



EAI Response to Consultation

DS3 System Services

Electricity Association of Ireland

Markets Committee

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The Electricity Association of Ireland (EAI) is the trade association for the electricity industry on the island of Ireland, including generation, supply and distribution system operators. It is the local member of Eurelectric, the sector association representing the electricity industry at European level.

EAI aims to contribute to the development of a sustainable and competitive electricity market on the island of Ireland. We believe this will be achieved through cost-reflective pricing and a stable investment environment within a framework of best-practice regulatory governance.



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EXECUTIVE SUMMARY

EAI welcomes the opportunity to respond to the RAs' consultation on DS3. Our members have fully engaged with and support the objectives of the TSOs' on-going review (DS3) of the system services required for the secure and efficient operation of the all-island power system with increasing penetration of non-synchronous renewable generation to meet the respective 40% targets in Ireland and Northern Ireland. If the market arrangements do not sufficiently incentivise investment in new flexibility products a System Non-Synchronous Penetration (SNSP) limit of 50% will remain. As a consequence curtailment levels of wind will rise up to 16% which would compromise the financial integrity of investments, and which will either prevent Ireland from meeting its renewable targets or will require additional support for investment in significantly higher levels of renewable capacity to meet the 40% target.

EAI supports the timely delivery of DS3. Both the system services and RoCoF workstreams require significant collaboration between all market stakeholders and represent significant value to the industry and the market in terms of delivering efficient investments (renewable and flexible) and efficient system operation. We welcome a comprehensive CBA to establish the costs and benefits of DS3 in a transparent and timely manner and strongly believe that this should include RoCoF and other alternative system services which could deliver increased inertia.

EAI broadly agrees with the products outlined in the consultation, subject to revisions previously advocated by EAI in the context of the TSO consultations (see appendices 1 and 2). However EAI would caution against strict product definitions and approval of a definitive list of system services at this time. Approval of the services should provide incentives for parties to explore other means of delivering the desired outcome of the products and therefore their definition and the list of products should be flexible. It is also difficult to comment definitively on the product design without understanding the commercial arrangements.

The Commercial Aspects of DS3 and SEMC Proposed Approach

The TSOs have acknowledged that there is a need for investment to deliver the volume and types of System Services that they need to operate the system at higher levels of non-synchronous generation. Investment is not economical in the current market environment and therefore the market arrangements need to ensure enhanced revenues are made available which support the investment in flexible generation, while retaining the incentives for capacity availability through the CPM. Moving monies between revenue streams will not incentivise investment and therefore will not deliver the efficiencies needed to deliver a 40% renewable target.

Financial Incentives should reflect both the value of these services to the system and the operation cost of their provision (including 'testing' costs). In this regard, EAI welcomes the RA commitment to a value-based approach to remuneration and the commitment to a comprehensive CBA to establish the costs and benefits of DS3.

Similarly, the EAI strongly contends that a CBA, including detailed technical analysis, needs to be conducted before a decision on the implementation of the RoCoF Grid Code Modification is approved for implementation. The technical difficulty of understanding the capabilities of generators to meet the proposed RoCoF standard has been expressly acknowledged by the TSOs' consultants, and the EAI questions how the modification can be approved by the RAs in advance of the studies being complete. To aid the timelines in the delivery of this comprehensive study, the EAI proposes that a collaborative work-stream, to include the TSOs, OEMs and generators, should be established to agree on how the studies can be practically completed across multiple units and what exactly the studies need to achieve in terms of assessing and proving compliance.

Furthermore, EAI does not believe that the GPI penalties as proposed should be introduced while generators work with the TSOs and those OEMs which are willing and able to engage to deliver the required studies. Generators and OEMS have raised the concern that the studies cannot reasonably be delivered for all units within the proposed timeframe. It would therefore be unreasonable to apply penalties at an arbitrary point when reasonable endeavours are being made to comply with the RAs' request.

Finally with respect to RoCoF, the TSOs have suggested that the achievement of a higher RoCoF standard will deliver a 10% increase in SNSP levels. It therefore has a significant value to the operation of the system. On that basis, the EAI believes that the RAs are discriminating against conventional generators by proposing that they individually incur the cost of implementing RoCoF, while the benefits will be socialised. The implementation of RoCoF should be treated in a similar manner to the System Services regime. It should be seen as an investment in efficient system operation, the cost of which should be socialised across the market.

Cost Benefit Analysis

In order to generate the required investor confidence and transparency, comprehensive CBAs must be expedited and published in full before any final decisions on DS3 or ROCOF are made. The SEMC must also seek to avoid the imposition of surplus costs on industry and the consumer. Phased-implementation carries the possibility of avoidable costs for repeat testing and retrofitting.

We would further note that any proposal to move generator revenues from one stream to another potentially uncertain source (i.e. CPM to System Services) will not provide the additional incentive that is required to deliver the investment in flexibility.

