

DS3 System Services Consultation – Enduring Scalar Design

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

Respondent Name	<i>Brian Larkin</i>
Contact telephone number	<i>01 233 5412</i>
Respondent Company	<i>Bord Gáis Energy</i>

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 Monday, 21 August 2017.

DS3 System Services Consultation – Enduring Tariffs

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1 Introduction

Bord Gáis Energy welcomes this opportunity to respond to the TSOs' Consultation on DS3 Enduring Regulated Arrangements. BGE are committed to finding an adequate solution to the DS3 market, which encourages investment in appropriate fast-acting, flexible technologies while striking a balance with ensuring that the glide path for total expenditure is not breached.

At a high level, BGE agrees with the TSOs about the importance of ensuring both price certainty and contract certainty in DS3 in order to give investors the tools to develop adequate business cases and to ensure that the system is capable of accommodating higher levels of renewable throughput on the system for meeting 2020 national requirements. However, BGE does not believe that the proposals of this consultation will provide the necessary signals for these investments due to the lack of uncertainty without long-term contracts. We believe that a more suitable and necessary approach, understanding that competitive arrangements will not be implemented for some time, would be to provide contracts in line with funding requirements (i.e. at least 10 years) to a limited volume of new providers. Under this approach, these providers of new DS3 services would contractually agree to a set of regulated tariffs and scalars for the duration of their contract. This would allow the TSOs to create an immediate investment signal with an appropriate risk profile for new providers while retaining a level of control with regard to overall expenditure with established providers.

In addition to the above, we do not believe the introduction of a '*not earlier than*' date for competitive arrangements will provide investment clarity for significant contributions to DS3 system services, even in the short or medium term. Given the timeframe required in developing a new unit, an investor needs the certainty that they will receive an appropriate level of contracted return in line with their assets expected lifetime. In order to see real projects and realised investment in our energy security going forward, long term contracts with predefined tariffs and applicable scalars should be set for new units. Investors cannot participate in this market until clarity is provided and risk is reduced.

We believe that the above suggested changes, together with our below responses could deliver the necessary investment signals to enable the objectives of DS3 to be met, whilst efficiently managing expenditure in advance of the next stage of the DS3 design being finalised.

I hope you find the above comments and our specific answers below helpful for developing the final DS3 design for enduring regulated arrangements. If you have any questions on the details, please do not hesitate to contact me at anytime.

Sincere regards,

Brian Larkin
Regulatory Affairs – Commercial
Bord Gáis Energy

{By e-mail}

2 Enduring Tariffs

Q1: Have you comments on the proposed tariff rates for the Enduring Regulated Tariff arrangements?

To ensure investor interest in DS3, we believe that greater transparency on how regulated tariffs are derived is critical. A thorough explanation of the tariffs and scalars must be provided in order to build confidence amongst energy generators.

Q2: Do you have comments on the TSOs' recommendation to put in place a minimum defined time duration until such a time as there is greater information available on the timeline for in implementing long-term arrangements for DS3?

As already discussed, BGE does not believe that the proposals set out in this Consultation will provide the right signals for investment in fast-acting, flexible generation necessary to deliver higher levels of renewable throughput on the system to meet 2020 national requirements. Given that competitive arrangements will not be implemented for some time, it is essential that the correct signals are delivered during the regulated arrangements timeframe in order to achieve these 2020 targets. We believe that a more suitable and necessary approach would be to provide DS3 contracts of durations in line with funding requirements (i.e. at least 10 years) to a limited volume of new providers. Under this approach, providers of new DS3 services would contractually agree to a set of regulated tariffs and scalars for the duration of their contract. This would allow the TSOs to create an immediate investment signal with an appropriate risk profile for new providers while retaining a level of control with regard to overall expenditure with established providers.

In addition to the above, we do not believe the introduction of a '*not earlier than*' date for competitive arrangements will provide investment clarity for significant contributions to DS3 system services, even in the short or medium term. Given the timeframe required in developing a new unit, an investor needs the certainty that they will receive an appropriate level of contracted return in line with their assets expected lifetime. In order to see real projects and realised investment in our energy security going forward, long term contracts with predefined tariffs and applicable scalars should be set for new units. Investors cannot participate in this market until clarity is provided and risk is reduced.

