

# **Other System Charges 2011/2012**

## **Recommendations Paper**

2<sup>nd</sup> August 2011



## 1. EXECUTIVE SUMMARY

For the upcoming tariff period running from the 1<sup>st</sup> October 2011 to the 30<sup>th</sup> September 2012, the TSOs published a consultation paper on 18th April 2011 outlining a number of proposals. The TSOs received comments from ten (10) respondents on this consultation paper and having reviewed the responses the TSOs are now making a number of recommendations to the RAs based on these comments.

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. It is recommended that it 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 methodology is aligned to that which has been utilised by SEM from the 2011 calendar year.
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 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 in SEMO.

The TSOs welcome the high number of responses to the consultation and will be in discussions with each of the respondents in due course.

## Abbreviations

AS	Ancillary Services
DBC	Dispatch Balancing Costs
DETI	Department of Enterprise, Trade & Investment
GPI	Generator Performance Incentive
HAS	Harmonised Ancillary Services
NI	Northern Ireland
NI FSC	Northern Ireland Fuel Security Code
OSC	Other System Charges
RA	Regulatory Authorities
SCADA	Supervisory Control and Data Acquisition
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
TSC	Trading and Settlement Code
TSO	Transmission System Operator

## 2. INTRODUCTION

The aim of this paper is to make recommendations to the Regulatory Authorities (RAs) in Ireland and Northern Ireland, based on responses received by the Transmission System Operators (TSOs) on the Harmonised Other System Charges Consultation paper<sup>1</sup> for the RAs' approval. The TSOs consult on an annual basis regarding changes to the OSC rates and the introduction of any new OSC. On the 18<sup>th</sup> April 2011 the TSOs in Ireland and Northern Ireland published the annual consultation paper for the tariff year 1<sup>st</sup> October 2011 to 30<sup>th</sup> September 2012.

The 2010/2011 OSC Explanatory Paper<sup>2</sup> postponed the proposed introduction of a design refinement to Minimum Generation Generator Performance Incentive (GPI) until further analysis was complete. The analysis showed that the minimum generation for CCGTs did not in all cases also change in line with a change in ambient temperature in a linear fashion. Therefore it was proposed by the TSOs that no design refinement is made to the minimum generation GPI for the 2011/2012 tariff year.

The TSOs proposed to make three design refinements to the existing GPI charges. The first relates to modifying the existing double charge for a late GPI declaration where a unit declares an improvement on its previously non Grid Code compliant declaration but does not give eight hours notice. The second and third refinements relate to the Loading and De-Loading charges. The TSOs proposed that these design refinements should be implemented for the start of the 2011/2012 tariff period.

The TSOs proposed to introduce a new declaration based GPI to quantify the availability of a generating unit to operate on its secondary fuel as the TSOs have observed a gap in the level of compliance of some generating units. The TSOs proposed that this new GPI should be introduced for the start of the 2011/2012 tariff period.

The TSOs noted in the 2010/2011 OSC Explanatory Paper<sup>2</sup> that a review of the exchange rate would be considered for the 2011/2012 tariff year. The TSOs developed three options for the exchange rate methodology and invited comments in the consultation paper from interested parties on these.

The OSC consultation paper proposed to keep the current OSC rates for Trips, and GPIs, with the exception of the rates for the Minimum on Time GPI and the Max Starts in 24 hours GPI, unchanged for the 2011/2012 tariff period, other than those which resulted from changes in the exchange rate. The charge rate for Short Notice Declarations (SNDs) and for two GPIs, Minimum on Time and Max Starts in 24 hours were proposed to increase inline with the RAs January 2010 Decision Paper.

The TSOs proposed to report on OSC by publishing total Trip (by Trip type) and SND charges along with the monies levied for each category of GPI. The information would be published each month inline with the OSC settlement process and the reports would be based on settlement data.

As part of the Harmonised Arrangements the RAs approved the offsetting of OSC with the Imperfections Pot which is administered by the Market Operator, SEMO. The TSOs proposed in the consultation paper that the offsetting arrangement is now implemented from the effective date following approval of the TSC Modification.

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<sup>1</sup> "Harmonised Other System Charges; Consultation" 18th April 2011, available at [www.soni.ltd.uk](http://www.soni.ltd.uk) and [www.EirGrid.com](http://www.EirGrid.com)

<sup>2</sup> Other System Charges 2010/2011; Explanatory Paper; 22nd September 2010

Following a review of comments on the OSC consultation paper the TSOs are now making these recommendations to the RAs. The TSOs will then publish a revised Statement of Charges and Other System Charges Methodology Statement for the 2011/2012 tariff period.

The TSOs received responses from the following parties:

<b>Party</b>	<b>Abbreviation</b>
AES Kilroot Power Ltd & AES Ballylumford Ltd	AES
Bord Gáis Energy	BGE
The Consumer Council	TCC
Endesa Ireland	Endesa
ESB Energy International	ESBI
ESB Power Generation	ESBPG
IWEA	IWEA
NIE Energy Limited Power Procurement Business	PPB
Synergen	Synergen
Viridian Power & Energy Limited	VPE

These responses can be found attached to this recommendations paper.

### **3. OTHER SYSTEM CHARGES CONSULTATION**

#### **3.1. PROPOSED OSC DEVELOPMENTS**

##### **3.1.1. MINIMUM GENERATION DESIGN REFINEMENT**

###### **3.1.1.1. Introduction**

In the OSC 2010/2011 Consultation Paper<sup>3</sup> the TSOs proposed to make a design refinement to the existing minimum generation design to allow for the minimum generation requirement to vary based on the impact of ambient temperature conditions on the technical capabilities of certain units. The TSOs stated that if, after a technical appraisal, it was found that changing ambient conditions affect minimum output, then an amended design would be investigated.

In the OSC 2010/2011 Explanatory Paper<sup>4</sup> the TSOs commented that three existing service providers were in favour of this proposed design refinement, however the TSOs noted that they were not in favour of implementing a design which will have the effect of increasing the minimum generation of all plant.

The TSOs have carried out analysis into this proposed issue for Combined Cycle Gas Turbines (CCGTs) by analysing output curves for certain CCGTs and from comparing the technical capabilities of these generating units on an all-island basis. This analysis shows that typically as the ambient temperature changes the maximum availability and minimum generation also change in line with the change in ambient temperature in a linear fashion.

There is however an anomaly for one CCGT whereby the minimum generation only varies for a certain set of ambient conditions. The TSOs are currently in discussion with this service provider in relation to this issue. Since this does not align with the analysis carried out, the TSOs proposed in the consultation that no design refinement is made to the minimum generation GPI for the 2011/2012 tariff year.

###### **3.1.1.2. Respondents' Comments**

No comments on the minimum generation design refinement were received from the industry participants.

###### **3.1.1.3. TSOs' Response**

The TSOs believe that the current design is effective for the present. Following a technical appraisal it was found that changing ambient conditions does not affect the minimum output for all CCGTs therefore the minimum generation design should not be amended at this time.

###### **3.1.1.4. TSOs' Recommendations**

The TSOs recommend that no design refinement is made to the minimum generation GPI for the 2011/2012 tariff year.

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<sup>3</sup> Other System Charges 2010/2011; Consultation Paper; 9th July 2010

<sup>4</sup> Other System Charges 2010/2011; Explanatory Paper; 22nd September 2010

### **3.1.2. GPI DOUBLE CHARGING**

#### **3.1.2.1. Introduction**

Double charging of GPIs occurs where a unit makes a non Grid Code compliant declaration for a GPI but does not give eight hours notice. The result is that the unit is levied with a double charge for 8 hours.

An issue was raised by a number of participants with the current design whereby if a unit is currently non compliant in relation to a GPI and makes an effort to improve the non compliance, then the generating unit would still incur a double charge for eight hours if it did not give eight hours notice of the improvement. The TSOs proposed in the consultation paper to change the design of this charge to recognise that the generating unit has made an improved declaration, albeit that it is still not Grid Code compliant it would not incur an eight hour double charge, however would still incur the standard GPI.

#### **3.1.2.2. Respondents' Comments**

Six comments (AES, Endesa, ESBI, ESBPG, Synergen, VPE) were received on this proposal and all were in favour to remove the eight hour double charge if the generating unit declares an improvement in its previously non Grid Code compliant figure, albeit that it is still not Grid Code compliant.

#### **3.1.2.3. TSOs' Response**

The TSOs note that the industry participants who provided comments all support the proposal.

#### **3.1.2.4. TSOs' Recommendations**

The TSOs recommend to change the design of this charge to recognise that if the generating unit has made an improved declaration, albeit that it is still not Grid Code compliant, it will not incur an eight hour double charge, it will still, however incur the standard GPI. The TSOs recommend that the design change for this charge should be implemented for tariff year 2011/2012.

### **3.1.3. LOADING GPI**

#### **3.1.3.1. Introduction**

The TSOs identified a number of potential issues with the Loading Event based GPI charge. The current design is defined in the OSC Methodology Statement<sup>5</sup>.

The TSOs proposed in the consultation paper that the following parameters in the Loading GPI should be refined:

- DpL should be replaced with the Declared Minimum Generation (DMG)
- DpLT should be replaced with the Minimum Generation Load Time (MGLT) which is the time as which the Declared Minimum Generation is reached (expressed in min).

Furthermore an issue could arise when a unit has synchronised, is loading to its declared minimum generation and the system frequency is over 50 Hz. Due to governor action on certain generating units the generating unit may not reach its declared minimum generation due to this high frequency preventing them from doing so. The TSOs therefore proposed in the consultation to implement a design refinement to the loading GPI to provide a 5% or 1 MW tolerance (whichever is greater) around the declared minimum generation, meaning that once the generating unit has reached 95% of its declared minimum generation then it will be considered that it has reached its declared minimum generation for the purpose of the loading calculation.

The proposed Loading GPI was described in detail in the consultation paper.

#### **3.1.3.2. Respondents' Comments**

Six comments (AES, Endesa, ESBPG, PPB, Synergen, VPE) were received on this proposal and all were in favour of the design changes to the Loading GPI. One respondent (PPB) also stated that based on past events the proposed tolerance band does not protect against incurring a Loading GPI if the frequency is above 50.05Hz. PPB suggested that the tolerance is increased as the generating is performing in a manner which supports system security and it would be therefore inappropriate for the generating unit to be penalised. PPB suggested another way of dealing with this issue is to calculate the minimum generation based on the actual system frequency and the governor droop of the generating unit. Another respondent (Synergen) added to their agreement of the proposal that there was no analysis presented to justify the 5% tolerance parameter and they believe that the tolerance level should be set at some higher figure e.g. 10% to reflect the underlying nature of generation plant.

