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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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.

General Comments

ESB Generation and Wholesale Markets (GWM) welcomes the opportunity to submit a response to the Consultation Paper on the DS3 System Services Contracts for Interim Arrangements. We have provided answers to each question in the template provided, and summarise our key issues below. Legal comments on the proposed Framework Agreements are included in the separate response matrix.

Key Issues – Performance Measurement

- We do not support the inclusion of Performance Monitoring provisions and the associated Performance Scalar calculations in the Protocol document. These should be included in the Framework Agreements. If they are included in the Protocol document, changes should only permitted annually when contracts are renewed, and be subject to industry consultation / RA approval.
- Reliability targets used for the Performance Scalars should be based on historic average performance rather than an arbitrary 90%, and the Performance Scalar should be > 1 for outperformance to incentivise performance improvements. This would provide realistic targets for the interim arrangements and a strong incentive to improve.
- Performance Scalars should be set to 1 for Providing Units deemed to be “Data Poor” rather than set to the industry average.
- We suggest that following the repair / maintenance of a Providing Unit that has been performing poorly, there is an opportunity test the unit and reset its Performance Scalar. This would help restore the incentive to provide the service which may otherwise be lost until the period of poor performance moves outside the 12 / 6 month assessment window.
- The proposed Performance Scalar for the Ramping Reserve services is unworkable for synchronised units since the reliability of these services bears little relationship to the number of successful starts. This scalar should be dropped from the interim arrangements and a more suitable measure developed for the enduring arrangements.
- We suggest a process is developed to give an early warning of performance issues and any associated impacts on the Performance Scalars so that these can be promptly resolved. This could be an extension of the existing Performance Reports.

Key Issues – Billing

- The calculation of Available Volume based only on a unit's physical dispatch position represents a departure away from the 2014 SEM decision paper which stated that "*The higher of a unit's market position or physical dispatch will be used to determine the available volume*". Any policy change from the SEM Committee decision should be explained and justified, ideally via consultation.
- If the Framework Agreements are to apply on a Providing Unit basis, we suggest that Statements of Accounts and Invoices are produced on a Service Provider basis, thus avoiding the additional administrative overhead and system changes needed to deal with individual statements and invoices.
- The D+3 confirmation statements should be retained for Northern Ireland and extended across Ireland.
- The clauses dealing with Billing and Payment Reconciliation in the current HAS agreement should be retained. Metering / measurement errors and other issues take time to emerge and a reconciliation process is required to deal with any inaccuracies that come to light after the monthly Statements of Accounts are issued and the associated Invoices paid.

Question	*Response*
Contracts for Interim Arrangements	
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 acknowledge the merits of this proposal but are concerned that this would result in multiple Statement of Accounts and Invoices – one for each Providing Unit. This will increase the administrative overhead associated with billing and settlement processes and require system changes for both Service Providers and TSOs. If the Framework Agreements are to apply on a Providing Unit basis, we propose that there is a single monthly Statement of Account and Invoice covering all Providing Units for each Service Provider/TSO. In the consultation the Service Provider is defined as the 'company that owns or operates the Unit'. For clarity we propose that Service Provider is defined based on a statutory entity basis such that each statutory entity is invoiced separately.
Question 2: Do you have any comment on payment being contingent on compliance requirements being met?	We agree that payments for DS3 System Service should be contingent on meeting the compliance requirements set out in the DS3 System Services Protocol document. The compliance requirements for these services are likely to evolve going forward, and we support their inclusion in a supplementary DS3 System Service Protocol document. However, if the compliance requirements are changed, these should not come into effect until the start of a new contract. Otherwise the ability to change compliance requirements mid-contract, potentially rendering

