

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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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>The relative importance of services is closely related to scarcity and surely at this stage of the process there must be some clear understanding of the volume of each product that is required to facilitate the growth in renewables. We believe this is an important factor in the Interim as well as the enduring solution.</p> <p>The reliance on a 2013 report that derived relative values for services in 2020 is not appropriate. Merely stating that it is the best information available to the TSOs provides no confidence that the changes in values are in any way justified and as a consequence bear no resemblance to either the cost of provision of the services or the value for consumers. The 2013 report is likely to have been based on analysis concluded in 2012 and there have been significant changes in many areas such as demand, embedded generation, network topology, TCG's etc. that raises concerns on its legitimacy to inform significant changes to the value of payments. This is compounded by the fact the consequences of such changes are unknown as there is no linkage to the cost of the provision of such services and therefore the effect on investment signals is a major risk. It would therefore be more appropriate to retain the existing rate structure given the volumes are unlikely to change rather than re-balancing them now for rationale that is poorly based and which may have unintended consequences in relation to investment and adding regulatory risk.</p> <p>The payments for reserve and reactive power have been reduced which seems bizarre as this indicates that the relative importance of the existing services has reduced. Given the fact that there are no changes to the system or a large volume of additional providers expected to be participating in the interim, the existing payments should remain unchanged. Considering there is an introduction of performance scalars the product value of each service would actually need to be increased, by a factor equal to the expected average performance scalar, to keep the overall payments for the existing services the same. However, using the total HAS payments in 2014/15 for each of the existing services, the total payments were €48.63m¹. It is therefore possible to derive the underlying volumes for each of the services in the year based on the</p>

¹ Based on Eirgrid's published Ancillary Services report dated 05/11/2015 for 2014/15

<p><u>Question 2:</u> Have you any comments on the methodology used to calculate the rates?</p>	<p>2014/15 HAS payment rates. Applying these volumes against the 2015/16 payment rates would imply payments of €49.94m for 2015/16.</p> <p>Applying the proposed 2016/17 DS3 rates for these services to the 2014/15 volumes shows the payments in 2016/17 would only be €40m, even before any application of performance scalars. This represents a c18% reduction against the actual payments in 2015/15 (€48.6m) and c20% reduction against the calculated payments for 2015/16 (€50m based on 2014/15 volumes at 2015/16 HAS rates).</p> <p>It is therefore hard to understand how the TSO's believe the revenue for the existing services remains the same. Reducing these payments sends the totally wrong signals to investors.</p> <p>Section 4.2 states customers have already benefitted: 'During the period from 16 October 2015 through 31 January 2016 there was a benefit of €0.6m over the period.' This saving has not benefitted the providers who have made it possible yet they will be experiencing lower inframarginal rent. The principle must be that there is a sharing of benefits to provide an incentive to deliver the services required to facilitate increasing penetration of renewables.</p> <p>Also in light of the fact that the fast acting products are not part of the Interim arrangements surely these current reserve products are more valuable.</p> <p>It is difficult to comment on the methodology as there is very little detail given. The assumptions in relation to renewables, IC flows and constraints could change the volume of services provided considerably therefore changing the payout for each service and so the relative importance of each service.</p> <p>As already mentioned in our response to Question 1 above, volume requirements for each product is a much better indicator of scarcity and so would create a better price. Similarly, there are likely to have been changes since the 2013 report and no changes should be contemplated until detailed analysis is completed based on prevailing circumstances to ensure any changes are in the correct direction and will actually remunerate investment rather than adopting a "trial and error" approach that will not provide any confidence to investors who will</p>
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<p><u>Question 3:</u> Are there any other benefits from the interim arrangements that should be considered?</p>	<p>be making a long term decision.</p> <p>The suggested model for the Enduring Solution should be at an advanced state at this stage and should be used as the basis of price calculation for the new products. The Basecase model should be stress tested to account for varying demands, wind (which should have full capacity and zero capacity scenarios), IC flows and constraints. The model should be run with each product added individually, combinations of products and all products added together to find the cost differences. These costings should then be used to set up the rates of the new products, with the old products remaining unchanged.</p> <p>The relationship with the CPM pot also needs to be carefully considered. The estimated €20m of payments for new services is more than offset by the proposed €21.3m reduction in the CPM capacity pot. On the basis that under these proposals, payments for existing ancillary services are not actually being retained at current levels (in aggregate) and that the CPM pot is being reduced by more than the €20m estimated payments for new services, existing generators are going to be in a worse revenue position even before any consideration of performance scalars or reducing inframarginal rents.</p> <p>The cost of the provision of each service is also important in the remuneration, since if the cost of provision is more than the payment, investment will not happen.</p> <p>The Interim Arrangements should be an incentive for new providers to see opportunities and so encourage investment for future years. However with decreasing payments it is unlikely this will be achieved.</p> <p>Another important objective of this Interim Arrangement should be the preparation of required transparent reporting by the TSO to comply with European Network Codes; some areas like frequency and reserve require additional reporting than is currently in place. This leads into required monitoring of the TSO to provide a robust process to ensure the correct dispatch of DS3 Volumes and a measure whereby a Provider is not exposed to an increasing volume of incidents, for example, due to the TSO's not scheduling plant to carry the required reserve.</p>
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<p><u>Question 4</u>: Have we set out the relevant impacts on service providers over this interim period?</p>	<p>There is no consideration of any benefit sharing and the complete focus is on cost to customers rather than on any sharing of the net welfare benefits.</p> <p>While we recognise the impacts identified in the paper, the biggest impact on providers is the reduction in payments for the current contracted services. The uncertainty of DS3 payments and this reduction also creates risk and a barrier to entry for providers. To compound this, new performance scalars are to be applied with the possibility of these being totally outside the control of the provider. This is particularly concerning in situations where there is not enough data to enable reliable assessment.</p> <p>Northern Ireland participants have a huge change in settlement arrangements due to increased timelines and a reduction in data provided by the TSO. This will also produce more disputes and consume additional resources for providers in trying to sort out queries with missing and incorrect data. The proposed payment timelines also affect participant cashflows with payment now being made up to 9 weeks after the end of each month compared to 4 weeks under the current HAS arrangements. There is no justification for such a change.</p> <p>Service providers are also exposed to the new performance monitoring arrangements which must be totally transparent in relation to the TSO scheduling of products/services. A critical concern is that a provider must not be penalised for a failure to provide reserve when the TSO has not scheduled appropriately such that its actions impact on the dynamics of the system and on the frequency of calls on different services. It is important that the TSO is also subject to performance monitoring and not just participants.</p>
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