



127 Baggot Street Lower,
Dublin 2,
Ireland.

5th September 2014

Robert O'Rourke,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.
Ireland

Andrew McCorriston,
Utility Regulator,
Queens House,
14 Queen Street,
Belfast,
BT1 6ED.
Northern Ireland

Via e-mail

RE: DS3 System Services Procurement Design (SEM-14-059)

Dear Robert,
Dear Andrew,

EAI appreciates the opportunity to comment on the SEM Committee's (SEMC) proposals in respect of the procurement and remuneration of System Services.

The Association welcomes the fact that the Regulatory Authorities (RAs) have agreed that:

- a. There is a value for system services.
- b. There is a need for investment to deliver the required services.
- c. Reliability is a public good (I-SEM proposed decision).

We further welcome the SEM Committee's recognition that in paying for the services there must be a balance between the short and long term interests of consumers.

However, EAI is of the firm view that none of the options as they stand will facilitate delivery against the public policy objectives. Indeed it is our considered view that all options as proposed will frustrate government policy and will not deliver efficient solutions for the consumer:

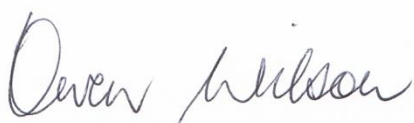
- a. The over-arching focus of the procurement options is weighted towards the perceived short term interests of consumers and is not balanced as the SEMC claims i.e. value or cost to future generations has not been taken into consideration. The options, as proposed, allow for cost based remuneration only, even with the marginal clearing price.

This does not reflect the analysis of the value that these services provide to society even though the RAs have identified that value should be rewarded. Therefore there is inappropriate focus on the risk of over payment rather than a risk of under payment and resulting non-delivery, which is contrary to both the short and long term interests of the consumer. We believe a cost based approach will fail to achieve the target of 75% SNSP and, further, that the TSO calculated benefits of €241m (excluding HAS) will not be delivered to the consumer with such an approach.

- b. There is a far higher degree of uncertainty with the consultation's proposed payment basis of dispatch (defined as 'As Used'). As such, investment may not occur due to this higher uncertainty associated with dispatch risk, particularly apparent for new investments – this proposed payment basis has been made in the absence of any analysis. We would suggest that these and all services should be paid on a capability basis.
- c. The complexity of the multiple bid auction and single clearing requirement, lends itself to multiple solutions and a non-transparent and invariably subjective selection processes by the TSO which seriously compromises delivery of required services. This will undermine any confidence in the market thus placing investments under risk. Given the potential for opaque and subjective outcomes as well as a possible lack of reliable services as and when required, we believe that the outcome of the auction process could also raise legal questions.

Given the right conditions EAI supports in principle a competitive approach to procurement. The drawbacks of Option 5 in a system of the scale and nature of SEM/ISEM and in the absence of experience in competitive procurement of required services indicates the need, at least in the short-term, for a more regulated approach (provided the relative value of the services are accounted for) in order to provide comfort to the TSOs and service providers regarding reliable access to contracted services. Such an approach could be used as a transitory mechanism until such time as the right competitive conditions existed and the TSOs and service providers were satisfied that system services, of the type required, were present on the system in sufficient volumes to indicate they were capable of being subjected to auction. The initial prices for services as well as the contract durations must necessarily be consulted upon in the detailed design phase.

Yours sincerely,



Owen Wilson
Chief Executive,
Electricity Association of Ireland.