DS3 System Services Auction Design Consultation Paper

SEM-15-105

A Submission by EirGrid and SONI

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1. INTRODUCTION

EIRGRID AND SONI

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland, and is the owner of the System Operator Northern Ireland (SONI Ltd), the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group, and operates the Single Electricity Market on the island of Ireland.

Both EirGrid, and its subsidiary SONI, have been certified by the European Commission as independent TSOs, and are licenced as the transmission system and market operators, for Ireland and Northern Ireland respectively. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the DS3 System Services arrangements are workable, will facilitate safe, secure, reliable operation of the power system and compliance with the duties mandated to us and will provide the optimum outcome for customers.

This response is on behalf of SONI and EirGrid in our roles as TSOs responsible for the procurement of system services through the auctions considered by the consultation paper.

STRUCTURE OF THE RESPONSE

This document sets out EirGrid and SONI's response to the SEM Committee's consultation on DS3 System Services Auction Design, SEM-15-105 published on 22 December 2015.

Section 2 of the response provides an overview of the key points that EirGrid and SONI would like to emphasise as being of most importance.

In section 3 to 7, we provide more detailed observations on each topic identified in the SEM Committee paper in turn. These are structured under the same headings as those used in the consultation paper.

2. KEY POINTS

We agree with the SEM Committee's position of running separate CRM and DS3 System Services auctions in 2017. This should reduce the risks associated with the delivery of both projects in the challenging timelines. However this should not preclude further exploration of the possibility of holding a combined auction in the future for CRM and DS3 System Services. Any future combined arrangements will need to be mindful of not just the technical issues involved but also of the different legal and institutional frameworks that apply to CRM and DS3 System Services.

We would have a general preference for no-commitment procurement of system services as is the case currently under the HAS arrangements. However, if an auction is to be used as the procurement mechanism then we agree that some form of commitment is required to ensure meaningful and cost-reflective bidding.

Contingent commitment, in whatever form is chosen, will result in the transfer of costs from the balancing market to DS3 System Services. This will need to be considered in the context of determining the end user tariffs that fund Dispatch Balancing Costs and DS3 System Services, to ensure that end user tariffs remain cost reflective.

It is clear that, whatever contingent commitment option is chosen, careful consideration will be required regarding the impact on I-SEM and vice-versa.

Finally, careful consideration will also be required to ensure alignment and compliance with the various Network Codes, as these will begin to come into force during the period covered by the first auction, limiting the discretion available.

3. HIGH-LEVEL AUCTION DESIGN

I-SEM INTERACTIONS

We agree with the SEM Committee's position of running separate CRM and DS3 System Services auctions in 2017. This should reduce the risks associated with the delivery of both projects in the challenging timelines. However this should not preclude further exploration of the possibility of holding a combined auction in the future for CRM and DS3 System Services. Any future combined arrangements will need to be mindful of not just the technical issues involved but also of the different legal and institutional frameworks that apply to CRM and DS3 System Services.

We agree that, in so far as possible, the qualification processes and performance bonding / implementation arrangements etc. linked to the 2017 auctions should be co-ordinated, consistent and aligned unless there is some clear reason for them not to be.

We have concerns in relation to creating interdependencies between the separate auctions in 2017 that could result in the possibility of auction re-runs e.g. a party that is successful in one auction but not the other one could decide not to proceed with their project. This would be problematic for the DS3 System Services auction given the "bundled bidding" approach proposed and the winner determination algorithm associated with the proposed design. It may not be clear which losing bid should then be taken and the auction may need to be re-run with all the associated legal and commercial complexities that would involve.

SHORT-TERM VERSUS LONG-TERM CONTRACTS

We agree with the logic behind the proposal to have separate auctions for "year-ahead" capability and for "Year+X" capability as set out in the DotEcon recommendation. Given the interaction between the DS3 System Services auction, the I-SEM CRM and the Energy Trading Arrangements, the proportion of the predicted volume requirements for the "Year+X" auction should be made by the SEM Committee. The TSOs can provide analysis to inform the RAs' decision, if required.

