

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,

5th September 2014

Via e-mail

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

Dear Robert & Andrew,

Bord na Móna (BnM) welcomes the opportunity to respond to the ‘*DS3 System Services Procurement Design Consultation Paper*’ (SEM-14-059). The DS3 program is of critical importance for the future development of the power system on the island of Ireland which is transitioning from demand being met by large conventional plants to a system capable of safely and securely supporting upwards of 75% non-synchronous intermittent generation.

BnM fully endorses and supports the DS3 program and is committed to continuing to engage with the SEM Committee as necessary to ensure the timely delivery of DS3. Repeatedly in our submissions on DS3 and the I-SEM BnM has stressed that payments from system services must be viewed in the round and most importantly through the lens of revenue adequacy. BnM believes that all procured services should be remunerated based on their value to the system and all service providers should be treated equally and in a transparent manner.

General Comments

BnM would be concerned that Option 5, stated as the preferred procurement option of the SEM Committee (SEM-C), is inherently complex given the structure of the all-island market and may not produce the optimal solutions for both market participants and consumers. It should be noted that BnM fundamentally supports a market based approach for all products, however we feel, for reasons discussed below, that such an approach may be premature at this moment in time. BnM’s preferred option initially envisages products with a predefined value for their provision in this new market place. After a period of time when these products (and volumes) have been established a transition to a market based approach should then be considered.

The absence of information on the volume of services needed to be procured to attain the 75% SNSP (system non-synchronous penetration) is of concern.

The IPA report¹ published alongside this consultation paper reviewed the work of the TSO’s and indicated that there is much uncertainty over the required volumes for each of the system

¹ Economic Appraisal of DS3 System Services for The Commission for Energy Regulation and

services products required. The IPA report recommends that the TSO provide information in relation to the volumes of services required over a 15 year period. BnM support the call for this information to be provided as soon as possible. The lack of detail around volumes of services required makes future planning difficult, particularly for investments decisions.

Option 5 SEM-C Preferred Option

With respect to Option 5 (SEM-C preferred option) BnM outline some of our key concerns below.

In the first instance, it is noted that Option 5 may require bidding rules – the consultation was silent on the principles upon which these rules would be based. If Option 5 were to be progressed, more information would therefore be needed in order for market participants to fully understand such rules and obligations around bidding in the auctions. Detail too is required around any penalties that may be introduced for failing to provide a particular service.

Option 5 appears highly complex as multiple solutions appear possible. There is a real possibility that the final allocation could be deemed to be subjective and open to legal challenge by those not successful in the procurement process.

Option 5 is suggested as being the starting point for system services procurement with Option 1 as an alternative where particular services are ‘highly concentrated ‘and where the auction fails to produce a viable result’. The IPA report states that the system services market is already highly concentrated and therefore this could result in several services being procured through Option 1. It is unclear from the paper whether consultation will be held on these regulated tariffs which will occur in Option 5 where the auction fails to produce a result. This hybrid solution is far from ideal.

BnM is also concerned that some services are envisaged as being remunerated on a Dispatch basis, defined by the RA’s as payments only when the service is physically delivered. This differs from the TSO’s definition of dispatch-based payments which referred to payments made depending on a unit’s dispatch position regardless of whether or not the TSOs make use of the service(s). BnM believes that in the absence of the TSO definition of Dispatch payments, the required services will not be adequately provided by market participants. Dispatch based revenues (as outlined in SEM-14-059) are fundamentally difficult to predict. For products dependent on physical delivery there is a risk of not being in the market or dispatch schedule and therefore this may affect how participants bid in both the energy and services markets. BnM believes that capability payments are more equitable as these provide investors with more certainty to underpin their investments decisions. The most favourable procurement option for system services is one which provides certainty and transparency and is not reliant on a physical delivery in the energy market, which is in some cases outside the gift of the service provider. This is particularly relevant at the current time given the ongoing re-design of the market towards the I-SEM and the uncertainty for generators in the coming years in relation to forecasting their revenues.

The SEM-C have set out that the three revenue streams in the market (energy, system services and capacity) should work to provide appropriate entry and exit signals in the market and


avoid any double payments between streams. While it is acknowledged that there will be some interaction between the energy and system services market BnM believes that interactions with the energy market should be kept to a minimum particularly in the short term due to the uncertainty over the I-SEM design. Any delay to the I-SEM market design could add to further delays in implementing DS3 which would be detrimental to the achievement of the RES-E targets and 75% SNSP threshold. The regulatory authorities (RA's) indicated a start date of 1st October 2016 for implementation of the DS3 system services package. BnM acknowledge that this timeline is challenging and so would urge the SEM-C and RA's to take a pragmatic approach in terms of pre-defined values for the DS3 products (as outlined above). Such an approach minimises the potential penalties the consumers of both jurisdictions may incur should the RES-E targets not be achieved by 2020.

Conclusions

Given the concerns outlined above around Option 5 (SEM-C preferred option), BnM would be minded towards a solution giving predefined values for the products once there is clear and concise consultation on the prices and volumes offered for the services, with the procurement process then transitioning to a market based approach after a period of time. BnM also calls for all services to be remunerated on a Capability Basis where possible. BnM believe that the predefined values for services will deliver the required 75% SNSP, provide certainty for investors and protect the long and short term interests of consumers.

I trust the above comments will be helpful at this stage of the DS3 program. If you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna PowerGen,



Dr John MacNamara