

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>AES</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

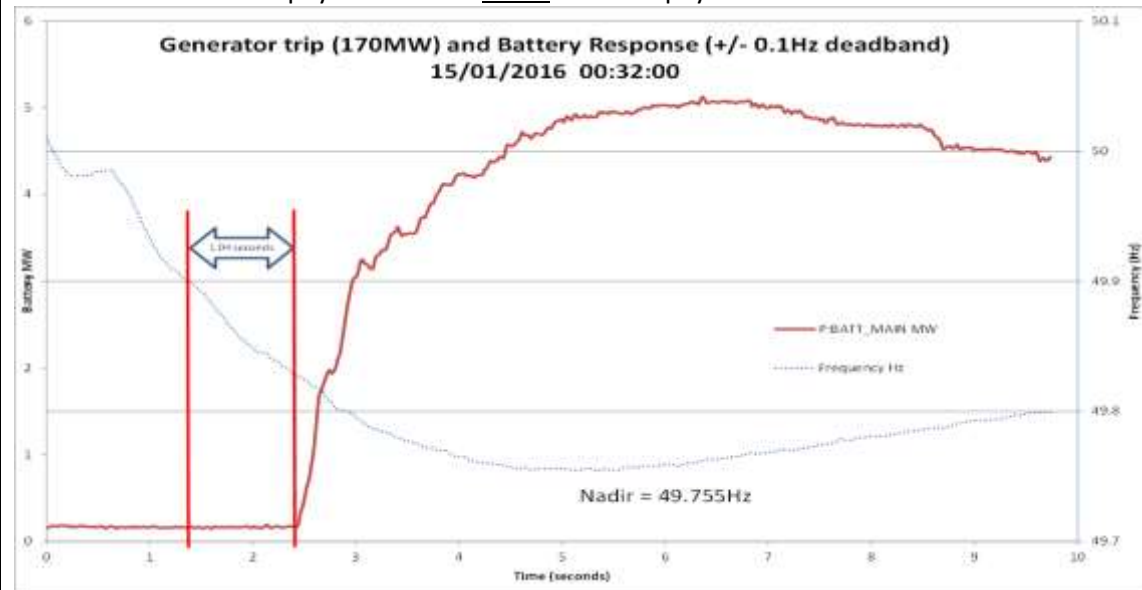
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The closing date for responses is Friday, 20 May 2016.

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><u>Question 2:</u> Have you any comments on the methodology used to calculate the rates?</p>	<p>AES has been involved in the development of the DS3 system services from the outset of the industry wide involvement in the project and understood the TSOs original requirement to incentivise the provision of fast acting services from existing and new providers to meet the system response required by increasing levels of renewable generation and facilitate an increase in the SNSP level. AES welcomed the identification of the seven new services required to maintain the resilience of the power system at SNSP levels of up to 75% by 2020 but is surprised that only 11 of the services will be remunerated under the interim tariffs and the uncertainty surrounding the procurement and payment structure for the remaining 3 fast acting services seems at odds with the original concept of incentivising new fast acting services.</p> <p>The weightings identified for 2020 seem to reflect the original requirement for fast acting services however the 2016/17 weightings for FFR, FPFAPR and DRR are given much lower weightings similar to slower response products such as ramping (5%) or less and seem to be inconsistent with the original concept and do not provide any signal for investment.</p> <p>AES agrees in principle that the total payments for the existing HAS services in the interim DS3 System Services arrangements should at least be the same as in the existing HAS arrangements and that the interim tariffs should reflect the importance of the services to the system and to bridge to the enduring arrangements.</p> <p>AES notes that if the notional pot for the existing 7 system services is to remain @ € 52m but that a number of the rates have decreased indicating the intention to procure more volume of these services. AES is concerned by the scale of the decrease in rates for SOR, TOR1 and RRS as this would indicate the assumption of a significant increase in the provision of these services which if not correct would create risk for existing providers.</p> <p>AES also notes that, of the benefit identified in the TSOs Recommendations Paper 2013 of €355m, with €170 m being made available to benefit consumers, leaving € 235 available for service providers by 2020, only €70 m has been made available for the 2016/17 interim period. With €50m coming from existing HAS services, this leaves €20m for the provision of the new services and with the corresponding reduction of the capacity pot of €20m providers are effectively funding the new system services provision themselves.</p>

