

Single Electricity Market

Harmonised All-Island Ancillary Services Rates and Other System Charges for 2011-12

Decision Paper

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SEM-11-064

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1. Introduction

In relation to *Harmonised Ancillary Services* (HAS) and *Other System Charges* (OSC) the SEM Committee has previously set out the policy for the services, the arrangements and the calculation of the rates and charges which now apply across the island of Ireland. The SEM Committee decisions include:

[\[SEM-08-013\]](#) Policy for harmonised ancillary services and other related system charges (February 2008).

[\[SEM-09-003\]](#) Implementation arrangements (January 2009).

[\[SEM-10-001\]](#) Rates for the initial tariff period in 2010 for the regulated all-island procurement and payment/charging arrangements (January 2010).

All-island arrangements for *Harmonised Ancillary Services* and *Other System Charges* went live on 1 February 2010. The first annual review of the rates and charges was carried out in 2010, with revised rates and charges implemented on 1 October 2010 for the period until 30 September 2011. No major issues have arisen in the intervening 18 months to August 2011 since the implementation of the *Harmonised Ancillary Services* and *Other System Charges*. These new all-island arrangements are designed to incentivise good generator performance, improve compliance with the grid code, deliver increased overall efficiency and reduce system costs.

The second annual review commenced in 2011. On 18th April 2011, the Transmission System Operators, EirGrid and SONI, published a consultation on revised *Ancillary Services* rates and *Other System Charges*. In accordance with the aforementioned SEM Committee's decision papers on *Harmonised Ancillary Services* and *Other System Charges* the Transmission System Operators have now concluded the consultation phase and have recommended rates and new services to the RAs and the SEM Committee for the forthcoming 2011-12 tariff period¹. The purpose of this paper is for the SEM Committee to outline its decision on the recommendations presented to it by the Transmission System Operators.

¹ The 2011-12 tariff period is from 1 October 2011 to 30 September 2012 inclusive.

2. Harmonised Ancillary Services for 2011-12

2.1. Background

The TSOs published separate consultation papers for AS² and OSC³ on 18th April 2011. The TSOs received comments from seventeen (17) respondents on the AS consultation paper and having reviewed the responses the TSOs have made a number of recommendations.

2.2. TSOs' Recommendations on AS

The recommendations indicated in the TSOs' AS recommendations paper are summarised as follows:

1. For the upcoming tariff period running from the 1st October 2011 to the 30th September 2012, the TSOs proposed to maintain the current approved schedule of services;
2. TSOs recommend the introduction of a new short term service "*Reduced Time to Synchronise*" for the 2011/2012 tariff year;
3. TSOs recommend the introduction of a new short term service "*Flexible Multimode Operation*" for the 2011/2012 tariff year;
4. TSOs recommend the introduction of a new short term service "*Lower Minimum Generation*" for the 2011/2012 tariff year;
5. TSOs recommend the introduction of a new service "*Synchronous Compensation*" from the 2011/2012 tariff year;
6. TSOs recommend that AS payment rates and charges remain unchanged for the 2011/2012 tariff year, other than those that change as a result of the final exchange rate;
7. TSOs recommend that reserve outturn of the AS Allowance is rebalanced at the end of the 2011/2012 tariff year. The reactive power outturn will not be rebalanced as the utilisation of this service depends on local system requirements;
8. TSOs recommend that the exchange rate methodology is aligned to that utilised in the SEM from the 2011 calendar year; and,
9. TSOs recommend that a monthly report is published detailing AS outturn for the various categories of reserve, reactive power and black start.

Note: The new short term services (2,3,4, above) will be contracted with units which can offer the new service on a limited basis where it is determined that it offers both a system benefit and saving. These services will be reviewed – and revised if necessary - by the Transmission System Operators during the tariff year 2011/12 to determine appropriateness.

2.2.1. Respondents' Views

The views of respondents have been considered by the System Operators and are summarised – together with TSOs' position and further detail - in the TSOs' recommendations paper which is published alongside this decision paper.

² "*Harmonised Ancillary Services 2011-2012; Consultation*" 18 April 2011, available at:

[http://www.eirgrid.com/operations/ancillaryservices/consultationsworkshops/
http://www.soni.ltd.uk/upload/HAS_Consultation_2011_2012.pdf](http://www.eirgrid.com/operations/ancillaryservices/consultationsworkshops/http://www.soni.ltd.uk/upload/HAS_Consultation_2011_2012.pdf)

³ "*Harmonised Other System Charges 2011-2012; Consultation*" 18 April 2011, available at:

[http://www.eirgrid.com/operations/ancillaryservices/consultationsworkshops/oscconsultation/#d.en.4893
http://www.soni.ltd.uk/upload/OSC_Consultation_2011_2012.pdf](http://www.eirgrid.com/operations/ancillaryservices/consultationsworkshops/oscconsultation/#d.en.4893)

2.2.2. RAs' Comments

The RAs, on behalf of the SEM Committee, have reviewed and discussed the TSOs' recommendations. The SEM Committee accepts the TSO's recommendations to maintain the current approved schedule of services and the addition of the new and short term services. AS rates – denominated in € - for reserve, reactive power and black-start remain unchanged from 2010-11 to 2011-12.

