of the interim arrangements, not just the enduring arrangements. For a full discussion please refer to the significant concerns raised by Energia on the performance scalar design in our response to the Scalars Design Consultation. It is additionally

	worth noting for the purpose of this response that EAI have raised similar concerns which we would share and therefore we fully support EAI's position that the Performance Scalar design (including the treatment of deemed data poor providers) needs further consideration and engagement with industry so that the methodology employed is realistic and hence will provide a strong and balanced incentive to improve. A summary of our key concerns with respect to the proposed performance scalar design is as follows: • The simple pass rate methodology proposed (and associated thresholds) seems arbitrary and treats a 'bad' fail the same as a 'marginal' fail which is economically inefficient. • The proposed performance scalar methodology is overly punitive which provides disincentives to commit to and invest in the provision of system services. • TSO discretion (for example to adjust scalar parameters, thresholds, and assessment periods, event definitions, data used and so on) undermines efficient incentives for delivery of system services. • The proposed data poor resolution for ramping and reserve services under the interim arrangements is to apply an industry average performance scalar in the event that the providing unit is deemed to be "data poor". Thus even if a unit actually performs better than average but there are insufficient events to support this based on the proposed Data Start date (1st June 2016) and Data Backstop Timeframe (12 month rolling timeframe) it is penalised by having an industry average performance_scalar applied. As demonstrated above, the interim arrangements as implemented under the Protocol are discriminatory in their application. This discrimination arises because service providers providing the same services are being remunerated differently and it is based not on performance, but the number of system events a service provider has been called on to respond to. An alternative methodology is therefore required. A list of further comments with respect to the performance scalar design is provided below: • It may be difficult for any units to achieve 'Data Rich' status for reserve as there are usually a small number of <49.5Hz events per year. Therefore many units will be

	exposed to an Industry Average scalar over which they have no control. A better option would be to use the maximum of the units 'Data Available' performance or the industry average. This will ensure high performance in incentivised while not penalising units which have low numbers of events. • Consideration should be given to sub dividing the industry average into unit type categories, e.g. CCGT. This would more closely align the industry average with the units actual performance. • Due to potential inaccuracies in the measurement of POR performance (1 second sampling rate, instant in time measurement) an incorrectly low performance scalar may be applied. A higher resolution measurement is required and consideration given to average performance over the POR period. • Using FAIL SYNC as the measurement of ramping performance is a crude and inaccurate way of measuring performance. Plants which are synchronised continuously will be 'Data Poor' all the time and have to rely on industry average. A plant could also receive a FAIL SYNC and still ramp within the ramping requirement, therefore they are deemed to have failed a ramp when in fact they did not. • Low utilisation units may be 'Data Poor' most of the time; therefore there is no incentive to improve performance as they will receive the Industry Average scalar regardless. • We have concerns with reference to table 2 of the Protocol document which indicates an annual test for reactive power and seems to indicate on page 15 that a scalar of 0 will apply if this test is not satisified. Will a marginal fail result in a 0 scalar? Can the test be repeated? **Termination** Like EAI, we do not agree that a 3 month notice period allowing the TSO to unilaterally terminate individual services or the whole agreement is appropriate. It is not warranted because underperformance is intended to be addressed through the performance scalar mechanism. **Invoicing and Settlement**

	We share EAI's concern that issues and measurement errors may take much longer than 10 days to emerge. Therefore we do not agree with the requirement to confirm accuracy of the Statement of Account in order to submit an invoice to the Statement amount. Nor do we agree that failure to raise a Claim at this point should be deemed an acceptance of accuracy. It is our view, like EAI, that Service Providers should have the opportunity to raise a dispute for up to 2 years after the Statement is issued. We do not agree that the TSO should be able to make estimates of any missing information and apply this unilaterally. The generator has data which could be used as a substitute and irrespective of method used both parties should be in agreement. Furthermore, we believe that invoicing and settlement should be aligned to the current NI approach rather than the ROI approach.
Question 1: Do you agree with the proposal that the framework agreements should apply on a Providing Unit basis rather than on a Service Provider basis?	We have no objections to this.
Question 2: Do you have any comment on payment being contingent on compliance requirements being met?	Whilst we agree in principle that compliance testing may be necessary and desirable there is insufficient detail in the Protocol document to comment on the specific proposals being made, as discussed within our general comments. The Protocol itself remains in draft form and lacks sufficient detail and clarity to fully assess, limiting the certainty for service providers as to the requirements for compliance and performance monitoring. We feel the detail of any testing should be included in the protocol document. We have concerns on the table 2 in the protocol document indicates an annual test for reactive power and seems to indicate on page 15 that a scalar of 0 will apply if this test is not satisified. Will a marginal fail result in a 0 scalar? Can the test be repeated?

Question 3: Do you have any comment on the proposal to detail performance monitoring in the Protocol document rather than in the framework agreements?	We have concerns about the governance of the Protocol document. See our general comments above for detailed discussion of these concerns.
Question 4: Do you have a view on the change in notice period for termination of one or more system services by the Company?	The existing HAS contract includes a termination period of 12 months for one or more services. A shorter termination period exposes a generators to further uncertainty, the termination period should remain at 12 months. Like EAI, we do not agree that a 3 month notice period allowing the TSO to unilaterally terminate individual services or the whole agreement is appropriate. It is not warranted because underperformance is intended to be addressed through the performance scalar mechanism.
Question 5: Do you have a view on the proposed definition of the Product Scalars in the framework agreement?	Please refer to our response to the DS3 Scalars Design Consultation where we have given our views on the proposed Product Scalars.
Question 6: Do you have a view on the high-level definition of the Performance Scalars in the Protocol document?	Please refer to our response to the DS3 Scalars Design Consultation where we have given our views on the proposed Performance Scalars. We disagree with a lot of what has been proposed, the generator is potentially left exposed to providing a service yet not being remunerated, reactive power for example. The subject of data poor means a generator could satisfy the terms of the contract(100%) but because it has not

	been dispatched for a sufficient period of time is then subject to an industry average therefore penalising high performers. These our just of subset of our significant concerns. See our general comments above for more detail.
Question 7: Do you have any comment on the technical definitions of the new system services as specified in the draft DS3 System Services framework agreement?	No comment
Question 8: Do you have any comment on the payment definitions of the new system services as specified in the draft DS3 System Services framework agreement?	The RP factor calculation is very penal for units that satisfy minimum generation grid code requirement, the calculation is in esssance reducing payments by 50% (28.6% on existing HAS).
Question 9: Do you have any comment on the alignment of settlement timelines between Ireland and Northern Ireland?	We believe that invoicing and settlement should be aligned to the current NI approach rather than the ROI approach.