#### **3.1.3.3. TSOs' Response**

The TSOs note that the respondents support the proposal. Two respondents commented that the tolerance surrounding the minimum generation should be increased. The TSOs have considered this and believe, after further analysis, that introducing a 10% or 1MW tolerance (whichever is greater) around the declared minimum generation is an effective way of protecting against unwarranted Loading GPIs if the frequency is up to 50.1Hz. It is accepted that by taking into account system frequency and unit droop calculations for individual units, this would be the most accurate solution

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<sup>5</sup> Other System Charges Methodology Statement; Applicable from 1st October 2010. Available from [www.soni.ltd.uk](http://www.soni.ltd.uk) and [www.EirGrid.com](http://www.EirGrid.com)



and would allow a lower tolerance to be used but would add greatly to the complexity of the calculation and the maintenance of the associated systems. The TSOs believe that the increased tolerance is appropriate given TSO analysis and will monitor the charges throughout the next tariff period. If the increased tolerance is not deemed to be appropriate alternatives will be assessed including full governor monitoring.

#### **3.1.3.4. TSOs' Recommendations**

The TSOs recommend that the following parameters in the Loading GPI should be refined:

- DpL should be replaced with the Declared Minimum Generation (DMG)
- DpLT should be replaced with the Minimum Generation Load Time (MGLT) which is the time as which the Declared Minimum Generation is reached (expressed in min).

The TSOs also recommend to implement a design refinement to the Loading GPI to provide a 10% (i.e. 90% of minimum generation) or 1MW tolerance (whichever is greater) on the declared minimum generation.

#### **3.1.4. DE-LOADING GPI**

##### **3.1.4.1. Introduction**

The TSOs identified a number of potential issues with the De-Loading event based GPI charge. The current design is defined in the OSC Methodology Statement<sup>6</sup>. The TSOs proposed in the consultation paper that the following parameters in the De-Loading GPI should be refined:

- DLMW should be replaced with the Declared Minimum Generation (DMG)
- DLT should be replaced with the Minimum Generation Load Time (MGrLT) which is the time as which the generating unit dropped below its Declared Minimum Generation (expressed in min).

Furthermore an issue could arise when a unit is already at its minimum generation and is regulating. Due to this governor action on certain generating units the generating unit may have already reduced from its declared minimum generation due to the system frequency being high. The TSOs therefore proposed in the consultation paper to implement a design refinement to the De-Loading GPI to provide a 5% or 1 MW tolerance (whichever is greater) around the declared minimum generation, meaning that once the generating unit has reached 95% of its declared minimum generation then it will be considered that it has reached its declared minimum generation for the purpose of the De-Loading calculation.

The proposed De-Loading GPI was described in detail in the consultation paper.

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<sup>6</sup> Other System Charges Methodology Statement; Applicable from 1st October 2010. Available from [www.soni.ltd.uk](http://www.soni.ltd.uk) and [www.EirGrid.com](http://www.EirGrid.com)

#### **3.1.4.2. Respondents' Comments**

Six comments (AES, Endesa, ESBI, ESBPG, PPB, VPE) were received on this proposal and all were in favour of the design changes to the De-Loading GPI. One respondent (ESBI) queried if the 5% tolerance applies as a plus/minus on the minimum generation value.

#### **3.1.4.3. TSOs' Response**

The TSOs note that the respondents support the proposal. The TSOs intend to clarify that the tolerance does not apply as a plus/minus on the minimum generation value. For example a 10% tolerance means that when a unit is de-loading the TSOs will measure the time taken once the unit reaches 90% of its minimum generation (i.e. 10% tolerance) to when it de-synchronises.

The TSOs have considered the comments regarding increasing the minimum generation tolerance on the Loading GPI and have recommended that the tolerance is increased from 5% to 10%. The tolerance on minimum generation for the De-Loading GPI should therefore also be increased from 5% to 10%, or 1MW (whichever is greater) around the declared minimum generation.

#### **3.1.4.4. TSOs' Recommendations**

The TSOs recommend that the following parameters in the De-Loading GPI should be refined:

- DLMW should be replaced with the Declared Minimum Generation (DMG)
- DLT should be replaced with the Minimum Generation Load Time (MGrLT) which is the time as which the generating unit dropped below its Declared Minimum Generation (expressed in min).

The TSOs also recommend to implement a design refinement to the De-Loading GPI to provide a 10% or 1MW tolerance (whichever is greater) around the minimum declared generation.

## **3.2. NEW OSC**

### **3.2.1. SECONDARY FUEL GPI**

#### **3.2.1.1. Introduction**

The CER Decision Paper on Secondary Fuel Obligations on Licensed Generation Capacity in Ireland<sup>7</sup> sets out the requirements which certain generators should be capable of achieving. One of these requirements was that the generating unit must be capable of generating on its secondary fuel at no less than 90% of the unit's capacity on its primary fuel.

DETI in Northern Ireland, set out in the Fuel Security Code<sup>8</sup>, an obligation in Northern Ireland to ensure that Generators and the Electricity Transmission System Operator dispatch power generation in as economical a way, as is practically possible, during a Fuel Security Event, while maintaining the security and integrity of the Northern Ireland electricity system.

Given these decisions in both jurisdictions, the TSOs proposed in the consultation paper that a declaration based GPI should be introduced to quantify the availability of a generating unit to operate on its secondary fuel as the TSOs have observed a gap in the level of compliance of some generating units. This is essential to ensure the continued security of supply on an all-island basis and that generating units are in compliance with the Grid Code in Ireland and Fuel Security Code in Northern Ireland.

The following is a general summary of the design:

- Generating units declare their MW availability on their secondary fuel; and
- If a generating unit is available on its primary fuel and not on its secondary fuel, cannot start up on its secondary fuel or cannot change fuel on load then a trading based charge is levied depending on its requirements.

#### **3.2.1.2. Respondents' Comments**

Seven comments were received from industry participants (AES, BGE, Endesa, ESBI, ESBPG, PPB, Synergen) on the proposal to introduce a declaration based GPI to quantify the availability of a generating unit to operate on its secondary fuel. One respondent (BGE) welcomed any signal that rewards plant for high performance on availability. Six respondents (AES, Endesa, ESBI, ESBPG, PPB, Synergen) were not in favour of introducing the GPI, two (AES, ESBPG) believing it to be an unnecessary GPI. Two of these six respondents (AES, ESBI) stated that as a new version of the Northern Ireland Fuel Security Code (NI FSC) is due to be published in the near future it would be premature to introduce this GPI before then. It was also stated by a respondent (Endesa) that it would not be appropriate to introduce this GPI when secondary fuel requirements are not harmonised. A respondent (PPB) stated that the GPI should not be introduced in the absence of an AS payment and another (Synergen) stated that funding of successful tests provides a clear financial incentive on generators to comply.

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<sup>7</sup> [CER/09/001] Secondary Fuel Obligations on Licensed Generation Capacity in the Republic of Ireland; 12th January 2009

<sup>8</sup> Northern Ireland Fuel Security Code; 31st March 1992

One respondent (AES) commented that NI FSC provisions are included within CC13.1 of the NI Grid Code in relation to Grid Code obligations and AES understand this to mean that during a Fuel Security Event/Period, Northern Ireland generators must comply with TSO dispatch instructions. AES also note that there is no Technical Parameter or Additional Grid Code Characteristic in relation to any FSC measure.

An industry participant (ESBPG) found the GPI to be excessive in that no distinction is made between high merit and low merit units and the fact that availability on primary fuel is used in the proposed GPI is not reflective of the fact that secondary fuel availability is only required to be 90% of that on primary fuel. The charge should be related to the LOLE (Loss of Load Expectation) so that the charge would be lower on a summer weekend night than during a peak demand period. The charge should also reflect the fact that Secondary Fuel operation is an emergency service that has never been called on to date. The charge should be very low and should encourage maintenance at appropriate times and a notice time should apply.

#### **3.2.1.3. TSOs' Response**

The TSOs note that the majority of the respondents were not in favour of implementing a declaration based GPI to quantify the availability of a generating unit to operate on its secondary fuel.

The TSOs note the response that it would be premature to introduce the GPI before the publication of the new NI FSC. Depending on the outcome of the FSC development NI Grid Code changes may be required, with these uncertainties it would be premature and problematic to introduce the GPI at this time.

The TSOs would like to clarify again that GPIs are to encourage improved performance against the Grid Code and are not related to Ancillary Service payments.

#### **3.2.1.4. TSOs' Recommendations**

In light of the new NI Fuel Security Code's imminent publication and possible NI Grid Code changes that may be required the TSOs recommend that the introduction of this GPI is postponed until the next tariff year. Further information will then be available on the requirements of generators in Northern Ireland to hold secondary fuel stocks. Additional information on the design of this GPI will be provided for the OSC consultation for tariff year 2012/2013.

### 3.3. OSC RATES

#### 3.3.1. PROPOSED EXCHANGE RATE

##### 3.3.1.1. Introduction

The current exchange rate methodology used for the OSC rates is that the Euro (EUR) to Pound (GBP) exchange rate is fixed for the tariff year based on the forward FX rates. The EUR is used as the reference rate, as is consistent with the approach used in the Single Electricity Market (SEM), therefore the rates in GBP are changed in line with the fixed exchange rate at the beginning of each tariff year.

The TSOs noted in the 2010/2011 OSC Explanatory Paper<sup>9</sup> that a review of the exchange rate would be considered for the 2011/2012 tariff year. The TSOs developed a number of options for the exchange rate methodology and invited comments from interested parties on these. These options are described as follows:

- **Option 1 – Exchange Rate based on the Forward FX rate**

The approach currently used for the Other System Charges rates is that the EUR to GBP exchange rate is fixed for the tariff year. The derivation of the currency exchange rate was the same methodology as that was used in the annual SEM Capacity Pot calculation when this methodology was adopted in 2009<sup>10</sup>. This methodology provided for an exchange rate based on the 12 monthly forward FX rates for the period in question.

The forward FX rate is simply the rate at which one currency can be exchanged for another currency, at any given date in the future, as at/agreed today. It is calculated using the current spot FX rate (current market price for delivery in 2 business days), and then adding or subtracting the 12 monthly forward points that may apply to that rate. Forward points are a measure of the difference in the underlying interest rates for both currencies, expressed as a proportion of the underlying exchange rate price. Forward points are used to account for any benefit/disadvantage from the difference in these underlying interest rates. Generally the spot rate is far more volatile than the forward points, and as such is the key driver/ determinant of the overall forward rate.

If this option is chosen then it is proposed that the exchange rate for the new tariff year based on the forward exchange rate at the time of the consultation.

This option is to continue to use the methodology currently used by the TSOs in determining the exchange rate for OSC. The TSOs believe that this option provides certainty of the rate to the AS Providers, however this methodology may be susceptible to volatility in the EUR to GBP exchange rate during the year.

- **Option 2 - Exchange Rate based on the 5 day Average**

The Single Electricity Market Operator (SEMO) consults annually on the Annual Capacity Exchange Rate. Based on comments received from the 2011 consultation<sup>9,11</sup>, the SEM Committee revised their

<sup>9</sup> Other System Charges 2010/2011; Explanatory Paper; 22nd September 2010

<sup>10</sup> Harmonised Ancillary Services & Other System Charges; Rates Consultation; 8th June 2009

<sup>11</sup> Harmonised Ancillary Service 2010/2011; Consultation Paper; 9th July 2010

original proposal for how this rate is calculated due to the large volatility in the EUR to GBP rate in recent years. The revisions to how the rate was calculated are as follows:

- The rate is determined closer to the beginning of the period to which it applies while also giving certainty to the market of what exchange rate will apply for this period. The SEM use a calendar year for settlement purposes and a rate up to the end of November was deemed appropriate i.e. one month before the start of the period; and,
- Based on the volatility of the EUR to GBP exchange rate the rate is calculated as an average of the rate over a 5-day period.

