

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

Andrew McCorriston
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

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Re: DS3 System Services Consultation Paper

Dear Andrew, Robert,

Thank you for the opportunity to respond to and input into this consultation on the proposed DS3 System Services and the regulatory approach to delivering the System Services work stream. BG Energy would like to reiterate its support for the DS3 Programme, whose successful delivery is essential for the achievement of all-island renewable policy objectives.

1. Main Points

- The economic rationale for the System Services must be to minimise the cost to consumers. The cost to consumers must be viewed in the context of achieving renewables policy objectives at the lowest cost and given the stated need for investment to deliver DS3 System Services.
- Taking a phased approach to introducing the DS3 System Services approach could lead to a delay in investment decisions as investment cases may be dependent on multiple System Services to be viable. Current timelines to introduce new System Services by the end of 2015 must be adhered to if DS3 is to facilitate the achievement of renewable targets.
- The Cost-Benefit Analysis must take a system view of overall costs and benefits, recognising the need to deliver the investment needed for DS3 in a cost-effective manner and consumer costs if DS3 is not delivered.
- The System Services proposed by the TSOs should be approved. However, this should not constitute a definitive list of System Services with the sole intention of meeting DS3 requirements. There should be flexibility in the approach taken by both the TSOs and the RAs to allow new products to evolve either through proposals from market participants or new proposals from the TSOs.
- The RoCoF work stream is an important element of the DS3 Programme, and is expected to deliver a 10% rise in SNSP levels. The approach taken by the RAs regarding the RoCoF work stream does not incentivise the ultimate delivery of a higher RoCoF level and instead incentivises generators to seek derogations instead of compliance. Delivery of RoCoF is a cost effective way of increasing SNSP levels by 10% while non-delivery will result in consumers bearing much larger costs than the avoided costs of the generator studies. To

ensure that consumers benefit from its delivery, the RoCoF Code Mod should be progressed in a collaborative manner with the costs socialised.

2. SEMC Approach

Economic Rationale & Cost Benefit Analysis

The economic rationale and commercial arrangements for the System Services must reflect the need to successfully deliver DS3 as cost effectively as possible. This means delivering investment, as has been acknowledged by the TSOs. The Cost-Benefit Analysis (CBA) must show the most cost effective way of delivering the required investment, and the commercial arrangements must incentivise delivery of that investment. Otherwise, DS3 will not deliver the power system needed to enable efficient renewable investment. It is estimated that 800MW¹ of additional installed wind capacity would be required to meet renewables targets if DS3 isn't delivered. This is not efficient from a cost or system operation perspective.

The commercial arrangements of the System Services must enable investment. Currently market signals are not delivering investment in flexibility, given the impact of overcapacity on generator revenues in terms of capacity payments and other market revenues. If new investment is to be delivered overall market revenues must increase to pay for the investment. Targeted additional revenues will benefit consumers from the realised value of more efficient system operation and additional renewables penetration as opposed to the cost of additional renewable capacity and less efficient system operation.

Phased Approach

The SEMC have declared their intention to take a phased approach to the decision making process on System Services. BG Energy agrees with the need for clear, timely, evidence based decisions on the different aspects of the TSO System Services recommendations. However, taking a phased approach to introducing the commercial arrangements of the System Services risks delaying investment decisions, as investment cases for flexibility in new and existing generators will likely require a number of System Services to provide the required revenues to make the case work.

Given the extensive consultation that has happened to date, BG Energy believes that there is ample time to introduce all DS3 System Services together to meet the 2015 timeline. This timeline must be adhered to if the necessary investment is to be made to deliver the system operation benefits in time to facilitate the achievement of the 2020 renewables targets.

