

DS3 System Services Auction Design

SEM-15-105

Consultation Paper

Moyle Interconnector Ltd Response

February 2016

High Level Auction Design (section 3)

Question 1: What are your views on the proposals to try to ensure a level of consistency between CRM and DS3 System processes?

Recognising the similarity of the two processes, both TSOs and providers would benefit from a high level of consistency between the two streams.

Question 2: Do you consider that the SEM Committee should consider facilitating a link (where participants require) to only proceed with participation in the DS3 System Services auction subject to a successful outcome in the CRM auction or (vice versa) i.e. create an interdependency that as much as possible mitigates the need for auction re-runs.

As the SEM Committee recognises in this consultation paper, providers seeking to deliver new plant will rely on both DS3 and CRM revenue streams. Failure to secure a contract in either mechanism could make a proposed plant uneconomic, resulting in its withdrawal from the other contract and therefore in the TSOs needing to procure additional volume of capacity or system services.

Therefore efficient market entry or exit will be assisted by a link between the two revenue streams. This is most simply envisaged as a linked auction process (though we accept that is not so easily executed). It should be borne in mind that facilitating this link should not be to the detriment of an efficient auction process for all as those parties requiring a link are only a subset of participants.

Question 3: What are your views on managing the interactions between the CRM and DS3 System Services auctions?

One of the objectives should be to reduce uncertainty among participants. It therefore seems reasonable to facilitate a link between the two auctions.

New and borderline economic existing plant will have a keen interest in the outcomes of both auctions and may need both successful results to become or remain viable.

However should one or more successful bidders withdraw from a successful auction result due to failure to secure a complementary contract in the other (linked) auction, the need to re-evaluate the first auction will cause uncertainty among participants.

If such a scenario cannot be avoided, at least the time between the two auctions could be kept to a minimum.

Question 4: Do you agree with the proposals for separate DS3 System Services long-term and short-term auctions as set out in the DotEcon recommendation?

If long term auctions are to be held, a clear business case should be developed. The case should demonstrate the need for investment in new system services plant and estimate the volumes that are likely to be required from new plant in addition to efficient providers that already exist.

Question 5: Do you think the treatment of long-term contracting for System Services should be aligned with the proposed framework in the CRM?

Yes, as far as possible.

Volume Considerations (section 4)

Question 6: What are your views on the proposals to calculate clearing volumes for the auction as set out by DotEcon?

The proposals to calculate clearing volumes appear to be reasonable.

Question 7: Do you agree with the proposals for introducing granularity for the purposes of calculating auction clearing volumes?

It seems that some degree of granularity (in geography, timing or technology type) may be required. We suggest that the need for such granularity should be analysed in some detail, so that if sufficient competition is not available within specific granularity needs then a regulated tariff should be set in those circumstances and the granular volume should be removed from the auction.

Question 8: What are your views on the proposal to introduce flexibility on the volumes to be procured?

The nature of the combinatorial auction is that a lower price may be achieved if a higher than target volume is procured. This should be acceptable. We agree with the DotEcon view that an upper limit is not required in this auction.

Bidding Parameters (section 5)

Question 9: What are your views on the proposals for package based bidding?

With inherent interdependencies between system services products, package based bidding in a combinatorial auction appears to provide a satisfactory approach. While bidders will be able to set a price for providing a full (all that the unit is capable of) portfolio of services, it will also be possible to submit (mutually exclusive) bids for sub-sets of services. In general we agree that bid formation will

be simpler for participants, who should ideally bid at or close to cost, while winner and price determination will be the more complicated centralised function.

Question 10: Do you consider that a provider will be able to predict its expected availability accurately on an annual basis?

In principle, any provider should be able to estimate its availability sufficiently accurately for the purposes of system services procurement, using a combination of historical performance data and anticipated outages. Providers will price their bids according (in part) to their estimate of accuracy of their availability and variation from bid availability is a risk that providers should carry.

Question 11: Do you agree with DotEcon's proposals in relation to quantity units for the services outlined above?

Yes.

Question 12: What are your views on a suggested cap or clawback on expected availability per plant to manage DS3 System Service expenditure?

We recognise the importance of not over-spending on system services and the potential impact of providers delivering above their bid volumes (including due to the circularity of pricing and availability).

We suggest that a cap at some level related to bid availability and volume is the most appropriate approach. Clawback could have a negative effect on revenue confidence for providers.

Auction Pricing (section 6)

Question 13: Do you consider the DotEcon Report to have accurately captured the considerations for availability the TSO should use for different DS3 System Service products? If not, please explain your reasons why.

Yes.

Question 14: Do you agree with the proposals to ensure lower payments are received by System Service providers who are not successful in the DS3 auctions but who are dispatched by the TSO to provide System services, than those providers who are successful in the Auctions?

Yes. The availability of higher prices to bidders who were successful in a competitive auction provides an incentive to bid into the auction and consequently to be available. Lower payments for unsuccessful bidders are not a penalty, but a market based outcome.

Question 15: Do you agree with the proposals for determining the winner/price as set out in the DotEcon recommendation?

Yes, the proposals are transparent and easily understood.

Question 16: Do you agree with the proposed treatment of interconnectors? Should this apply equally to all interconnectors?

We acknowledge that interconnectors, because of their quite different characteristics, need to be considered separately from other providers. At the same time, the technical capabilities of interconnectors can provide significant volumes of system services, typically with a very fast response, thereby making an important contribution to the network security. Therefore, we consider that it is important for interconnectors to be able to participate in the system services procurement.

Further, the system services revenue received by interconnector owners will reduce the overall cost of interconnectors to be recovered from the TUOS customer and ultimately consumers. It is important that the value of interconnectors to the all-island market and system are properly recognised and remunerated to avoid an inequitable burden being placed on the TUOS customers of the NI and ROI jurisdictions. Exclusion of the interconnectors from the procurement of system services would not be an optimal solution and would result in increased costs for consumers.

We are comfortable with the proposal for interconnectors to participate as price-takers where perceived conflicts of interest exist. We note that the DotEcon report did not in section 8 specifically address bidding by non-TSO¹-owned interconnectors, but our view is that non-TSO-owned interconnectors should be able to participate as price-makers if they wish.

Auction Commitment Requirements (section 7)

Question 17: Do you agree with DotEcon's proposed preferred model of Contingent Commitment in DS3 System service Auction procurement?

Question 18: Do you agree with the position proposed by DotEcon that successful winners in the DS3 Auction should bid in the BM only at DEC prices set to a proxy of the energy price (section 7.2 above)?

Question 19: Do you agree with the position proposed by DotEcon that successful winners in the DS3 Auction should bid in the BM only at INC prices set to a proxy of the energy price, or on a costs minus System Services income basis (section 7.2 above)?

Question 20: Do you support the application of an alternative contingent commitment model that avoids direct commercial interaction and obligation within the Balancing Market (section 7.3 above)?

¹ Specifically referring to EirGrid as interconnector owners may also be TSOs

Question 21: Do you agree with the proposed treatment of plant that does not require it to be in the schedule or on for provision of System Services?

Question 22: Do you believe that either the Full Commitment model or the No Commitment model offers a better [than contingent commitment] option for DS3 System Service providers? Please explain your reasons for your view.

We note that interconnectors are unable to influence energy flows with respect to commitment to system services volumes, so we offer no view on these questions. See our comments on interconnectors at Q16, above.