This option is a variant of Option 1 by continuing to use the forward FX rate, however the Annual Capacity Exchange Rate revisions will be adapted in determining the rate. The TSOs believe that this option provides certainty of the rate to the service providers, however this methodology may be susceptible to volatility in the EUR to GBP exchange rate during the year. By using the 5-day average to calculate the forward FX rate this option would be less vulnerable to exchange rate fluctuations within the timeframe at which the rate is set when compared to option 1.

If this option is the chosen then the final exchange rate used for the Other System Charges will be based on the 5- day average rate for the period 22 August 2011 to 26 August 2011 i.e. one month before the start of the 2011/2012 tariff year.

- **Option 3 - Exchange rate based on daily, weekly or monthly rates**

Due to the volatility in the EUR to GBP exchange rate during recent years it may be more appropriate to use an exchange rate to reflect the actual exchange rate during a defined period such as a daily, weekly or monthly rate. This rate would be set ex-post based on the actual exchange rate during the defined period. The relevant exchange rate would be obtained from the European Central Bank.

#### **3.3.1.2. Respondents' Comments**

Comments on this section were received from five industry participants (AES, TCC, ESBI, PPB, Synergen). One respondent (TCC) commented that any decision on exchange rate should take account of the final consumer. Two respondents (AES, PPB) were in favour of Option 2 in the consultation paper believing that consistency with the Annual capacity Exchange Rate to be an important principle. Two respondents (ESBI, Synergen) supported Option 1 as this would avoid costs being incurred for both participants and the TSOs. One of these respondents (ESBI) stated that supporting Option 1 is consistent with the approach used in the SEM. A respondent (PPB) stated they would not support Option 3 as it would introduce an additional variable in forecasting annual HAS revenues.

#### **3.3.1.3. TSOs' Response**

The TSOs would like to clarify that Option 2 is in line with how the SEM currently calculate the forward FX rate. Option 1 was used in the SEM prior to the 2011 calendar year. The TSOs do not believe that implementing Option 2 would result in system changes and therefore implementation costs as it would remain a single exchange rate figure as in Option 1.

#### **3.3.1.4. TSOs' Recommendations**

The TSOs recommend that we align with the SEM method of calculating the Exchange Rate, Option 2 in the consultation paper. If this option is chosen then the final exchange rate used for the Other

System Charges will be based on the 5-day average rate for the period 22 August 2011 to 26 August 2011 i.e. one month before the start of the 2011/2012 tariff year. Note that the SEM method is calculated for the period 24 November 2010 to 30 November 2010 for the 2011 calendar year, therefore the OSC exchange rate and the SEM rate may differ.

### **3.3.2. TRIP CHARGES**

#### **3.3.2.1. Introduction**

The TSOs proposed in the consultation paper to have the Trip Charges and Constants remain unchanged for the 2011/2012 tariff year.

#### **3.3.2.2. Respondents' Comments**

Two comments were received on this section (Endesa, ESBI). One respondent (ESBI) stated there was an inconsistency in how trips and other GPIs are monitored in Northern Ireland and Ireland. Both respondents agreed that that double charging for trips with trip and SNDs over penalises generators. No other comments were received on the proposal to maintain the same Trip Charges and Constants for another tariff year.

#### **3.3.2.3. TSOs' Response**

With reference to the monitoring arrangements of trips and other GPIs in both jurisdictions the TSOs would like to clarify that SCADA Data is used in both settlement systems. The Trip charge is separate to the SND charge as in the original RA design decision<sup>12</sup>. A unit can incur a SND charge and not necessarily a Trip charge. A Trip charge incentivises a generating unit to trip as slowly as possible where as a SND charge incentivises a service provider to give as much notice time as possible.

#### **3.3.2.4. TSOs' Recommendations**

The TSOs recommend that there are no changes in the Trip charges for the 2011/2012 tariff year compared to the previous tariff year other than the charge rate which has changed due to the final exchange rate setting in August 2011.

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<sup>12</sup> Harmonised All-Island Implementation Arrangements for Ancillary Services and Other Payments and Charges A Decision Paper SEM-09-003 30th January 2009

### 3.3.3. PROPOSED SND CHARGES

#### 3.3.3.1. Introduction

The SEM committee decision of 2010 included the incremental phasing in of SND charges over three tariff periods as shown in the Table 3.1. The consultation therefore proposed that for tariff period 2011/2012 the SND charge rate should be increased from €40/MW to €70/MW.

Item	Tariff Period Feb-Oct 2010	Tariff Period 2010-11	Tariff Period 2011-12
SNDs	€20/MW	€40/MW	€70/MW

Table 3.1: Proposed SND Charge Rate

#### 3.3.3.2. Respondents' Comments

Comments on this section were received by five industry participants (Endesa, ESBI, ESBPG, Synergen and VPE). All were opposed to the proposed increase in the SND charge rate. One respondent (Endesa) has asked the TSOs or RAs to publish the formula and/or empirical basis for the change, stating that, in particular, if the charge is based on a 400MW unit, it is not appropriate to levy the charge to all generators on this basis. They also stated that the rate increase will mostly affect units that are two-shifted and/or have intermittent running regimes. Another respondent (ESBPG) was strongly of the opinion that the increase will not improve performance and will only serve as a revenue generation exercise, believing that excessive charges may lead the non-expert observer to form an incorrect opinion that domestic generators are less capable of supplying the System adequately and may increase pressure to rely on imported generation, thus undermining both the domestic generator's reputation and the national confidence in ensuring adequate security of supply utilising an adequate proportion of domestic generation.

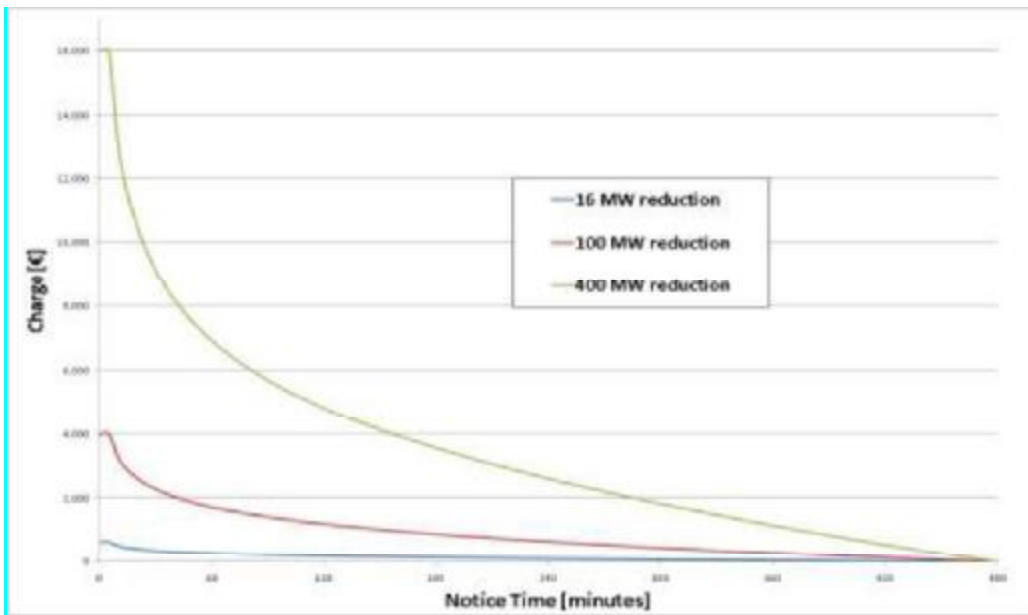
One respondent (Synergen) considers that the proposed increase in SND penalties is inappropriate given that there are already significant incentives to be available within the SEM.

One respondent (Viridian) suggests that existing rates be maintained for another year, especially given the delayed implementation of HAS arrangements which meant that the original phased increase in SND rates could not be fully adhered to.

#### 3.3.3.3. TSOs Response

The TSOs would like to clarify that the SND charge is based on the actual MW redeclaration not on a 400MW unit. Graph 3.1 shows the total charge against notice time for a 16MW, 100MW & 400MW reduction in availability.





**Graph 3.1 SND charge varying with Notice Time for 3 different MW losses.**

These charges provide a commercial signal to encourage service providers to declare as early as possible any availability changes and that further improvements can be made to mitigate the number of SNDs which occur in the year. The TSOs understand that SNDs cannot be eliminated but SNDs have increased rather than decreased and so an increase in the rate applied may provide both a signal for improvement as well as representing a reasonable attribution of the costs imposed on other system users.

#### **3.3.3.4. TSOs' Recommendations**

The TSOs recommend that for tariff period 2011/2012 the SND charge rate should be increased from €40/MW to €70/MW in line with the SEM Committee decision in 2010.

### 3.3.4. PROPOSED GPI CHARGES

#### 3.3.4.1. Introduction

The SEM committee decision of 2010 included the incremental phasing in of charge rates for Minimum on Time and Maximum Starts in 24 hours over three tariff periods as shown in Table 3.2. The consultation therefore proposed that for tariff period 2011/2012 the GPI charge rate for Minimum on Time and Maximum Starts in 24 hours should be increased from €0.60/MWh to €1.00/MWh.

Item	Tariff Period Feb-Oct 2010	Tariff Period 2010-11	Tariff Period 2011-12
GPI: Min on Time GPI: Max Starts	€0.29/MWh	€0.60/MWh	€1.00/MWh

Table 3.2: Proposed changes to GPI Charge Rates

The TSOs proposed in the consultation paper that all other GPI charges and constants were to remain unchanged for the tariff period 2011/2012. Furthermore the TSOs proposed a rate of €0.12/MWh for the proposed new Secondary Fuel GPI.

#### 3.3.4.2. Respondents' Comments

Two respondents (ESBI, ESBPG) provided comments on this section of the consultation. Both comments were not in support of the proposed increase to the charge rates for Minimum on Time and Maximum Starts in 24 hours. One respondent (ESBI) stated that the planned increase can do little if anything to further enhance generator performance.

Another respondent (ESBPG) also commented that the proposed rate for the secondary fuel charge of €0.12/MWhr is excessive and is not comparable to the reserve charge. ESBPG stated that the reserve provision is mandated to be between 5% and 10% of the registered capacity while availability on secondary fuel is mandated to be 90%, thus in order to have consistency between both charges, as preferred by the TSOs, then the secondary fuel charge should be of the order of €0.01/MWhr.

#### 3.3.4.3. TSOs Response

The TSOs believe that the increased rates for Minimum on Time and Maximum Starts in 24 hours GPIs are appropriate and provide the right incentive. They are also inline with the original RA decision to phase in the incremental change in rate. With regards to availability on secondary fuel being mandated to be 90%, any required harmonisation of the Grid Codes will be addressed during the OSC 2012/2013 consultation as recommended by the TSOs in section 3.2.1.