The SEM Committee is satisfied with the TSOs' proposal to introduce a number of new AS services, on a limited basis, to help mitigate against the significant increase in 2011 in Dispatch Balancing Costs⁴. It is noted by the SEMC that it is intended that the design of these services will be updated further by TSOs over time. The new services are:

- *Reduced Time to Synchronise* (new short term service)
- *Flexible Multimode Operation* (new short term service)
- *Lower Minimum Generation* (new short term service)
- *Synchronous Compensation* (new service)

The RAs, on behalf of the SEM Committee, have requested that the TSOs seek to develop these current bilateral arrangements for new services (including any short term services which may endure) into Harmonised Services and to report annually to the SEM Committee when reviewing the rates for *Ancillary Services* on the progress towards harmonisation. It is the SEM Committee's view that published rates promote certainty and transparency for service providers. This is also consistent with the practice with the SEM to date in respect of harmonised ancillary services. Should the TSOs propose to continue with these new services for the next tariff year it is the SEM Committee's position that a transparent competitive rate should be determined and published for each of these services for introduction from the start of tariff year 2012-13, or earlier if possible.

The SEM Committee is also satisfied that reserve revenue is optimised⁵ on an all-island basis. Allowances shall be put in place using allocated monies from the separate jurisdictional Ancillary Services pots approved by CER and UR under existing jurisdictional revenue control processes. The TSOs' recommendation that the reserve outturn of the AS Allowance be rebalanced at the end of the 2011/2012 tariff year is also accepted.

The SEM Committee is also satisfied that the exchange rate methodology⁶ is aligned to that utilised in the SEM and that a monthly report is published detailing AS outturn for the various categories of reserve, reactive power and black start.

⁴ Refer to the June 2011 SEM consultation paper [SEM-11-054](#) entitled "*Imperfections Charges for October 2011 – September 2012*".

⁵ Corresponding to Option 2 in the TSOs' consultation paper of 18th April 2011.

⁶ Note that the final exchange rate used for the AS and OSC will be based on the 5-day average rate for the period 25 August 2011 to 29 August 2011 i.e. one month before the start of the 2011/2012 tariff year.

2.3. SEM Committee Decision on Ancillary Services for 2011-12

The harmonised arrangements decided that - based on the TSOs' annual review and consultation - the RAs, exercising the relevant powers granted to each Authority under statute and/or licence will assess and approve (via SEM Committee) the TSOs' proposed changes to AS rates and to *Other System Charges* and that existing or new service providers will also be free to suggest changes or new services.

The SEM Committee is satisfied with the recommendations of the Transmission System Operators and the SEM Committee approves the rates and new services recommended by the System Operators for tariff year 2011-12 as detailed in the TSOs' amended recommendations paper as is published alongside this decision paper.

2.4. AS Allowance for 2011-12

Table 1 below details the approved revenue for *Ancillary Services* for the tariff year 2011-2012 as submitted to the RAs by the System Operators, as follows:

- By SONI, in its capacity as licensed transmission system operator in Northern Ireland ;
- By EirGrid, in its capacity as licensed transmission system operator in Ireland.

This is in accordance with the separate licensing and regulatory arrangements as apply in Northern Ireland⁷ and Ireland⁸. The table is an estimate of the *ex ante* provision for *Ancillary Services* and is premised upon a number of assumptions; for example in the Ireland case, there is no specific revenue allowance or provision for the *tariff year 2011/12* as the Ireland revenues are arranged on a *calendar year* basis. The distinct licensing and legislative frameworks in Northern Ireland and Ireland currently do not provide for the determination of a single *Ancillary Services* pot across the island.

Nevertheless the TSOs believe it is appropriate that an *ex post* adjustment mechanism be made in respect of the Operating Reserve portion of the *Ancillary Services* allowance such that all consumers on the island make equal contribution (effectively a re-allocation on a 3:1 basis between the Republic of Ireland and Northern Ireland). This would not create a separate all island pot for Operating Reserve, for which there is no provision, but would enable the same effect to be achieved by means of a TSO to TSO adjustment.

	NI (£m)	ROI (€m)	TOTAL (€m)
Reserve	£7,28	€24,20	€32,47
Reactive Power	£3,12	€11,10	€14,61
Black Start	n/a	€1,8	€1,80
Other -	£0,64	€0,60	€1,32
TOTAL	£11,04	€37,67	€50,20

Table 1: AS Allowance for 2011-12

⁷ SSS, in accordance with Condition 29 and Annex 1 of the SONI licence, in Northern Ireland.