¹ Based on TSO's DS3 Financial Arrangements Paper (p15) that compares the EOC Scenario curtailment level (2.6%) with the BAU Scenario curtailment level (16.2%)

Alternative Approaches

The SEMC have said that they will consider other approaches to meet the system operation challenges of facilitating 75% SNSP. BG Energy welcomes this view and believes that the TSO current proposals for new system services should not be exhaustive. There should be sufficient scope for new products and solutions to be introduced as they evolve and are identified by the TSOs and by market participants.

3. Proposed System Services

BG Energy supports the SEMC's view that the TSOs proposals for new System Services should be accepted. In principle, BG Energy believes that System Service product design must be consistent with the overall policy objectives that DS3 is helping to deliver, i.e. enabling Ireland's power system to move towards decarbonisation by facilitating more renewable generation. The products should reward flexible, efficient plant that compliments policy objectives. The generation used to support renewables should not negate their benefits. While it is difficult to comment on aspects of the product design without knowing the commercial arrangements that will underpin them, BG Energy has the following comments to make on the proposals:

BG Energy agrees with the proposed System Service definition for the **Synchronous Inertial Response (SIR) product**, as set out in the consultation. However, BG Energy disagrees with the proposed method of calculating the SIR volume, which will be measure of how generators are rewarded for providing this service. The new System Services, including the Synchronous Inertial Response product, must not reward carbon intensive units with higher revenues. This is contrary to the objectives of Ireland's renewable policy and DS3, whose purpose is to support renewable policy objectives. On this basis, SIR providers should be rewarded equally for all providers that qualify above the 15s threshold. This approach would provide a stronger incentive for generators to increase their SIRF threshold by lowering their minimum generation, which will have benefits both in terms of added flexibility for system operation and overall energy costs.

4. RoCoF

BG Energy is concerned that the SEMC and the regulatory authorities have not given adequate attention to generators concerns following the recent consultation on the introduction of a RoCoF Standard of 1 Hz/sec. The Code Mod MPID 229 should not be approved due to the significant unknowns around its impact. At this time there is insufficient information to allow generators to determine the impact of the higher standard.

BG Energy recognises the need to expedite delivery of DS3 and the RoCoF Code Mod. This can be better achieved through a collaborative programme between the TSOs, generators and their OEMs. As OEM resources are constrained and typically OEMs have more than one unit in the island, it is not reasonable to expect all necessary studies to be completed within an 18 month timeframe.

Furthermore, current proposals to introduce GPI penalties 18 months after Code Mod approval do not recognise the difficulties and likely durations that generators need to complete technical studies and prove compliance. Recognising, however, that incentives may need to be placed on generators to complete the necessary studies, GPI penalties should not be applied to generators who can demonstrate reasonable progress towards the completion of the required studies to prove compliance. Again, a collaborative programme between generators, TSOs and OEMs is needed (similar to the GB approach of a joint Working Group² to address the RoCoF issue), particularly when detail on the compliance testing is still unavailable.

Overall, it is BG Energy's view that the proposed approach to delivering the increased RoCoF standard will not deliver the potential benefits of RoCoF. The current approach, which places all of the cost on generators, incentivises generators to minimise the costs of proving compliance, and is likely to lead in generators seeking derogations as opposed to compliance. Given the current expected costs of the studies associated with RoCoF, the delivery of increased RoCoF standards is a cost effective way of delivery a 10% increase in SNSP. Therefore, the non-delivery of a higher RoCoF standard will result in consumers bearing a much larger cost in the long run than the avoided costs of generator impact studies. For this reason, BG Energy believes that the programme to deliver RoCoF should be progressed in a collaborative way to optimise OEM availability and costs, socialising the associated costs, thereby minimising the potential for non-compliance. As has been seen in the past through the delivery of the SEM itself, collaborative work between the RAs, the TSOs and market participants has worked to ensure timely delivery of large-scale projects.

Please do not hesitate to contact me if you have any queries on the comments raised.

Yours sincerely,

Ciarán O'Brien
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

² [National Grid: Frequency Changes during Large Disturbances and their Impact on the Total System](#)