#### 3.3.4.4. TSOs' Recommendations

The TSOs recommend that for tariff period 2011/2012 the charge rates for Minimum on Time and Maximum Starts in 24 hours should be increased from €0.60/MWh to €1.00/MWh in line with the SEM committee decision in 2010. All other OSC rates should remain at the same level as they were in the 2010/2011 tariff period other than the charge rate which has changed due to the final exchange rate setting in August 2011.

### **3.4. OSC REPORTING & OFFSETTING**

#### **3.4.1. PROPOSED REPORTING**

##### **3.4.1.1. Introduction**

The TSOs proposed to report on OSC by publishing the following information each month inline with the OSC settlement process<sup>13</sup>. The reports will be based on all-island data.

1. The total trip charges levied and the type of trip;
2. The total SND charges levied; and
3. GPI amounts and the number of events under each category.

In the consultation paper the TSOs included monthly data from the 2009/2010 tariff year separated into the three categories above.

##### **3.4.1.2. Respondents' Comments**

Five comments (AES, Endesa, ESBI, ESBPG, Synergen) were received on this proposal to publish monthly figures for each category of the GPIs, the number and type of trips and the number of SNDs. All respondents welcomed the introduction of monthly reports with one respondent (Synergen) requesting the data to be broken down by generating unit by month with historical data also being made available. A respondent (AES) would like to see the reporting extended to cover other areas of operational information such as availability, system events, capacity margin, demand, wind generation, outages etc. The final comment (ESBPG) stated reports should be restricted to market participants unless there is a higher imperative dictating wider release of the data.

##### **3.4.1.3. TSOs Response**

The TSOs welcome the positive response from the industry participants regarding the proposal to publish monthly figures for OSC. The TSOs believe that the proposed template is a step forward in providing improved transparency and will review the proposed template and seek to include more general performance parameters in the near future.

##### **3.4.1.4. TSOs' Recommendations**

The TSOs recommend that monthly reports are made available on the TSOs website. Historical data from the implementation of HAS & OSC on 1<sup>st</sup> Feb 2010 will also be made available.

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<sup>13</sup> EirGrid settlement timelines are typically 25 working days after the end of each month

## **3.4.2. PROPOSED OFFSETTING MECHANISM**

### **3.4.2.1. Introduction**

As part of the Harmonised Arrangements the RAs approved the offsetting of OSC monies with the Imperfections Pot which is administered by the Market Operator, SEMO. Since the introduction of OSC in February 2010, the monies collected by the TSOs have been held in a ring-fenced account. A modification to the TSC (Mod\_13\_11) was required to deliver the offsetting mechanism.

### **3.4.2.2. Respondents' Comments**

Five comments (BGE, ESBI, ESBPG, Synergen, VPE) were received on this proposal to offset the OSC with the Imperfections Pot which is administered by the Market Operator, SEMO. Three respondents (ESBI, ESBPG, Synergen) agreed with the proposal. Two respondents (BGE, VPE) stated that revenues generated from OSC should be re-cycled back into the AS pot. One respondent (VPE) commented this will ultimately benefit consumers by strengthening performance incentives and reducing DBC. The other respondent stated that the revenue will go towards those generators who are providing services which enhance the efficiency of the transmission system (BGE).

### **3.4.2.3. TSOs Response**

The TSOs believe that offsetting the Imperfections charges with the GPI charges is correct. The charges relate to Grid Code compliance not Ancillary Service performance. Performance issues in the system have a direct impact on Dispatch Balancing Costs and consequently the TSOs welcome any reduction in Imperfections.

### **3.4.2.4. TSOs' Recommendations**

The TSOs recommend that the agreed offsetting mechanism is implemented whereby the OSC monies are transferred to the Imperfections account in SEMO.

## **4. GENERAL COMMENTS**

In addition to receiving comments on the sections of the paper which the TSOs were consulting on further comments were received on more general issues with OSC. These are summarised in the following sections.

### **4.1. Trip Charge Design**

An industry participant (AES) commented that they remain at a loss to understand why the TSOs and RAs have implemented a charging regime for Trip charges which continually penalises plant in NI which has never been designed or required under Grid Code, to offer a fast or slow wind down trip facility. AES believe their plant can do nothing in terms of design or operation to address this issue, the plant remains Grid Code compliant and therefore this charge has a nugatory effect. The respondent would again ask the TSOs and RAs to exempt NI generators who cannot offer the fast or slow wind down facility from these punitive and unnecessary charges.

The TSOs would like to state that there is no Grid Code requirement to provide fast load wind down in either jurisdiction. Distinguishing Trip charges by the rate of the tripping process provides an incentive to trip as slowly as possible.

### **4.2. Early & Late Synchronisation Charge Design**

One respondent commented (ESBPG) on the time given for the early and late synchronisation windows as at -15mins to +5mins is too short. This window is 11.1% of the time for a HOT start (Grid code of 3 hours) while the window is 4.2% of the time for a COLD start (Grid Code Requirement of 8hrs). ESBPG is strongly of the view that the window should be expanded to represent the same percentage of time for HOT, WARM and COLD starts.

ESBPG believe the window should be balanced around the Synch Time – the same tolerance for early start as for late start. Output resulting from an early start within the window should not be subject to Uninstructed Imbalances. Rather, the instructed Synch Time should be changed to the Actual Time of Synch as the unit has synchronised inside the acceptable timeframe.

The TSOs will review and assess the basis of the proposals made and intend to discuss these proposals with the respondent in due course.

### **4.3. Minimise Consumer Costs**

One respondent (TCC) stated it is important that the regulatory structures look to minimise the cost of energy to consumers. The other system charges set for the tariff year 1st October 2011 to 30th September 2012 should represent the most beneficial option for all consumers both in terms of price and level of service.

The TSOs would agree and will work with the Regulatory Authorities to this end.

### **4.4. Future OSC**

An industry participant (BGE) commented that it would be opportune at this time for a holistic plan and analysis to be provided on the required flexibility products and behavioural/technical changes needed for the system.

The TSOs have passed BGE's comment to the 'Facilitation of Renewables' group within the TSOs where significant work has been under taken on the changing needs of the power system and this work will feed into the future review of the design of AS<sup>14</sup>. The TSOs anticipate a number of industry briefings over the next 18 months and will be ensuring that the RAs and the industry are updated regularly regarding the future review of the design of AS.

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<sup>14</sup> Building on the TSOs' report 'Facilitation of Renewable Studies' the TSOs submitted in May 2011 a programme for a secure, sustainable power system to the RAs. This includes enhanced operational policies which may entail a review of ancillary services.

## **5. NEXT STEPS**

The RAs will advise the TSOs whether they accept the TSOs recommendations outlined in this paper. The TSOs will then update the Statement of Payments and Charges to reflect the rates and constants for the 2011/2012 tariff year. The TSOs will also be in discussions with each of the respondents in due course.



***Response to Harmonised Other System Charges Consultation***

**on behalf of**

**AES Kilroot Power Ltd and AES Ballylumford Ltd**

**27 May 2011**



## **1. Introduction**

AES Kilroot Power Limited (“AES Kilroot”) and AES Ballylumford Limited (“AES Ballylumford”) (collectively “AES”) welcome the opportunity to comment on the consultation on Harmonised Ancillary Services.

AES has six merchant generating units registered within SEM which are subject to the Other System Charges regime. In addition we have seven other units which are contracted to NIE Energy Power Procurement Business (PPB) via Generator Unit Agreements (GUAs). It should be noted that NIAUR have issued a consultation paper in relation to the potential cancellation of the remaining GUAs on or around 31 March 2012. A decision from NIAUR is likely to be sometime towards the end of September 2011 and if the GUAs are cancelled AES will be entering into HAS agreements at that time.

## **2. Proposed OSC Developments**

### Minimum Generation Design Refinement

AES notes that the TSO’s are not proposing a design refinement for 2011/12.

### GPI Double Charging

AES agrees with the TSO’s proposal that a standard GPI should be applied to a suitable declaration, and also agree that any subsequent, yet better, declaration should not attract a second GPI.

### Loading & De-loading GPIs

AES welcomes the application of a tolerance band to the declared Minimum Generation figure. We also recognise the need to change from the Dispatched Load to the Declared Minimum Generation when calculating the loading and de-loading GPIs.

### Secondary Fuel GPI

The requirement for Generators to provide the capability of generation is compensated via capacity payments and the energy payments. This is based on the provision of this service via the use of the generators primary fuel. There is no additional payment, as yet, for the provision of these services on a generators secondary fuel. We do not therefore see any reason for an additional arbitrary charge to be applied by the TSOs on the failure to start up or make available generation on its secondary fuel.

The Fuel Security Code (FSC) in Northern Ireland is in draft form only and there are substantial outstanding issues that need to be addressed. The current FSC was drafted to align with the current GUAs and there was no provision for the inclusion of a similar GPI within the GUAs. Commonly accepted understanding and practice to date has been that a generators incentive to declare capacity is already well addressed through the capacity/availability payments.

FSC provisions are included within CC13.1 of the NI Grid Code in relation to Grid Code obligations. AES understands this to mean that during a Fuel Security Event/Period, NI generators must comply with SONI dispatch instructions. We believe this is a clarification of the established Grid Code obligation for

generators to comply with Dispatch Instructions when a unit is declared available. AES notes that there is no Technical Parameter or Additional Grid Code Characteristic in relation to any FSC measure.

AES would also draw attention to the fact that the term 'secondary' fuel is not relevant to AES plant. At Kilroot, units K1 and K2 are dual fuelled and indeed the Commercial Offer Data for these units relates to both coal and HFO as primary fuels (i.e. HFO is not a back-up fuel). At Ballylumford, the CCGTs have a "Back-up fuel" (as defined in the GUAs) facility but there is no mention of secondary fuelling.

AES strongly believes that the proposed GPI is premature, unnecessary and an unwelcome unilateral and arbitrary escalation in market risk. It does not relate to a Grid Code Technical Parameter nor is it an Additional Grid Code Characteristic. We cannot therefore see why the TSOs believe it is a relevant GPI. This is an ill thought through proposal and we believe that it should be withdrawn by SONI.

### **3. OSC Rates**

#### Proposed Exchange Rate

AES would support moving to Option 2 as described. This is consistent with the how the exchange rate is currently calculated within the determination of the Annual Capacity Exchange Rate. AES believes such consistency is an important principle and does provide a degree of certainty for generators.

#### Proposed Rates

AES remains at a loss to understand why the TSOs and RAs have implemented a charging regime for trip charges which continually penalises plant in NI which has never been designed or required under Grid Code, to offer a fast or slow wind down trip facility. AES plant can do nothing in terms of design or operation to address this issue, the plant remains Grid Code compliant and therefore this charge has a nugatory effect.

AES would again ask the TSOs and RAs to exempt NI generators who cannot offer the fast or slow wind down facility from these punitive and unnecessary charges.