Q3: With respect to contract certainty, are there other considerations which we should take account of or other options that we should explore further?

As per our answer to Question 2, in order for investment cases to be successful, the TSOs need to provide long-term contracts to new providers offering fast-acting, flexible technologies. These contract durations should be in line with funding requirements (i.e. at least 10 years).

Q4: Do you have comments on the TSOs' recommendation to replace annual tariff reviews with a conditional tariff review, or are there alternative approaches?

At present, we do not believe the structure of tariff reviews is sufficient for providing investment signals. Regardless of the frequency in which tariffs are reviewed, investment cases can only be made with the certainty of a contract with fixed regulated tariffs for the duration of that contract. Further details are provided in our answer to Question 2.

Q5: Are there other considerations on the conditions under which a conditional review should be triggered?

No comment.

Q6: Do you have comments on the proposal to exclude a high annual wind capacity factor as a consideration for triggering a condition tariff review?

We agree with the TSOs' proposals. A system with high annual wind capacity compliments the DS3 market and would reduce energy prices accordingly. To penalise the providers who enabled the achievement of these SNSP levels seems counter to the intent of DS3.

Q7: Have you any comments on the TSOs' recommendation to use the 'stepped' scarcity scalar design rather than the 'linear' scarcity scalar design?

When considering the temporal scarcity scalar design, we believe it is important that the TSOs consider a balance between the price certainty that a stepped scalar provides and also the linear relationship that the SNSP level has with energy prices. For example, energy prices tend to decrease as the level of SNSP increases, and as such, the difference in value between 59.9% SNSP and 60.1% SNSP is unlikely to be 6.2 (as the stepped scalar suggests). We therefore request that the TSOs consider this balance when making their final recommendations.

Q8: Should we decide to use a 'stepped' scarcity scalar, are there other considerations which we should consider in its design?

No comment.

Q9: Do you agree with the TSOs' recommendation on the method to mitigate over-expenditure as a result of potential over-investment by high availability technologies?

Considering our over-arching position on providing investment signals through long-term contracts, we also understand that there still remains a risk of over-expenditure in DS3 as a result of potential over-investment in high-availability technologies. As a solution, we believe that a gated structure could be provided for projects that are advanced in their development stages and have planning in place. This could be implemented on an annual basis which would place a cap on the allowed level of new DS3 service providers on the system. Such a gated structure would be open on a first come first serve basis.

Q10: Have you comments on the preferred method to implement a procurement-based volume limit?

Please refer to our comments to Question 9 for details.

Q11: Do you agree with the TSOs' recommendation to delay the implementation of taking the higher of a service provider's market position or physical dispatch, to determine the available volume of a service, for a minimum of 12 months post I-SEM go-live?

BGE does not agree with the TSOs' recommendation to delay the implementation of taking the higher of a service provider's market position or physical dispatch when determining the available volume of a service. The SEM Committee have made the decision that DS3 payments should be made on the basis of the higher of a unit's market position and physical dispatch. The proposal to delay this decision by 12 months seems arbitrary and it further hampers confidence in revenue certainty. On that basis, we believe that the SEMC's decision should be implemented from day 1 of I-SEM Go-Live.

Q12: Do you have comments on the method by which a resettlement between market and physical dispatch could occur following the 12 month delay?

We believe that the current decision for resettlement between market and physical dispatch should remain in place for day 1 of I-SEM Go-Live.

3 Enduring Scalars

Q1: Do you agree with the performance scalar proposal?

BGE believes that the current performance scalars appropriately incentivise generators to provide accurate and reliable system service provision to the TSOs on a constant basis. We believe the proposal to introduce a performance scalar for further forecasting accuracy would act as a double incentive/ penalty on generators, which we believe is unnecessary and inappropriate. On that basis, we do not agree with the TSOs' performance scalar proposal.

Q2: Do you agree with FFR scalar proposal?