⁸ TUoS, as determined under Sections 35 and 36 of the Electricity Regulation Act, 1999, in Republic of Ireland

3. Other System Charges for 2011-12

3.1. Background

In February 2008 the SEM Committee published a High Level Decision paper⁹ providing a policy framework for the all-island harmonisation of *Ancillary Services* (AS) and other generator payments and charges. The new arrangements went live on 1 February 2010. The harmonised arrangements also decided that *Other System Charges* will be reviewed annually and subject to public consultation and RA (SEM Committee) decision.

3.2. TSOs' Recommendations re OSC for 2011-12

For the upcoming tariff period running from the 1st October 2011 to the 30th September 2012, the TSOs published a consultation paper on 18th April 2011 outlining a number of proposals relating to the charge rates for 2011-12 and some refinements. The TSOs received comments from ten (10) respondents on this consultation paper and having reviewed the responses the TSOs have made a number of recommendations to the RAs based on these comments, as follows:

1. No design refinement is made to the minimum generation GPI for the 2011/2012 tariff year.
2. A design change is made to the GPI late declaration charge to recognise that if the generating unit declares an improvement on its previously non-compliant declaration, it will not incur an additional eight hour double charge. TSOs recommended that this change should be implemented from tariff year 2011/2012.
3. A design refinement is made to the Loading and De-Loading GPIs to include analysis only to and from Minimum Generation as opposed to dispatched values. The TSOs also recommend implementing a design refinement by introducing a tolerance to the declared Minimum Generation for the Loading and De-Loading GPIs.
4. The proposed introduction of the Secondary Fuel GPI is postponed until next tariff year 2012/2013 pending the publishing of the latest version of the Northern Ireland Fuel Security Code. The Northern Ireland Grid Code will be reviewed for secondary fuel obligations and reporting after the Fuel Security Code is published. Any required harmonisation of the Grid Codes will be addressed then.
5. The exchange rate methodology¹⁰ is aligned to that which has been utilised by SEM (e.g. Capacity Payments).
6. There are no changes to the OSC Rates and Constants for tariff period 2011/2012 other than those previously identified by the RAs i.e. SNDs, Minimum on Time and Maximum Starts in 24 hours and those which are due to any exchange rate changes.
7. A monthly report is published detailing OSC events and monetary values.
8. The agreed offsetting mechanism is established whereby the OSC monies are transferred to the Imperfections account managed by EirGrid and SONI in their capacity as Market Operator licencees.

⁹ [SEM-08-013] 'Harmonised All-Island Ancillary Services Policy - A Decision Paper, February 2008

¹⁰ Note that the final exchange rate used for the AS will be based on the 5-day average rate for the period 25 August 2011 to 29 August 2011 i.e. one month before the start of the 2011/2012 tariff year.

3.2.1. Respondents' Views

The views of the 10 respondents to the TSOs' *Other System Charges* consultation have been considered by the System Operators and are summarised – together with TSOs' position and further detail - in the TSOs' amended recommendations paper which is published alongside this decision paper.

3.3. SEM Committee Decision on OSC for 2011-12

The RAs are satisfied with the amended recommendations of the Transmission System Operators and the SEM Committee approves the GPI charges and constants recommended by the System Operators for tariff year 2011-12 as detailed in the amended TSOs' recommendations paper¹¹ which is published alongside this decision paper.

¹¹ Entitled "Other System Charges 2011/2012 – Recommendations Paper"

4. Conclusion

The SEM Committee approves the GPI charges and constants relating to *Other System Charges* and the AS rates and new services recommended by the System Operators for tariff year 2011-12 as detailed in the TSOs' recommendations papers.

The new ancillary services will be contracted in the short term with units which can offer the new services on a limited basis where it is determined that it offers both a system benefit and saving. It is the SEM Committee's view that published rates promote certainty and transparency for service providers and is consistent with the SEM policy of harmonised ancillary services. Should the TSOs propose to continue with these new services for the next tariff year, it is the SEM Committee's position that a competitive rate should be determined and published for each of these services for introduction from the start of tariff year 2012-13, or earlier if possible.

Looking further to the future, the TSOs have initiated significant work¹² on the changing needs of the power system and this work will feed into the future review of the design of *Ancillary Services*. The TSOs anticipate a number of industry briefings over the next 18 months and will be asked by the RAs to ensure that both the RAs and the industry are updated regularly regarding the status of this future review of *Ancillary Services* as part of a wider Programme for the Future Needs of the Electricity System.

¹² Building on the TSOs' report "[*Facilitation of Renewables Studies*](#)" the TSOs submitted to the SEM Committee in May 2011 a programme for a secure, sustainable power system. This includes enhanced operational policies which may entail a review of Ancillary Services.