The CBA must comprehensively evaluate:

- the value of the identified services to the system and the operation cost of their provision (including 'testing' costs)
- the counterfactual i.e. the cost of non-delivery of DS3 with the 40% renewable policy objective met through additional support needed to sustain a higher build out rate and the financial integrity of existing investments .
- The value/costs associated with the provision of inertia to the system. It is premature to assume that the RoCoF grid code modification has been approved, and therefore the CBA should consider alternatives to RoCoF and assess them accordingly.

Products

EAI broadly agrees with the descriptions of the products subject to revisions previously suggested (see Appendix 1 and 2) which, inter alia, include the following;

- The SIR lower threshold should be reduced as it removes some CCGTS and OCGTS
- Clarification is requested in relation to SIR on whether the product scalar of 2 as recommended in the TSO paper been removed and effectively replaced with an as yet undermined variable scalar
- Ramping payments should not be made purely on the basis of submitted Technical Offer Data (TOD) data. It is imperative that Dual Fuel plant and Multi-mode plant with inherent flexibility be capable of being remunerated for said flexibility.
- There should be flexibility to introduce new system services which are developed between now and 2020
- Reliability should be rewarded
- A penalty should not make a party worse off, that is, it should not be set to a level that would disincentives the provision of the service , and
- The contract period should offer certainty for investors. EAI favours a 3-15 year contract period. The 3-7 year period proposed by Sigrid does not offer sufficient certainty to investors and does not reflect the payback timelines for generation investments.

Appendix 1: EAI Comments on DS3 commercial aspects to date

- EAI supports the necessity of the delivery of DS3 in order to meet the 2020 RES-E Targets.
- EAI has engaged closely with the TSO workstream on DS3 to date
- In responses to the three consultations, EAI has emphasised;
 - Current AS revenues (€60 million) do not incentivise generators to provide these services
 - There is need for a system services revenue stream which is adequate to incentivise generators to provide these services and which is supplementary to/distinct from the Capacity Payments Mechanism (CPM)
 - Revenue adequacy needs to be understood in the context of falling revenues, largely as a result of increased wind penetration
 - Financial incentives must reflect the value of the services to the system and must at a minimum cover the costs of provision of these services
 - Penalties (i.e. GPIs) will not incentivise generators to provide these services
 - We have commented on the remuneration approach to products but have reserved substantive comment pending further information on the value of the proposed services, the overall level of remuneration available for these services and the corresponding cost to the all-island consumer
 - We have broadly approved the descriptions of the products and outlined some principles in relation to remuneration; reliability should be rewarded; a penalty should not make a party worse off; contract period (3-15 yrs vs. 3-7 yrs proposed)
 - A holistic approach to all SEM workstreams to ensure that there is sufficient revenue to achieve both the desired plant mix and the amount of plant that SEM will require.

Appendix 2: Comments on DS3 technical aspects to date

EAI acknowledged KEMA's analysis but the time allowed precluded detailed assessment of the robustness of the costs and conclusions drawn.

Rate of Change of Frequency (ROCOF)

- Costs for achieving a revised ROCOF standard are not quantified in the paper; An assumed total possible revenue stream for system services of €355 million (€295 + €60) is predicated on an assumption that the ROCOF issue has been resolved. However, ROCOF remains unresolved and thus un-quantified with the potential that a resolution of the issue will require very significant costs being incurred. EAI strongly contends that cost for both the capability analysis and any costs incurred to rectify any issues highlighted in the analysis be recoverable.

Synchronous Inertial Response (SIR)

- All inertia has a value and all plant capable of providing this service should be remunerated provided that the Minimum Generation threshold mandated by the Grid Code is met. The proposed 15 second threshold for SIR is arbitrary and is inconsistent with this principle. EAI therefore calls for its removal.
- The "lowest sustainable MW output" needs definition. It is imperative that due consideration is given to the value attributed to the provision of this service as it must be greater than Operational Reserve (OR) payments received at Minimum Generation in order to incentivise provision.

Ramping

- We request confirmation that our assumption in relation to ramping is correct and that non-synchronised plant which can realise this service in the timeframe allowed should be eligible for payment. A regime of capability-based payments dictates that any ramping service which is both realisable and verified should be remunerated. EAI rejects the proposal from the TSOs that payments should be made purely on the basis of submitted Technical Offer Data (TOD) data. It is imperative that Dual Fuel plant and Multi-mode plant with inherent flexibility be capable of being remunerated for said flexibility.
- EAI also has concerns regarding the proposed design of the remuneration for ramping. Inherent in the design, is that a provider gets payment when ramping is available/realisable. If the TSO avails of the service, the service is no longer realisable and the payment will stop. This creates the perverse incentive on providers not to ever get called. EAI contends that any plant constrained on, which as a result can provide no further ramping, should continue to receive ramping payments



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