BGE welcomes to the proposal to introduce a product scalar for faster FFR response. However, given the magnitude of the scalar, we wish to seek further clarity on the TSOs' proposal. In particular, we wish to see information on why a scalar of up to 3 times the original value is considered appropriate for faster FFR response. We also request clarity on the level of volume the TSO expects to contract with for this faster FFR product.

Q3: Do you agree with our proposal to implement a Product Scalar for the Enhanced Delivery of FFR, POR, SOR and TOR1? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes the introduction of a scalar to reward generators who can provide enhanced delivery of FFR, POR, SOR and TOR1.

Q4: Do you agree with our proposal to implement a Product Scalar for the Continuous Provision of Reserve from FFR to TOR1? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes the introduction of a scalar to reward generators who can provide reserve from the FFR right through to the TOR1 timeframe.. Similar to our answer to Question 2, it would be useful in the interests of transparency if the TSOs provided information on the level chosen for this scalar.

Q5: Do you agree with our proposal to implement a Product Scalar for the Enhanced Delivery of SSRP with an AVR? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes this proposed scalar.

Q6: Do you agree with our proposal to implement a Product Scalar for SSRP with Watt-less VARs? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes this proposed scalar.

Q7: Do you agree with our proposal to implement a Temporal Scarcity Scalar for DRR and FPFAPR? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes this proposed scalar.

Q8: Do you agree with our proposal to implement a Temporal Scarcity Scalar for FFR? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes this proposed scalar.

Q9: Do you agree with our proposal to implement a Temporal Scarcity Scalar for 11 Existing System Services? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE welcomes this proposed scalar.

Q10: Do you agree with our proposal to implement a Locational Scarcity Scalar for All System Services? If not, please specify why or identify what element of the scalar design you believe requires amendment.

BGE does not agree with the proposal to introduce a locational scarcity scalar. We do not believe that this scalar would effectively deliver DS3 volumes in certain locations without creating market power issues amongst the generators that already exist in those areas.

Q11: Do you agree with our proposal NOT to implement a Product Scalar for Enhanced Delivery of DRR with more reactive current? If not, can you please provide rational to support your views?

BGE agrees with this proposal.

Q12: Do you agree with our proposal NOT to implement a Product Scalar for Enhanced Delivery of SSRP with a PSS? If not, can you please provide rational to support your views?

BGE agrees with this proposal.

Q13: Do you agree with our proposal NOT to implement a Product Scalar for SIR with Reserve? If not, can you please provide rational to support your views?

BGE agrees with this proposal.

Q14: Do you agree with our proposal NOT to implement a Product Scalar for Faster Response of FPFAPR? If not, can you please provide rational to support your views?

BGE agrees with this proposal.

Q15: Do you agree with our proposal NOT to implement a Temporal Scarcity Scalar for Reserve Products? If not, can you please provide rational to support your views?

BGE agrees with this proposal on the basis that it will be introduced as part of the temporal scarcity scalar for all 11 existing system services. Please refer to our answer to Question 8 for further details on our position on temporal scarcity scalars.

Q16: Do you agree with our proposal NOT to implement a Temporal Scarcity Scalar for SIR? If not, can you please provide rational to support your views?

BGE agrees with this proposal on the basis that it will be introduced as part of the temporal scarcity scalar for all 11 existing system services. Please refer to our answer to Question 8 for further details on our position on temporal scarcity scalars.

Q17: Do you agree with our proposal NOT to implement a specific Volume Scalar for Regulated Arrangements? If not, can you please provide rational to support your views?

On the basis of price and investment certainty, BGE agrees with the TSOs not to implement a Volume Scalar to DS3. A system with high annual wind capacity compliments of the DS3 market, and subsequently would reduce energy prices accordingly. To penalise providers who would enable these SNSP levels seems counter to the intent of DS3. Overspend in DS3 means more SNSP which is a good thing. Overspend in dS3 should not be viewed in such a negative light since overspend in DS3 means the achievement of higher SNSP.

Q18: Do you agree with the TSOs' proposal to implement Frequency Response curves to define the provision of FFR?

No comment.