	some participants non-compliant and ineligible for payment, would create an additional risk to Service Providers.
Question 3: Do you have any comment on the proposal to detail performance monitoring in the Protocol document rather than in the framework agreements?	Performance monitoring, reliability targets and the associated scalar calculations could materially impact on revenues and should be fixed for the duration of the contract. We therefore suggest that performance monitoring is included within the body of the Framework Agreement rather than in the Protocol document. If performance monitoring is included in the Protocol document, changes should only be permitted annually when contracts are renewed. Any changes to the Protocol document should be subject to industry consultation and approved by the Regulatory Authorities. The Protocol document should also include the detailed technical definitions of the DS3 System Services, the procurement process of each service, and the operational principles associated with the use of these services.
Question 4: Do you have a view on the change in notice period for termination of one or more system services by the Company?	We do not agree that a 3 month notice period allowing the TSOs to terminate individual services or the whole agreement without cause is appropriate for a one year interim framework agreement. We would agree to such a right existing where the Agreement is extended in accordance with the proposed extension option in clause 2.1.2. We also believe there should be more reciprocity with

	regard to the Service Provider's rights to terminate, in particular the Service Provider should also have the right to terminate individual services, reflecting the TSO right to do this.
Question 5: Do you have a view on the proposed definition of the Product Scalars in the framework agreement?	We agree with the use of a Product Scalar for FFR, POR and SOR to differentiate between dynamic and static response. However, we suggest that this distinction is unnecessary for TOR1 and should be removed. The difference in value between static and dynamic reserves in the TOR1 timeframe (90 seconds to 5 minutes after an event) becomes very marginal given that the value of dynamic response is in the real-time regulation of system frequency. For the SSRP Product Scalar, we suggest the AVR Status definition is clarified.
Question 6: Do you have a view on the high-level definition of the Performance Scalars in the Protocol document?	**Pass Rate Methodology** We set out our views on the limitations of a pass rate methodology in our response to the consultation on Performance Scalars for the enduring arrangements. Performance Scalars should not be introduced in the interim arrangements until a decision on scalars is made for the enduring arrangements. However, if Performance Scalars are to be adopted in the enduring arrangements, then it would be reasonable to introduce these into the interim arrangements for services where reliable monitoring and performance data is available and the scalar is an accurate reflection of service reliability.

	Performance Targets We do not agree with using an arbitrary 90% performance target for DS3 System Services or the unbalanced incentive properties of the Performance Scalar. Performance targets should be based on historic average performance, rather than fixed at 90%, and the Performance Scalar should be > 1 to reward performance in excess of the target. This would provide realistic targets and a strong and balanced incentive to improve. As reliability improves, performance targets could be progressively increased in future years to set up a cycle of continuous improvement in the reliability of these services. **Data Poor** We do not agree with the proposal to use the industry average performance for Providing Units deemed to be "Data Poor". The Performance Scalar should be set to 1 for these units until such time that there is sufficient performance data available. Otherwise poor performance of a frequently used provider could have an adverse and unwarranted impact on other service providers that are used infrequently. **Performance Scalar for Ramping** We have identified a fundamental issue with the Performance Scalar calculation methodology for the Ramping services. Using synchronisation instructions to measure ramping reliability is not appropriate for the following reasons:

	• Most ramping is done by units already synchronised, and therefore reliability cannot be measured from a desynchronised state based on the number of successful Sync Instructions; • For example, a base load plant that is synchronised no more than 5 or 10 times a year would be providing RM1, RM3, RM8, RRS and TOR2 for many thousands of hours without issue but may be subject to a scalar of less than 100% due to a few starting issues over the previous 6 months. Measuring performance over the limited number of starts would bear no relation to the actual reliability of the ramping services provided by this plant; • A starts based data poor plant, running base load and coming down to minimum generation overnight to facilitate renewable generation, would be ramping specifically as a service every day yet could be under-rewarded for the provision of the service if it were subject to a scalar based on the industry average starting performance; • Conversly, a similar plant which does not incur start-up issues but suffers from very poor reliability in the delivery of its Ramping services would not be penalised; • The RRS product is by definition a synchronised product whose performance scalar cannot be assessed using a desynchronised starting point; • TOR2 is also a synchronised product which can be provided automatically without a dispatch instruction, and its reliability cannot be therefore based on the number of successful Sync Instructions; and • Plants that are synchronised will be able to provide an RM1

