

DS3 System Services Consultation – Interim Tariffs

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	<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

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The closing date for responses is Friday, 20 May 2016.

Question	Response
Consultation on Interim Tariffs	
<p><u>Question 1:</u> Should we take any other factors into account when determining the relative importance of each service during the interim period?</p>	<p>Introduction</p> <p>Bord Gáis Energy (BGE) welcomes this opportunity to respond to the TSOs' (EirGrid and SONI) consultation on DS3 System Service Interim Tariffs.</p> <p>We have conducted our own analysis using the proposed interim tariffs and have found that overall System Service revenues for generators will in fact decrease over the coming year, contrary to the consultation suggestions that payments to existing providers will increase. This is extremely concerning to us as the reduction in tariffs indicates that market signals for DS3 future arrangements will not be provided for encouraging generators to maximise their capabilities and invest in flexible generation. While the methodology for calculating the tariffs would seem appropriate, it is unclear why the tariffs are reducing to the extent that they are. We therefore request that the TSOs provide their supporting analysis for the proposed tariffs, outlining the studies they have done to support their proposals and to ensure that they align with the policy objective of incentivising the relevant type of flexibility.</p> <p>Q1:</p> <p>While we agree that the relative importance of the services for 2015/16 should consider the current HAS weightings and the 2020 forecasted weightings, this should only be a starting point of the process. From there, we believe the relative importance should be re-evaluated to recognise that certain products will only be provided under testing conditions for the 2016/17 interim period, i.e. FFR, FPFAPR and DRR. For example, FFR cannot be relied upon to the same extent as SIR for instantaneous response and therefore should have a lower weighting applied to it.</p> <p>We are unsure how the TSOs have determined the relative importance of the operating reserve services (POR, SOR, TOR1 and TOR2). While we understand that their weightings should decrease relative to the increase in DS3 revenues, it is not clear why the weighting proportions are changing. The table below highlights the differences we are seeing between the current operating reserve weightings and the 2016/17 weightings. We request that the TSOs provide their calculation process for determining the relative importance of system services so that we can fully engage with the consultation and provide constructive feedback.</p>

<p><u>Question 2:</u> Have you any comments on the methodology used to calculate the rates?</p> <p><u>Question 3:</u> Are there any other benefits from the interim arrangements that should be considered?</p> <p><u>Question 4:</u> Have we set out the relevant impacts on service providers over this interim period?</p>						
		2015/16		2016/17		Difference
		Relative weighting	Revenues (€m)	Relative weighting	Revenues (€m)	
	Total Revenue (approx.)		50	70		
	POR	15%	7.5	13%	9.1	21%
	SOR	18%	9	11%	7.7	-14%
	TOR1	21%	10.5	10%	7	-33%
	TOR2	12%	6	10%	7	17%
<p>Q2: We have concerns around the significant reduction in existing system service tariffs compared to 2015/16 HAS rates. Our analysis shows that overall revenues for generators are actually decreasing, contrary to the suggestions of the consultation. Given that the purpose of DS3 is to increase non-synchronous penetration by incentivising the development of flexible generation, the wrong signal would be sent to investors if these tariffs were applied without any strong rationale. We request that the TSOs provide their supporting analysis for the proposed rates, outlining the studies they have done to support their proposals and to ensure that they align with the policy objective of incentivising the relevant type of flexibility. In particular, we wish to verify the TSOs' analysis on the estimated contracted volumes for 2016/17. Based on the system service "pot" revenues and their corresponding rates, it would seem that contracted volumes are significantly changing for each system service, which in turn is causing significant changes to the tariffs.</p> <p>Q3: We have no comments on any further benefits from the interim arrangements.</p> <p>Q4: We believe there are numerous other impacts on service providers which we have outlined in our responses to Q1 and Q2 which we address through the following sub-headings.</p>						

	<p><i>Reduced revenues</i></p> <p>The reduction in tariffs suggests that Generators will receive lower revenues from System Services and as a result, it acts as a disincentive for investments and provides little comfort for the future DS3 arrangements.</p> <p><i>Transparency</i></p> <p>Market participants are unable to verify the proposed interim tariffs as there is not enough analysis provided in the consultation. We believe the TSOs should provide supporting analysis for deriving the proposed tariffs given the reductions in revenues that generators are facing. In particular we request that the TSOs present their analysis on their volume calculations as the contracted available volume seems to be changing significantly between 2015/16 and 2016/17. This we believe is the key factor for the reduced tariffs.</p> <p><i>Risks</i></p> <p>In terms of the tender process, while we agree that market participants will see costs associated with completing the procurement process, there is also a significant risk element associated with not completing the tender on time which is not addressed in the consultation. Given the commercial and operational risk for parties who will be mandated to provide the services under the Grid Code obligations, a longer tender process should have been provided to enable parties to conduct the relevant technical and commercial analysis needed to complete and sign-off on a robust tender application.</p>
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