4. VOLUME CONSIDERATIONS

We agree with DotEcon that for an auction to be viable, volume requirements should be additive i.e. the quantities provided by winning bidders should be added together to produce a total volume that satisfies the volume requirement. In addition, the auction design should allow for granularity in the volume requirements. However, the benefits of granularity will need to be balanced against the downside of additional complexity and reduction in competition that would be inherent with more granular volume requirements. The application of competitive assessment metrics would also need to be done at each level of granularity. The TSOs will need to take all of this into account when deriving the appropriate level of granularity to use.

We agree in principle with the idea of having flexibility in the volumes to be procured in the "Year+X" auction. However, as this would add complexity to the arrangements, it would be difficult to determine what the price-dependent volume requirement curve would look like. The benefits need to outweigh the additional complexity.

5. BIDDING PARAMETERS

We agree with the proposal for package-based bidding. This is the only way to ensure economic procurement of multiple system services via an auction mechanism given the linkages between the services e.g. a provider that provides POR will usually also provide SOR, and the size of the all-island system. Procurement via auction on a service by service basis would not lead to economic outcomes. For example, bidding for POR and SOR together should result in a lower total price than if bids were separate with no guarantee of winning auctions for both services. Package-based bidding also de-risks and simplifies the process for potential service providers in that they know that if a bid is successful, then it will cover the full suite of services that they wish to provide. It eliminates the risk of a service provider being successful in an auction for one service but unsuccessful in an auction for another related service.

While acknowledging the difficulties, we believe that service providers are best-placed to estimate their expected availabilities. This is consistent with the new I-SEM Energy Trading Arrangements and also provides a mechanism to allow service providers to balance the risks that they are exposed to across their full range of income streams.

While we are keen to have the ability to manage expenditure, the use of clawbacks on payments for higher outturn availability would be difficult to implement. This may also result in higher bids as service providers reflect the risks in their bids.

We agree with DotEcon's proposal in relation to the 'quantity units' for each service. However, given the different natures of the various services, we consider that further work will be required during the detailed design phase to assess the suitability of each individual service for procurement via auction.

6. AUCTION PRICING

We agree with the proposals for determining the successful providers and clearing prices as set out by DotEcon. We note that Interconnectors differ fundamentally from other system service providers in that they consist of transmission infrastructure and the availability of system services is a function of the electricity flows across the interconnector at any given time. The proposed commitment model would not allow for interconnectors to compete on the same basis as other service providers. They therefore will need to be treated differently. In our view, all interconnectors should be treated the same unless there is some clear reason not to do so.

7. AUCTION COMMITMENT REQUIREMENTS

We would have a general preference for no-commitment procurement of system services as is the case currently under the HAS arrangements. However, if an auction is to be used as the procurement mechanism then we agree that some form of commitment is required to ensure meaningful and cost-reflective bidding.

We do not believe that a full commitment model is appropriate or economic given the size of the all-island market and large variations in real-time requirements for services. Full-commitment would lead to significant over-procurement of services given the annual nature of the procurement process set out by SEM Committee. This could be reviewed if the Electricity Balancing Network Code mandates more frequent auctions and/or cross-border service provision.

Contingent commitment, in whatever form is chosen, will result in the transfer of costs from the balancing market to DS3 System Services. This will need to be considered in the context of determining the end user tariffs that fund Dispatch Balancing Costs and DS3 System Services, to ensure that end user tariffs remain cost reflective. Administration of a contingent commitment model would also be complex as such approaches rely heavily on monitoring of offered volumes and prices.

In relation to the RAs' 'Alternative Contingent Commitment' proposal, it is not clear how this mechanism will deliver services when the TSOs need them. Taking reserve services as an example, service providers will likely opt to produce energy rather than provide reserve when the energy price is better than the reserve price except when they are required to provide their 'reserve hours' at some time during the day/month/year. In general this would seem to result in service providers producing energy at peak hours (when energy prices are high) and offering reserve during valley hours (when energy prices are low) and when we often have an abundance of reserve available. There would perhaps be a requirement to 'force' provision of the service during the day under this approach. A key consideration is which price signal will drive the offering of services and how such an obligation could be defined and enforced.

It is clear that, whatever contingent commitment option is chosen, careful consideration will be required regarding the impact on I-SEM and vice-versa.

Careful consideration will also be required to ensure alignment and compliance with the various Network Codes, as these will begin to come into force during the period covered by the first auction, limiting the discretion available.