### **4. OSC Reporting**

#### OSC Reporting

AES welcomes this move to provide additional information to market participants as such transparency is long overdue. We would like to see the reporting extended to cover other areas of operational information such as availability, system events, capacity margin, demand, wind generation, outages etc. Some of this information is already available but we believe that the TSOs should make it available on a consistent all-island basis (with information also provided for each Jurisdiction).

A 'one-stop' monthly reported would provide much needed transparency, ensure information is made available to all participants on a consistent basis, and increase confidence in market operation and understanding.

27<sup>th</sup> May 2011

David Carroll,  
Eirgrid,  
160 Shelbourne Road  
Ballsbridge,  
Dublin 4

Vivienne Price,  
SONI,  
Castlereagh House,  
12 Manse Road  
Belfast BT6 9RT

Dear David, Vivienne

**Re: Consultation on Other System Charges**

Thank you for the opportunity to respond to and input into the Transmission System Operator's (TSO's) consultation on Other System Charges for the tariff year 2011/12.

Bord Gáis Energy (BG Energy) acknowledges and supports the potential key role Other System Charges (OSC) can play in producing an efficient, flexible and cost effective transmission system by ensuring that clear incentives are in place to ensure all parties remain grid compliant and by providing the correct exit signals to inefficient plant. With reference to the secondary fuel generator performance incentives, BG Energy welcomes any signal that rewards plants for high performance on availability.

However, similar to the proposal for new Ancillary Service products, there is a lack of analysis and detail around how the charges will be levied and how the revenues earned will be used. BG Energy proposes that such revenues should be added to the overall Ancillary Services payment pot as it will go towards those generators who are providing services which enhance the efficiency of the transmission system.

Notwithstanding this and to optimise the provision of these charges (in conjunction with ancillary service products) and the signals that they provide in the market, it would be opportune at this time for a holistic plan and analysis to be provided on the required flexibility products and behavioural/technical changes needed for the system. Following on from the TSO's extensive study on the 'Facilitation of Renewables', this would be the natural next step in shaping the system and its generation fleet to meet future requirements. It will also contribute towards ensuring that the necessary investment signals are in place to properly incentivise the optimum level of flexibility in the transmission system.

Please do not hesitate in contacting me if you have any queries on the comments raised.

Yours sincerely,

Dermot Lynch  
Regulatory Affairs – Commercial  
Bord Gáis Energy



## **Endesa Ireland response to Harmonised Other System Charges Consultation and Harmonised Ancillary Services Consultation 2011/12**

Endesa Ireland welcomes the publication of Consultation Papers on Harmonised Other System Charges and Harmonised Ancillary Services. Endesa Ireland encourages the move toward an all-island Ancillary Service market. As a first stage, harmonised rates are appropriate. In the medium-term, Endesa Ireland considers that a more competitive market for Ancillary Services should be introduced, whereby annual Ancillary Service contracts are auctioned to the lowest bidders.

We consider that this would achieve the delivery of Ancillary Services at cost reflective and competitive prices and would also help the all-island electricity market move a step closer towards achieving an effective balancing market as is the case in both the UK and France. Given that the EU aim that regional markets be in place by 2014, progress in the development of cross border balancing is becoming increasingly urgent.

Endesa Ireland considers that the current payments for Ancillary Services do not reflect the actual cost of providing these services or their value to the system. The System Operators have explained in previous fora relating to Harmonised Ancillary Services that their derivation of payments for Ancillary Services were calculated based on the cap the regulatory Authorities had placed on Ancillary Service Payments. This is not an appropriate means of procuring services in a competitive market. Endesa Ireland suggests that payments should be based on the value of these services to the system. Where additional services are now required by the System Operators, additional monies must be available to pay for these services.

In addition, a principle underpinning Ancillary Service provision must be that penalties should not exceed the value of payments for providing a service. We would also note that while AS payments have remained constant, AS penalties have increased. It is not clear how the penalties are being calculated. These penalties should be reflective of the loss of the service to the system, which means as a corollary that if penalties increase, the amount paid to generators for providing Ancillary Services (based on their value to the system) should also increase. It is not appropriate to set an overly penal amount in order to fund new services required by the TSOs.

Furthermore, as there are limitations of the ability to source Ancillary Services on a cross-jurisdictional basis pending the completion of the North South tie-line, and as there are differing operational requirements in each jurisdiction, it is not appropriate to set a single AS allowance at this time.

Endesa Ireland highlights that changing system conditions require an increase in the Ancillary Services that are needed to facilitate EirGrid in its duty to maintain a safe, secure, reliable, economical and efficient transmission system. The need for additional services also means that there is a need for an increase in the annual AS



allowance to pay for these services, as the value for existing services has not decreased. The pot must grow in order to remunerate generators for the provision of additional services. This increased allowance does not justify a reduction in the capacity pot; capacity and ancillary services are separate and distinct products/services which are necessary for system security and reliability. These revenue streams must remain distinct. The need for sufficient available capacity has not reduced. Therefore, the methodology for the calculation of the capacity pot should not change. Any increase in ancillary service payments should not affect the capacity payment pot.

Endesa Ireland looks forward to the publication of the TSOs' considered position on the system services that will be needed for secure and efficient operation of the power system in the coming years. While much has been said about the need for flexibility, the SOs and RAs have yet to publish a paper setting out the system support service requirements that will be needed to support the changing generation landscape. It is important that generators are appraised of future system requirements and any changes in Ancillary Service payments at the earliest opportunity, as this will inform investment decisions.

Endesa Ireland makes the following points with respect to the detailed proposals in the Consultation papers; numbering used reflects the relevant Consultation Paper sections.

## **Harmonised Other System Charges Consultation Paper**

### **1.3.2 GPI Double Charging**

Endesa Ireland welcomes the design refinement to remove double charging in circumstances where a unit makes a non Grid Code compliant declaration for a GPI but does not give eight hours notice.

### **1.3.3 Loading GPI & 1.3.4 De-Loading GPI**

Endesa Ireland welcomes the addition of a tolerance factor to account for high system frequency.

### **1.4.1 Secondary Fuel GPI**

Endesa Ireland does not consider it appropriate to impose a harmonised system charge when the secondary fuel requirements are not harmonised. Currently the generator's obligations in Ireland and Northern Ireland are different.

### **2.2.2 Proposed Short Notice Declarations Charges**

Endesa Ireland is opposed to the increase of SND charge from €40/MW to €70/MW as this will significantly increase costs incurred by generators, without any additional costs to be recovered by the system operators. Endesa Ireland would ask the SOs or RAs to publish the formula and/or empirical basis for this charge. In particular, if the charge is based on a 400MW unit, it is not appropriate to levy the charge to all generators on this basis.



Endesa Ireland makes the point that the rate increase will mostly affect units that are two-shifted and/or have intermittent running regimes, rather than the large baseload units, which impose the most costs to the system when they trip or become unavailable.

In addition, Endesa Ireland calls on the SOs to publish their policies for unilaterally declaring units unavailable, as SND charges can be incurred by generators as a result of such a declaration of unavailability by the SOs.

### **2.2.1 Trip Charge**

The TSOs propose to maintain last year's trip charges. Endesa Ireland considers that this mechanism over-penalises generators as they are also subject to a short-notice declaration charge. We continue to advocate a single charge for the short-notice declaration, which increases transparency and reduces complexity.

### **3.1 Proposed Reporting**

Endesa Ireland supports the TSO's proposal to publish information monthly on OSC revenue, including trip charges, SND charges and revenue levied for GPIs.

## **Harmonised Ancillary Services Consultation Paper**

### **2.2.1 Reduced Time to Synchronise**

Endesa Ireland requests details of the criteria for qualifying for this payment and a proposal as to the costs recoverable by those providing the service. In the event that the TSO is to negotiate contracts of different values with different generators it is proposed that an auction for the provision of this service should be held.

Endesa Ireland would highlight that the penalties the TSOs propose a generator would incur for failure to synchronise (i.e. payment not made for reduced time to synchronise, failure to synchronise dispatch instruction and no payment of start up cost) should be borne in mind when setting a price for this Ancillary Service, otherwise the provision of this service will not be commercially attractive to generators. .

### **2.2.2 Flexible Multimode Operation**

Endesa Ireland considers that it is not sufficiently clear how dual CCGT/OCGT bids would be treated in the market and the impact they may have on SMP pricing and the constraints budget. It seems as though this proposal has implications beyond the realm of Ancillary Services. The current information, that incremental costs plus an additional payment, be it a percentage of the final payment or fixed cost each time the service is dispatched depending on the final technical details and costs contracted with the generating unit, is insufficient for analysis.

Endesa Ireland believes this subject requires further explanation by the TSOs followed by consultation with industry on the detailed proposal.



### **2.2.3 Lower Minimum Generation**

Endesa Ireland rejects the suggestion that market conditions may incentivise declaring a unit to the lowest possible minimum generation on the basis that a unit may not be eligible for operating reserve payments unless it is exporting at a certain level. In addition, by declaring a lower minimum stable generation than the GPI minimum, a unit will incur higher loading rate charges under the proposed regime. The 'Actual Loading Rate Tolerance (ALR\_TOL)' will be lower with a lower declared minimum, while the target GPI loading rates are based on the higher GPI minimum. Thus the unit will have a higher GPI target and will have a lower tolerance to achieve this target by declaring minimum stable generation below the GPI minimum.

Endesa Ireland considers that as this would be a real service provided to the system, generators should receive a payment beyond merely recovering costs incurred to improve on their Grid Code requirement. Endesa Ireland requests details on the payment regime to be introduced to incentivise generators to declare a minimum stable generation below the GPI minimum, and also requests clarification on whether generators will have to pay for testing to prove that they can operate at this lower level.

### **2.2.4 Synchronous Compensation**

Endesa Ireland does not believe the level of payment proposed, that is incremental costs such as imported energy and additional maintenance costs along with harmonised reactive power payments, is commercially attractive to generators.

### **3.3 Proposed Harmonised Ancillary Service Rates**

Endesa Ireland is disappointed by the TSOs' proposal to maintain last year's tariff rates despite the RA's decision<sup>1</sup> in SEM-10-001 in which it was stated that "AS allowances should increase proportionally in anticipation to a need for higher levels of service". Endesa Ireland considers that in order to ensure a safe and reliable transmission system an incentive for the provision of Ancillary Services is essential.

Endesa Ireland considers that failing to increase the AS rates would introduce increased financial and regulatory uncertainty for generators who may have made investment decisions based on projected increases in AS payments as further signalled by Regulatory Authorities in SEM-10-001 and the higher levels of AS services that the TSOs have indicated are required to support the transmission system. Failure to increase these rates seems to be contrary to the Ancillary Services Design Guidelines set out in SEM 08-128<sup>2</sup> which asserts that "Service providers should be able to reasonably predict their annual income from providing AS". Endesa Ireland considers that Ancillary Services Rates should at the very least be adjusted to allow for CPI.