<p><u>Question 3:</u> Are there any other benefits from the interim arrangements that should be considered?</p>	<p>AES believes the reduction of existing HAS rates, the introduction of performance scalars, scarcity scalars (enduring arrangements), the reduced number of services contracted under the interim arrangements (11 of 14 in total) and the lower than expected weighting for new fast acting system services creates downward pressure on system services revenue and represents a disincentive to invest in the provision of new services.</p> <p>As per the TSOs recommendation paper consumers will benefit by the reduction in energy price due to the increased SNSP level and higher utilisation of non-synchronous sources of generation estimated at € 170m. Under the proposed interim arrangements, with equivalent availability and running hours to the previous year and assuming full performance, AES predicts a reduction in revenue from existing Harmonised Ancillary Services of 16% under the interim system service arrangements. Even with the addition of the 4 new services predicted revenue would still represent a decrease on revenue for all 11 services contrary to the assumption that existing HAS revenue would be maintained. As mention above the introduction of performance and scarcity scalars creates increased uncertainty of revenue which is not helped by the proposed decision not to remunerate the three fast acting services. AES would like to see some clarity on the criteria for eligibility and payment for the three fast acting services FFR, FPFAPR and DRR as AES believes that existing conventional technologies as well as new technologies can provide these services and does not accept the position that these cannot be measured accurately. Predictability and stability of revenue are essential to incentivising investment and ensuring the sustainability of the required level of existing and new system services.</p> <p>AES, specifically with respect to energy storage (Battery) technology, also contests the statement that <i>“Provision of DS3 system services from new technologies is unproven...”</i> The Kilroot Advancion Energy Storage array (commissioned in December 2015) has approaching 6 months of operational data that is both proven and measurable, having clearly demonstrated its capability of providing the FFR service (100% active output within 2s and sustained for 10s) as shown below in Figure 1.</p> <p>The FFR service has already been identified by the TSO Recommendations Paper as being of high importance in raising the SNSP. The structure of the service stipulates a faster response than the existing POR service and this will inherently have a higher cost of provision and providers of such a service are also scarcer. For both these reasons and the stated DS3 principle to price for scarcity and reflect cost of provision it would logically follow that the FFR service rate should be higher</p>
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than the more readily available and slower responding POR service. It does not seem logical therefore that the FFR payment is 20% lower than the payment for POR.



Question 4: Have we set out the relevant impacts on service providers over this interim period?

AES recognises the need for a range of services providers given the projected increase in SNSP and the objective to drive significant improvements in capability and performance of existing generation. As a provider of existing generation and new technology with a proven record of reliability AES supports the robust performance monitoring proposed in the consultation and believes it is in a position to provide the required performance data. AES would seek clarity on the data requirements and performance standards required for the new fast acting system services and to know how providers will be selected and what form these contracts will take given that there are no Grid Code obligations for the new services. AES believes there exists sufficient data for its plant to enable it to contract for the full range of system services including the three fast acting services.

We also note the comment that the expected payments for FFR, FPFAPR and DRR will not exceed €3m over 2016/17 “until their characteristics are demonstrated”. Again we would raise the example of the Kilroot Advancion Energy Storage Array which has already demonstrated its

	<p>ability to provide FFR and would seek clarification as to how technologies that are now proven in the Irish SEM and that can provide these important new DS3 system services will be treated in 2016/17, when there is no other procurement channel offered to them.</p> <p>Although not covered by this DS3 System Services process AES would also raise the issue of the unequal treatment of black start provision in the two jurisdictions whereby plant in Ireland is contracted and remunerated to provide a black start service and plant in Northern Ireland must provide the service without remuneration as part of its licence obligations. AES would like to see this inequality of treatment addressed.</p> <p>AES would also stress that the DS3 products are Energy related products and are provided and drawn down on a daily basis. This makes these products assessable as per electricity production. On this basis the tariffs set out should be paid on at least a weekly basis.</p> <p>To address the revenue concerns of market participants AES proposes that the current HAS tariffs are maintained and indexed with inflation for next year to ensure that existing HAS revenue is consistent with the stated objective, that additional revenue is made available to incentivise the provision of the new system services, that the full range (14 products) are remunerated for those providers who have or can demonstrate their performance for those services and that this revenue is not taken from the capacity pot but from the projected savings determined in the TSO's recommendation paper.</p>
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