	service. However, a cold CCGT cannot offer RM1 and thus its performance scalar can't be assessed from a desynchronised state. Clearly the proposed Performance Scalar for the Ramping services is unworkable for synchronised plant. Given the time to implement the interim arrangements, we suggest this scalar is dropped and an alternative developed that can be introduced as part of the enduring arrangements. **<u>Resetting Performance Scalars to maintain incentives</u>** We suggest that following the repair / maintenance of a Providing Unit that has been performing poorly, there is an opportunity test the unit and reset its Performance Scalar. This would help improve the incentive properties of the new arrangements. Without the ability to reset the Performance Scalar, the incentive to undertake repairs and restore a reliable service is reduced until 6 / 12 months has elapsed and the performance issues have moved outside the assessment window. **<u>Performance Reports</u>** We also suggest a process is needed to give an early warning of performance issues and any associated impacts on the Performance Scalars so that these can be promptly resolved. We suggest that the current Performance Reports are formalised (with agreed timescales for issue), and expanded to cover the performance of all DS3 System Service, showing the latest Performance Scalars

	for each Providing Unit/ Service Provider.
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?	Specific comments in relation the technical definitions in the Framework Agreement are included in the response matrix. For the ramping margin services, it is not clear which heat state the calculation of Potential Ramping Margin relates to. Is the intention to base this 'potential capability' on the unit being hot, given that the actual heat state (and therefore the actual availability of RM1, RM3 and RM8) will be driven by TSO dispatch decisions, or that the current heat state will be declared by the Service Provider? The definition should clarify this point. For the DRR service, the DRR Available Volume should not be the product of the Registered Capacity and the Declared DRR. To be consistent with the DS3 Technical Definitions decision paper, the DRR Available Volume should be based on the Registered Capacity of the unit for the percentage of the Trading Period in which the unit is synchronised.
Question 8: Do you have any comment on the payment definitions of the new system services	Specific comments in relation the payment definitions in the Framework

as specified in the draft DS3 System Services framework agreement?	Agreement are included in the response matrix. The December 2014 SEM decision paper[1] stated that "*The higher of a unit's market position or physical dispatch will be used to determine the available volume*". In contrast, the proposed calculations of Available Volume in the contract are based on physical dispatch positions only. We believe that any change in policy from the SEM Committee decision should be explained and justified, ideally through a consultation process. We would also welcome clarity on whether this policy change will also apply to the enduring arrangements. We suggest removing references to the FFR, FPFAPR and DRR Performance Scalars given the statement in the protocol document stating that *"The three fast-acting DS3 System Services (FFR, FPFAPR and DDR) will not be subject to the interim performance monitoring arrangements.."*.
<u>Question 9</u>: Do you have any comment on the alignment of settlement timelines between Ireland and Northern Ireland?	Removing the requirement for Daily Confirmation sheets by D+3 is a backward step. These should be restored to the SONI agreement and introduced to the EirGrid agreement. A continuous flow of information on volumes and performance will be essential to the success of the DS3 System Services and should be made a permanent feature of the enduring arrangements. These will also allow billing issues to be identified and resolved ahead of the formal billing

[1] DS3 System Services Procurement Design and Emerging Thinking , Decision Paper, SEM-14-108, 19 December 2014

	process, and performance issues to be highlighted and resolved early. Sections 3.2 to 3.7 of the current HAS agreement dealing with Billing and Payment Reconciliation should be retained in the contract. Metering / measurement errors and other issues take time to emerge and a reconciliation process is required to deal with any inaccuracies that come to light after the monthly Statements of Accounts are issued and the associated Invoices paid. We also suggest that the dispute window of one year is inappropriate, especially for the interim year when new services are being introduced, as well as new arrangements for measuring service delivery and monitoring performance. We understand the TSO will want some finality with regard to the interim arrangements and therefore would agree to a dispute window of two years following the end of the interim Framework Agreement. Finally, the following documentation would assist Service Providers to prepare for implementation of the interim arrangements: • Example Statement of Account covering all 14 DS3 System Services; • Example Supporting Information/Evidence to enable validation of the Statement of Account; • Example Performance Reports covering all 14 DS3 System Services and the calculation of Performance Scalars; and • Example invoices in the format required by the TSOs.