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<sup>1</sup> SEM - 10 – 001, "Harmonised All- Island Ancillary Services Rates & Other Charges", Decision Paper 4<sup>th</sup> January 2010

<sup>2</sup> SEM - 08 – 128, "Harmonised Ancillary Services, Other System Payments & System Charges"



Endesa Ireland has made significant investment in enabling remote access at our Rhode and Tawnaghmore stations which facilitates the provision of Ancillary Services from these units to the electricity grid. This investment decision was partially based on a projected increase in AS rates.

Furthermore, we believe that the current rates for AS do not accurately reflect the costs of providing the services. There is no evidence that the TSOs have taken actual costs of provision into account. Rather, these rates seem to be scaled to ensure the payments fall within the cap set by the RAs for Ancillary Service payments. Endesa Ireland considers that service providers should receive market rates for the provision of Ancillary Services. The development of a competitive Ancillary Service market would ensure that service providers are paid market rates and that services were procured in the most economic manner. Endesa Ireland strongly encourages the RAs to move towards a competitive Ancillary Services market.

As discussed in the previous Harmonised Ancillary Services Consultation, Endesa Ireland submits that with an increased level of wind, slower reserve categories (TOR2, RR) become more important and this should be reflected in the payment rates. The RAs indicated in SEM-10-001 that this payment would be reviewed in the future, it is submitted that this should be addressed for 2011/12.

#### **4.1 AS Allowance**

If there is to be a harmonised All-Island TUoS charge then Endesa Ireland considers that the SEM Committee should approve the Ancillary Services allowance for both jurisdictions. Although Option 2 has some merits in this regard, Endesa Ireland wonders whether the 3:1 ratio is excessively strict. The TSOs should both aim to reduce their spending on Ancillary Services to what is physically necessary, rather than what meets the 3:1 parameter.

Until the north-south tie line is completed, it is unlikely that Ancillary Services can be provided on a fully competitive cross-jurisdictional basis. It must also be noted in this regard that the Grid Codes and operational requirements of the two jurisdictions are not the same in all respects, eg secondary fuel, minimum fuel, start times. It is submitted that a single allowance would be appropriate were these differences and limitations in cross-jurisdictional sourcing of Ancillary Services addressed.

However, Endesa Ireland would welcome further exploration of the single allowance mechanism proposed in Option 2. In particular, we would welcome further detail on the calculation behind the 3:1 ratio and how is over or under spend by one or both TSOs is to be recovered.

Endesa Ireland would also welcome clarification as to whether a single all-island pot is possible under the current legislation/licensing, as the obligations placed on TSOs in respect of Ancillary Services may be limited to a single jurisdiction.





#### **4.2 AS Reporting**

Endesa Ireland supports the SO's proposal to publish a monthly report detailing HAS expenditure.

From a transparency point of view Endesa Ireland considers that the TSOs should report on the level of services contracted with each AS Service Provider. It is difficult to see how there can be confidentiality issues around such reporting in circumstances where customers are ultimately paying for these services. As generator technical offer data is available to all market participants, Endesa Ireland considers it is appropriate for AS data to be published.



Harmonised Other System Charges  
Consultation Tariff Year 1st October 2011 to  
30th September 2012

## **1.1 Introduction**

ESBI appreciates the opportunity to comment on this consultation paper. We have no objection to all or part of it being published by the Regulatory Authorities (RAs). This response is submitted on behalf of ESB Energy International, Independent Generation.

ESBI has carefully reviewed the options contained in the Consultation Harmonised Other System Charges Consultation Tariff year 1<sup>st</sup> October 2011 – 30<sup>th</sup> September 2011. Our comments in the paper are set out below.

### **1.3.2 GPI Double Charging**

ESBI welcomes the TSO's decision to remove the 8 hour double charge which occurs where a generator has made an effort to correct behaviour.

### **1.3.4 De- Loading GPI**

ESBI welcomes the TSO's proposed changes to correct a number of potential issues with the De-Loading event based GPI charge.

ESBI queries if the 5% tolerance applies as a plus/minus on the minimum generation value? The scenario is discussed whereby a unit is de-loading to minimum generation with the system frequency being high and an allowance of 95% is proposed accordingly. Provision should also be made for de-loading against a low frequency where a corresponding allowance of 105% should be applied to the minimum generation value. (Note that this cannot be applied in the loading scenario 1.3.3 as the machine can only load at a predetermined rate regardless of frequency.)

ESBI feel that the formula for de-loading should be reviewed if / when changes occur to 1.3.1 minimum generation design refinement.

#### **1 .4.1 Secondary Fuel GPI**

The Fuel Security Code expected to be published July 2011 will outline arrangements that apply to licence holders in respect of secondary fuel stocks. ESBI suggests that such arrangements are known prior to commenting on performance incentives relating to secondary fuel.

ESBI notes that ROI generators have no requirement to comply with the NI FSC obligation and therefore this repeats the black start discrepancy highlighted in previous responses. We feel these new arrangements penalise generators for non compliance but fail to include payments to cover associated costs of fuel storage and compliance with environmental standards. ESBI strongly feel that service providers should be recompensed.

#### **2.1 Proposed Exchange Rate**

ESBI welcomes the proposal to maintain the current methodology for calculation of exchange rate which is fixed for the tariff year and based on forward fx rates and is consistent with the approach used in the SEM. ESBI would expect additional costs associated with IT system changes required to facilitate an exchange rate based on a 5 day average, or daily, monthly or weekly rates.

#### **2.2 Proposed Rates**

ESBI welcomes that rates (with the exception of SND) have largely remained unchanged. In relation to Short Notice Declaration, there are numerous incentives for a generator to avoid tripping, perhaps the largest being lost revenue in the SEM and if applicable associated top up costs. In our view, an increase in the SND has no merit in enhancing system security. We query how this increased value is justifiable in terms of actual costs incurred. We consider that double charging for trip events via trip and SNDs over penalises generators.

We note that there is an ongoing inconsistency in how trips and other GPI's are monitored in NI and ROI and suggested that all plant move to install use of high resolution data acquisition technology similar to event recorder used by SONI. This would align with the original harmonisation objective,

## **2.2 Proposed GPI Charges**

A generator operating in the market is already subject to financial incentives to optimise plant performance. As with the SND charge the planned increase in the declaration based charge rates for Minimum on time and Maximum starts can do little if anything to further to enhance generator performance.

## **3.1 Proposed Report**

ESBI welcomes the TSO's decision to publish information on a monthly basis detailing how charges levied for trips and SNDs and GPIs

## **3.2 Proposed Offsetting Mechanism**

ESBI agree that the TSOs should begin the transfer mechanism of OSC monies to the Imperfections pot

# **ESB PG Response to Harmonised Other System Charges Consultation of 18<sup>th</sup> April 2011.**

ESB PG is pleased to submit its response to the consultation on Harmonised Other System Charges Consultation for the Tariff Year 1<sup>st</sup> October 2011 to 30<sup>th</sup> September 2012.

## **Section 1.1 – Short Notice Declaration Charge**

In the paper, it is proposed to increase the Short Notice Declaration (SND) Charge from €40/MW to €70/MW in line with the RA decision (SEM-10-001). ESB PG is strongly of the opinion that this increase will not improve performance and will only serve as a revenue generation exercise. The previous increase in the SND charge demonstrates this point, thus ESB PG believes that the charge should remain unchanged for the forthcoming year.

Excessive charges may lead the non-expert observer to form an incorrect opinion that domestic generators are less capable of supplying the System adequately and may increase pressure to rely on imported generation, thus undermining both the domestic generator's reputation and the national confidence in ensuring adequate security of supply utilising an adequate proportion of domestic generation.

## **Section 1.3.2 GPI Double Charging**

ESB PG welcome this proposed change to remove the perverse signal for declarations. ESBPG also welcome the fact that the maximum length of time a double GPI can arise from one declaration is 8hours. (Currently, retrospective declarations can lead to periods of double charging considerably in excess of 8hours.)

## **Section 1.3.3 /4 Loading and deloading GPI**

ESBPG is in agreement with the proposed changes to the loading and deloading formulae. However, the correct method of dealing with system frequency fluctuations would be to frequency adjust the Dispatch Quantity.

## **Section 1.4.1 Secondary Fuel GPI**

ESBPG believes that this additional proposed penalty is unnecessary and unwarranted and do not support it's inclusion in the GPI's. It is also excessive in that no distinction is made between high merit and low merit units which are acknowledged as having different effects on system security (CER-09-001). The fact that availability on primary fuel is used in the proposed GPI is not reflective of the fact that secondary fuel availability is only required to be 90% of that on primary fuel.

It is completely unacceptable that a unit would be penalised for more than the amount of MW that is being declared non-available. The penalty should be related to the LOLE (Loss of Load Expectation) so that the penalty would be lower on a summer weekend night than during a peak demand period. The penalty should also reflect the fact that Secondary Fuel operation is an emergency service that has NEVER been called on to date. The penalty should be very low and should encourage maintenance at appropriate times. Notice time should apply.

## **Section 2.1: Exchange Rates**

No Comment

## **Section 2.2: Proposed Rates**

ESBPG is strongly of the opinion that it is unnecessary to increase the rates for the SND's or the Min on time and max starts. See points made above in section 1.1. The proposed rate for the secondary fuel charge of €0.12/MWhr is excessive and is not comparable to the reserve charge. Reserve provision is mandated to be between 5% and 10% of the registered capacity

while availability on secondary fuel is mandated to be 90%, thus in order to have consistency between both charges, as preferred by the SO's, then the secondary fuel charge should be of the order of €0.01/MW hr.

### **Section 2.2.3 Proposed GPI Charges**

ESBPG wish to comment on the time given for the early and late synchronisation windows as at -15mins to +5mins, the window is too short. This window is 11.1% of the time for a HOT start (Grid code of 3hours) while the window is 4.2% of the time for a COLD start (Grid Code Requirement of 8hrs). ESBPG is strongly of the view that the window should be expanded to represent the same percentage of time for HOT, WARM and COLD starts.

The window should be balanced around the Synch Time – the same tolerance for early start as for late start. Output resulting from an early start within the window should not be subject to Uls. Rather, the instructed Synch Time should be changed to the Actual Time of Synch as the unit has synchronised inside the acceptable timeframe.

### **Section 3.1 Proposed Reporting**

ESBPG believes that reports should be restricted to market participants unless there is a higher imperative dictating wider release of the data.

### **Section 3.2 Proposed Offsetting Mechanism**

ESB PG agrees that the OSC revenues should be transferred to the Imperfections account.

### **General Comments**

Information is provided by Eirgrid in the form of a number of spreadsheets to the market participants. ESBPG has developed systems for verification and calculation of the OSC using these spreadsheets and thus request that no changes are made to the current format and layout of these sheets.



## **IWEA response to the Harmonised Ancillary Services Consultation**

**27 May 2011**

The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to the Joint Regulatory Authority consultation on Harmonised Ancillary Services and Other System Charges.

The consultation outlines some changes to be made to ancillary payments and other system charges. IWEA welcomes the review of these items and believes that any changes introduced should be designed to increase system flexibility and to ensure an appropriate generation mix. The flexibility of thermal generation is an essential component of an electricity system which aims to have high levels of renewable generation, in particular wind.

