
Single Electricity Market Committee

DS3 System Services Auction Design

Consultation Response from

BORD NA MÓNA 

February 2016

Introduction

Bord na Móna is pleased to have the opportunity to further contribute to the ongoing design of DS3 System Services Workstreams. Bord na Móna, as a market participant with conventional and renewable assets is fully supportive of the objective behind the DS3 System Services project in achieving an SNSP rate of 75%, ensuring that national obligations and targets are realised by 2020.

With the transition to I-SEM, and the inherent uncertainty, Bord na Móna, in common with the electricity industry in general, is acutely aware of the importance to providers of being able to capture secure revenues from System Services to help underpin the business case for both existing, as well as new investments. We are also conscious of the role and responsibilities of the TSO, the need to deliver value to the consumer, and ultimately in providing a power system which is both sustainable and secure at these levels of non-synchronous penetration.

Summary

Unfortunately, we believe that the procurement proposal and auction design set out in the Consultation paper and Report¹, while elegant in isolation, is simply not feasible when assimilated into a multi-dimensional electricity market. Fundamentally, we believe it will not provide investor certainty and will not facilitate the delivery of the SNSP objective.

We are however comforted by the Regulatory Authorities stating in the paper that they are *'conscious that the issues outlined in this (the consultation) paper and in the DotEcon report will require careful consideration by the industry and the Regulatory Authorities before a final Auction Design is agreed'*. We note from the report that there have been *'extensive discussions'*² between DotEcon and their client and believe that now an elevated level of engagement with industry is needed to assist in achieving a workable model.

Bord na Móna remains committed to a competitive procurement process but believes that in the short to medium term, robust tariffs will prove to be the most cost effective route to achieving the SNSP target by 2020.

High level points

So as to communicate clearly, we have set out high level points rather than detailed responses to the questions in the paper.

1. Need to balance risk

In designing a remuneration mechanism for DS3 it is important to deliver value to the consumer. However, this must be achieved in a manner which does not transfer all (or an unacceptable high level of) risk to service providers. Bord na Móna believes that under the current proposals that there is an inappropriate imbalance of risk between providers and consumers, which represents a serious commercial threat to existing providers and a

¹ DotEcon DS3 System Services auction design report, December 2015

² Ibid at pp3

significant barrier to future investment. Notwithstanding DotEcon’s somewhat subjective digression from the SEMC’s position in constructing the proposed auction mechanism, fundamental concerns remain.

For existing providers, each of the ‘commitment’ options outlined in the Report drives risk and uncertainty into the revenue streams of a fully compliant contract holder. For ‘new’ providers, this risk is amplified by the need to accurately forecast future volumes over the tenure of the contract³, it appears that only interconnectors could participate risk-free.

We are therefore concerned that the allocation process, deviating (which we agree may be necessary) from the SEMC’s earlier decision should be mindful of the need to do so only in a way that maintains an equitable balance of risk between providers and consumers.

2. Remuneration and Regulated Tariffs

Bord na Móna agrees that future System Services contracts should be procured via a competitive process. However, if this approach is initially infeasible, given the complexity of different services/product types, existing market conditions and interactions with other revenue streams it may be appropriate and prudent to deploy regulated tariffs in the short to medium term as a robust means of ultimately delivering the 75% SNSP target. In their earlier assessment of the services market contained within their response on DS3 System Services procurement design⁴ Eirgrid recommends the use of regulated tariffs at this stage of market development. In consideration of their recommendation they highlight current market concentration, market power and liquidity issues. They acknowledge that market concentration will likely reduce over time with possible further divestment of generation assets to new parties, new entrants to the all-island market and particularly the introduction of smaller service providers and demand side participation. On this basis they recommend the introduction of a regulated tariff, transitioning to a competitive market based approach in the longer term as the system services market matures.

3. Recognition of Energy cost structure and Complexities

A shortcoming of the Report is that its proposals do not adequately recognise the fundamental structure, of both fixed *and variable* energy costs in electricity markets⁵. This results in the proposed auction mechanism giving inappropriate market signals which will not incentivise participation in the services market or investment to secure future services revenues, to the ultimate detriment of both the consumer and provider.

Regarding the composition of providers’ costs, there is a need to recognise and include variable costs in the provision of energy, which is perhaps structurally different to that incurred in the telecom markets.

³ DotEcon DS3 System Services auction design report, December 2015 @ pp101, where this future volume risk is acknowledged with suggested mitigation that a ‘new’ contractor holder still has an incentive to earn extra revenues over its contracted volumes – but there is no mention of the volume scalar effectively capping such additional revenue

⁴ Eirgrid’s response to SEM Committee Consultation on DS3 System Services Procurement Design (SEM-14-059) 5th September 2014

⁵ Interestingly, there is no consideration for units running in synchronous condensing mode providing both inertia and voltage support which are by definition not in the energy market

We can empathise with DotEcon in that reaching a workable model is clearly a non-simplistic challenge, made all the more complex by the parallel development of new energy trading and capacity remuneration arrangements.

In light of this, and noting the pressing nature of this work-stream, Bord na Móna believes that in the short to medium term, robust tariffs will prove to be the most cost effective route to achieving the SNSP target by 2020

Finally, if there is any clarification or additional information you require, please do not hesitate to contact me; furthermore if the RAs believed there is merit in bilateral engagements to expedite a viable solution, we are more than willing to meet and discuss.

For and on behalf of Bord na Móna



Justin Maguire

Regulatory and Compliance

Bord na Móna PowerGen
Main Street
Newbridge
Co Kildare