IWEA would like to note however that the wider system needs an overhaul to make sure the correct plant is being incentivized and Ancillary Service payments have an important role to play in this. It is important that the wider system needs are taken into consideration and that a market value is placed on the services being provided. Following on from the Facilitation of Renewables studies, the importance of technical parameters such as system inertia has been highlighted and this should also be reflected in ancillary service payments.

IWEA has concerns with the way in which Ancillary Services are funded. Whilst there is an understanding that HAS and Capacity Payment Mechanism (CPM) are serving different purposes and so should be kept separated, the growing need for AS should not be funded by a reduction in the capacity payment pot. Improved flexibility and better generator performance will reduce system generation, constraint and market costs. With the current outage of Turlough Hill there has been an increase in the constraints payments that have had to be made to date. The introduction of more flexible plant will help to reduce these constraints cost. It is also anticipated that increased amounts of renewable generation will reduce the average energy price in SEM. IWEA believes that with appropriate incentivisation of the TSOs these factors will offset some of the costs of additional ancillary services without requiring changes to the size of the capacity pot. It is also essential that revenues from both capacity and Ancillary Services are sufficiently stable to ensure that their inclusion will be accepted by finance providers. It is essential that the overall framework is assessed to ensure that flexible generators are not disadvantaged by the proposed changes and that the provision of capacity is still regarded as something of value.

As a consequence of Regulation EU 838/2010 on the inter-transmission system operator compensation mechanism, to the extent that the North-South interconnector imposes additional system losses or additional infrastructure costs as a consequence of facilitating cross Border electricity flows, these costs should be recoverable via the ITC mechanism. While not directly related to the issue of Ancillary Services, we believe it is an issue that should be investigated by the RAs with the objective of avoiding unnecessary costs being imposed on the SEM and ultimately on customers.



**NIE Energy Limited  
Power Procurement Business (PPB)**

**Harmonised Ancillary Services  
and  
Harmonised Other System Charges**

**Consultation Papers  
27<sup>th</sup> May 2011**

**Response by NIE Energy (PPB)**



# **Harmonised Ancillary Services and Other System Charges Consultation Papers**

## Harmonised Ancillary Services

### Introduction

NIE Energy (PPB) welcomes the opportunity to respond to the Harmonised Ancillary Services and Other System Charges Consultation papers. PPB would also like to express its appreciation for the work completed by SONI, over the last year, as part of the review of the HAS arrangements, including OC11 Grid Code, and in particular the empirical analysis of the historical performance of generating units during Frequency Events. This work has led to a greater understanding of the performance of generating units connected to the system, which will ultimately help in the development of the system to facilitate the connection of renewable generation. It is important that parties continue to work together to identify the technical challenges of accommodating an increase in renewable generation and the appropriate commercial arrangements for Service Providers who can offer the System Operator Ancillary Services which will ensure the System can be operated in secure and efficient manner.

Section A focuses on the Harmonised Ancillary Services Consultation Paper and Section B focuses on the Other System Charges Consultation Paper.

## Section A - Harmonised Ancillary Services

### A1 Existing AS Services

PPB agree that it is appropriate that the cost to the end consumer is appropriately managed and the System Operators should investigate all options to reduce Dispatch Balancing or "Constraint Costs". However it is extremely important that the System Operators consider the full implications of their decisions and whether or not any decision would discriminate against or unduly prefer any person or class or classes of persons. In the facilitation of renewables the apportionment of risk to Service Providers must not increase without there also being an equitable increase in reward for these Service Providers.

A recent decision by the System Operators to reduce the level of minimum reserve requirement from 81% to 75% of the largest single infeed (LSI) highlights an issue in relation to the overall governance arrangements, which do not currently provide agreed criteria for making these decisions. In the Harmonised Ancillary Services and Other System Charges Information Note to Service Providers it stated that "there will be an increased level of services required in the 2010/2011 tariff year due to the increase in the largest infeed on the system"- however part way through the year the System Operators actually reduced the level of services required. In Section 5.4.1 of the SONI Transmission Summary Report it states that the number of Frequency Excursions has generally increased since 1989 and the report goes on to state that "there is an increased probability of frequency events occurring". In the first seven months of 2010/11 there have been three Frequency Events. If, as a direct result of this decision, the annual number of Frequency Events increases, the apportionment of risk to Service Providers will have increased without an equitable increase in revenue for these Service Providers. In Great Britain the Electrical Safety, Quality and Continuity (Amendment) Regulations 2006, Part IV clause 27 (commonly referred to as the ESQCR) requires that system frequency shall not vary more than one per cent above or below the declared frequency of 50Hz save in "exceptional circumstances". The CEGB took the phrase "exceptional circumstances", which has been adopted by National Grid, to mean that the system frequency shall not transgress outside the statutory limits of **50Hz +/- 0.5Hz more than four times a year**. There may be a case for a review of the Transmission and Distribution System Security and Planning Standards to ensure that criteria are established for changing levels of Operating Reserve.

It is important to recognise that the provision of Operating Reserve can:

1. Reduce plant efficiency;
2. cause wear and tear and increases maintenance costs;
3. reduces plant life;
4. affect the normal operating characteristics of the unit.
5. exposes Service Provider to Operating Reserve and Other System Charges

It is inappropriate to expect Service Providers to provide Operating Reserve for an unlimited number of Frequency Events in the year. One way of dealing with this concern would be to include a review trigger in the design of the Reserve Payments which is triggered if the number of Frequency Events experienced in any given year is greater than four – which represents the CEGB interpretation of “exceptional circumstances” In this situation the Reserve Rates could be increased for the remainder of the year. This design change would appropriately compensate Service Providers for providing Reserve to the System more regularly than originally assessed – whilst also providing a commercial incentive for the System Operator to maintain the minimum reserve requirements at a level whereby the System Frequency only transgresses below 49.5Hz in “exceptional circumstances”.

#### A1.1 Operating Reserve Products

The current long term nature of the HAS Agreement, with no right for a Service Provider to revise the level of contracted reserve, results in Service Providers taking a prudent position having considered the commercial risks of the non-performance. PPB believe, as outlined in our response last year, that the TSO should consider procuring short-term reserve products from Service Providers which are over and above the long term reserve products which are currently contracted. This would ensure that the System Operators can optimise the economic efficiency of the Ancillary Services market.

#### A1.2 Reactive Power Products

The current arrangements for Reactive Power do not compensate a Service Provider for the full amount of Reactive Power, which is provided to the system, due to the fact that the Reactive Power Capability is based on the generators capability at full load. PPB maintain that this is not the correct approach as Service Providers should be paid based on the actual amount of Reactive Power which they provide to the system during each Trading Period. If the Generator was not available, it is likely that the full amount of Reactive Power would need to be provided from another item of plant or apparatus. Reflective pricing would also enable the Regulator to undertake a more accurate cost/benefit analysis of the provision of Reactive Power from different sources (generator units or transmission assets). NIE T&D have identified in their Capital Investment Requirements for RP5 that they intend to install 300MVAR of reactive power compensation representing a capital investment of £28million. The total annual reactive power payment, for the Island of Ireland, is circa £8.4million. Consideration should be given to tendering for Reactive Power Capability from any plant or apparatus, which can generate or absorb Reactive Power (including Static Compensation equipment).

#### A1.3 Black Start

NI generators are entitled to payments for the provision of Black Start services however there has been no development of the contractual arrangements for these services. PPB believe that this must be addressed and that the System Operator in

Northern Ireland should develop and publish a draft pro-forma Schedule for the consideration of Service Providers in Northern Ireland.

## A2.0 New Services

PPB is encouraged by the work, which is being undertaken by the TSOs, to review the system related issues and barriers to achieving the targets which have been set by the Governments for renewable generation.

PPB welcomes the System Operators decision to increase the range of Ancillary Services. However it is important that the commercial arrangements for generating units, which provide these new Ancillary Services, provide the owners of the assets with appropriate investment returns. PPB are concerned that the commercial arrangements which are being proposed by the System Operators transfer all of the risk to the Service Providers and do not take cognisance of the risks associated with offering the services. If the System Operators are seeking solutions to the operational challenges of facilitating renewable generation, then investors must be appropriately rewarded for providing ancillary services. The main issues with the current proposals are:

- The System Operators, state the new Ancillary Services will be paid only when utilised which is a concern as there is no guarantee that they will ever be used however before entering into a contract for the new Ancillary Services there are costs which may be incurred by a Service Provider, such as:
  - Costs for testing the technical capability of the generating unit prior to agreeing to the new Ancillary Service;
  - capital investment costs, which may be necessary in order to provide the new Ancillary Service;
  - legal and commercial costs associated with negotiating the HASA Schedules.
  - any costs associated with upgrading existing commercial settlement systems
  
- Service Providers must be able to recover any loss in opportunity costs associated with providing an Ancillary Service. For example, if a Generating Unit is dispatched below its normal Minimum Generation value and it cannot provide Operating Reserve below its normal Minimum Generation value then the Service Provider should be paid the Operating Reserve revenue which it would have realised at the normal Minimum Generation value. Therefore PPB believes that incremental costs must include any loss in opportunity costs.
  
- The proposed rates are based on the incremental cost of providing the Ancillary Service. However in providing the Ancillary Service it is likely that a Service Provider will be operating the Generating Unit outside its normal

operating characteristics and therefore will expose the Service Provider to additional commercial risk due to increased uncertainty of operating the Generating Unit under the revised operating characteristics. In order to incentivise Service Providers to contract for the new Ancillary Services the rates must be sufficient to cover known costs as well as an appropriate level of return to compensate the Service Provider for the additional commercial and operational risks.

- The existing HAS agreements are long term arrangements, with limited rights for a Service Provider to terminate or amend its obligations to provide an Ancillary Service. PPB believe that the Service Providers need to consider mechanisms for Service Providers to review and amend its operating parameters and the rates associated with providing the new Ancillary Service. For example, the Service Provider may not know its true maintenance costs until after it has had some experience in providing the service.

### A3.0 Ancillary Services Rates

#### A3.1 Exchange Rates

PPB would support the proposal outlined in Option 2 in relation to Exchange Rates (i.e. Exchange Rate based on a 5 day average) as this removes some of the market volatility risk. PPB would however not support Option 3 as it would introduce an additional variable in forecasting annual HAS revenues.

#### A3.2 Propose Harmonised AS Rates

PPB is disappointed that the System Operators have not published a more comprehensive summary of their analysis. The Harmonised AS Rates have been maintained at the same level since the introduction of the HAS arrangements. During this period there has been significant changes in inflation in the UK (affecting costs) as well as movements in prices in the underlying commodity markets. The System Operators have not indicated how these changes impact on the cost of providing the Ancillary Services which should be reflected in the Rates.

### A4.0 AS Allowance and Reporting

#### A4.1 Single AS Allowance

There is insufficient analysis to support Option 2. PPB therefore support maintaining the Status Quo.

#### A4.2 AS Reporting

PPB welcomes the proposal to publish HAS expenditure on a monthly basis in line with the HAS settlement process as this information improves the transparency of the HAS arrangements.

## Section B Harmonised Other System Charges

### B 1. Proposed OSC Developments

#### B1.1 Loading and De-loading GPIs

PPB welcomes the change in the formulae for the GPIs associated with Loading and De-Loading. However, based on past events, in the case of the Loading GPI the proposed tolerance does not protect PPB generating units from charges if the frequency is above 50.05Hz. PPB would suggest that the tolerance is increased as the generating is performing in a manner, which supports system security. It is therefore inappropriate for the generating unit to be penalised. Another way of dealing with this issue to calculate the minimum generation based on the actual system frequency and the governor droop of the generating unit.

#### B2.0 New Other System Charges

##### B2.1 Secondary Fuel GPI

PPB believe that a Secondary Fuel GPI should not be introduced in the absence of an Ancillary Service which provides the Service Provider with a revenue for maintaining the capability of operating on a Secondary Fuel – otherwise an unfair commercial arrangement is introduced which only penalises for non performance.

#### B3 Exchange Rates

PPB would support the proposal outlined in Option 2 in relation to Exchange Rates (i.e. Exchange Rate based on a 5 day average) as this removes some of the market volatility risk. PPB would however not support Option 3 as it would introduce an additional variable in forecasting annual HAS revenues.



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27 May 2011

Dear David and Vivienne,

**Harmonised ancillary services and other system charges for tariff year 2011-12**

Thank you for this opportunity to respond to the above consultations.

Viridian Power and Energy (VPE) recognises that generator flexibility, controllability, and reliability will be increasingly important as more wind comes on the system and with the introduction of more non-synchronous interconnection like the East West Interconnector. Issues with grid infrastructure, planning and operations also need to be addressed through appropriate incentive structures to help reduce dispatch balancing costs.

From a thermal generator's perspective VPE would note that it is already experiencing onerous operating conditions associated with cycling to accommodate intermittent generation in a small islanded system requiring network expansion and upgrade and new system tools to manage the intermittency of wind. This is driving down load factors, forcing sub optimum operation at part load and greatly increasing plant starts. Such an operating regime, made



worse by (largely opaque) grid constraints and operational workarounds, provides much reduced cash flows over a shorter asset life and will severely affect asset valuations. Existing revenue streams are inadequate to compensate for this. Moreover, the system value of generators ramping up or down quickly, synchronising on time, or starting up at short notice is not reflected commercially and is arguably disincentivised. This is because under the current regime in our view more flexible plants have a greater likelihood of being cycled which causes their SRMC to increase and thus further increases the likelihood of being cycled. In addition a cycled plant typically has a lower availability because of the onerous nature of cycling and the stresses it puts on plant operation. An incentive compatible solution to this problem would be to reward generators for being flexible through the ancillary services mechanism.

Rather than radically reform the ancillary services regime VPE has previously argued that an evolutionary approach is more appropriate in line with the actual trajectory of renewables and the learnings from a measured approach. Along these lines, we have suggested that new ancillary services should focus on rewarding generators for the system value they could potentially provide in ramping up or down quickly; synchronising on time; starting up at short notice; operating at low minimum generation; operating CCGTs in OCGT mode; and providing additional reserve capability beyond contract values. We still consider this a sensible way forward and would commend the work that has been done to date in this area following the system operator invitation to all existing AS service providers in November 2010 to discuss their plant capabilities.

In terms of future ancillary services developments, VPE looks forward to participating in the industry workshop flagged in the consultation paper and would particularly stress at this stage the need for:

- Longer term ancillary services contracts (of at least 10 years);
- Treating the ancillary services regime, the capacity payments mechanism, and the energy market as completely separate and distinct<sup>1</sup>.
- Some mechanism to compensate generators for loss of ancillary services revenues when constrained off.

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<sup>1</sup> A recent SEMC consultation proposed a possible interpretation of the BCoP to mandate generators to deduct 'variable AS benefits' from their offer submissions. In our view this undermines what Eirgrid is trying to achieve in placing more emphasis on AS revenue streams. Furthermore, the importance of a clear, transparent and robust price formation mechanism for liquid and efficient markets is well known. Bidding of AS in commercial offers would add considerable complexity and opacity to bids and would be very difficult, if not impossible, to adequately police.

- An appropriate risk / reward trade-off between AS payments and charges.

All of the above will be necessary if ancillary services revenues are to feature more strongly in performance and investment decisions.

Having made these general points the remainder of this response provides more specific comments. We endeavour, where possible, to align our comments with the sections and sub-sections of the respective consultation papers, as requested.

#### **Ancillary services:**

1. VPE would welcome confirmation that ancillary services payments will be available to windfarms if they can demonstrate provision of any of the services.
2. VPE notes from section 2.2 that new ancillary services will be paid for based on their utilisation and not their availability. The basis for this is broadly understandable but it does underline the importance of putting in place some mechanism going forward to compensate generators for lost AS revenues when constrained off.
3. In response to section 4.1 VPE is in favour of optimising the AS allowance providing that sufficient funds are made available in both jurisdictions to offer the services necessary to incentive desired performance and to compensate generators for the onerous operating conditions associated with cycling.
4. Referring to section 4.2 VPE would concur that reporting the level of services contracted with each AS Service Provider would breach confidentiality entitlements and obligations in the AS agreement.

#### **Other system charges:**

1. VPE welcomes the changes proposed in section 1.3.2 to prevent GPI double charging when declaring services in a positive direction.
2. VPE welcomes the changes proposed in 1.3.3 and 1.3.4 relating to loading and de-loading GPI respectively.

3. In relation to section 3.2 VPE maintains that revenues generated from other system charges should be re-cycled back into the AS pot as this will ultimately benefit consumers by strengthening performance incentives and reducing dispatch balancing costs.
  
4. VPE is not convinced it is necessary to implement the significant hike in SND charges from €40/MWh to €70/MWh from October 2011 and would suggest that existing rates be maintained for another year, especially given the delayed implementation of HAS arrangements which meant that the original phased increase in SND rates could not be fully adhered to.

Please do not hesitate to contact me if you would like to discuss this response in further detail.

Yours sincerely

A handwritten signature in blue ink that reads "K Hannafin".

Kevin Hannafin  
Regulation Manager

# Harmonised Other System Charges Consultation Tariff Year 1<sup>st</sup> October 2011 to 30<sup>th</sup> September 2012

A response by Synergen

## 1 Introduction

This paper is Synergen's response to the consultation paper "Harmonised Other System Charges Consultation - Tariff Year 1<sup>st</sup> October 2011 to 30<sup>th</sup> September 2012" published by the TSOs on 18<sup>th</sup> April 2011. Synergen has no objection to this response being published. Synergen's observations are set out by Generator Performance Incentive (GPI) area, consistent with Section 1.2 of the TSOs' paper where the matters for consultation are listed.

## 2 GPI Double Charging (1.3.2)

Synergen concurs with the TSOs that the double charging in relation to any GPI over the eight hour period as outlined in the paper should be removed.

## 3 Loading GPI (1.3.3) and De-Loading GPI (1.3.4)

Synergen concurs with the TSOs that the introduction of a tolerance band for Loading and De-Loading is appropriate. However, there is no analysis presented to justify the 5% tolerance parameter and thus Synergen believes that the tolerance level should be set at some higher figure e.g. 10% to reflect the underlying nature of generation plant.

## 4 Secondary Fuel GPI (1.4.1)

There are already testing arrangements against the Grid Code requirement to generate with a backup fuel source (CER-10-104) and Synergen considers that the funding of successful tests provides a clear financial incentive on generators to comply. Therefore, the TSOs' proposal for a Secondary Fuel GPI represents a double counting penalty for non-compliance. Synergen does not consider it appropriate for the TSOs to fine generators in this way, and thus believes the proposed Secondary Fuel GPI should be rejected.

## 5 Proposed Exchange Rate (2.1)

Synergen would support the continued use of a forward f/x rate as there is no demonstrated benefit in changing the approach in this area. Furthermore, maintaining this approach also allows for existing systems and processes to be utilised, and thus avoids costs being incurred for both participants and the TSOs.

## **6 Proposed OSC Rates (2.2)**

Synergen considers that the proposed increase in SND penalties is inappropriate given that there are already significant incentives to be available within the SEM. When a generator trips there is a considerable commercial cost to be borne – the loss of capacity and energy revenue and the payment on any contracts for difference with suppliers for replacement power, the price of which may be higher as a result of the trip. This is in addition to the cost of rectifying the fault which led to the trip and on top of the pressure to identify this fault and to ensure the unit's safe return to availability.

The size of the SND penalty does not and cannot influence a generator's availability at the times when such a penalty comes into force and thus the principle of fairness indicates that SND penalties should be set at manageable levels.

## **7 Proposed Reporting (3.1)**

Synergen welcomes the reporting proposed by the TSOs. Consistent with the SEM's transparency principle requests that the reporting should be broken down by generating unit by month. Furthermore there should be historic data made available so that trends can be understood.

## **8 Proposed Offsetting Mechanism (3.2)**

Synergen considers that the offsetting mechanism proposed (whereby the monies collected by the TSOs are returned to customers via reductions in Imperfections Charges) is appropriate.



The Consumer Council

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27 May 2011

Ref: PD20010845

Vivienne Price/David Carroll  
SONI  
Castlereagh House  
12 Manse Road  
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BT6 9RT

Dear Vivienne and David,

**Re: Harmonised Other System Charges 2011-2012**

The Consumer Council is a Non-Departmental Public Body set up in legislation to safeguard the interests of all consumers, and particularly the vulnerable and disadvantaged. The Consumer Council is an independent organisation which operates to promote and protect the consumer interest.

We welcome the opportunity to respond to this consultation on harmonised other system charges.

With fuel poverty levels in Northern Ireland at 44 per cent, many households are struggling to adequately heat their home, it is important that the regulatory structures look to minimise the cost of energy to consumers.

The Consumer Council expects the Regulatory Authorities and system operators to undertake robust analysis of all the options for harmonised other system charges considered in the consultation. The other system charges set for the tariff year 1<sup>st</sup> October 2011 to 30<sup>th</sup> September 2012 should represent the most beneficial option for all consumers both in terms of price and level of service.

The Consumer Council would like to ensure that the benefits to consumers will be seen equally in Northern Ireland and the Republic of Ireland with neither receiving greater benefits than the other.

The Consumer Council believes that any decision on exchange rate should take account of the final consumer. The option which will provide the greatest

benefit for all consumers should be the option which is chosen. Benefits for consumers will ultimately be realised through lower final bills.

Given the potential volatility of exchange rates, consideration should be given to a methodology which takes account of daily exchange rate movements and therefore tracks current market conditions as accurately as possible. However there is also merit in considering a fixed rate at a set point in time. One downside to this approach is the potential for consumers in either jurisdiction to be paying more than they would have under a moving exchange rate system.

The Consumer Council would like the Regulator Authorities and the Transmission System Operators to keep in mind that its primary objective of any decision is to protect the consumer.

I hope that these comments are helpful and are given due consideration. Please contact me if you require any clarification.

Yours Sincerely,

Andrew Murray  
Senior Consumer Affairs Officer