



Energy for
generations

ESB Generation and Trading Response to System Services Future Arrangements Scoping Paper (SEM-20- 044)

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General Comments

ESB GT welcomes the opportunity to respond to the SEMC scoping paper on the future arrangements for system services. In this scoping paper and the related European regulatory requirements, ESB GT sees a fundamental shift in the mechanisms via which system services are made available to the TSOs in SEM. Under the current arrangements, the DS3 framework remunerates the providers of services that were made available, but their availability is determined predominantly by the energy markets and the constraint rules applied by the TSO's scheduling and dispatch processes.

The development of an ex-ante market mechanism for system services availability to the TSOs is analogous to the changes made to the SEM energy trading under the ISEM project, where there was a move to ex-ante energy trading but this change may potentially be even more complex.

ESB GT agrees with the position of the TSOs, as understood from the recent industry workshops relating the Future Arrangements, that an ideal outcome from this change to the system services framework would be a set of processes that would translate the TSOs system service requirements as currently applied in the scheduling and dispatch processes into a series of system service procurement processes that would result in the combined PNs received by the TSOs from market participants at gate closure being physically realisable in manner that results in the system being secure and so mitigate against the need to the TSO to take constraint or non-energy actions. However, we are aware of the complexity of getting such an outcome and we look forward to working with the industry to determine how best we can get close to this ideal and over what timeframe.

ESB GT would not support any proposal that would exclude or limit the participation of non-synchronous generation from the ex-ante energy markets. While not directly related to the future arrangements for system services ESB GT would see any such proposal as discriminatory and counter to the contractual arrangements between the generators and their connecting system operator. ESB GT does not see that there is a requirement for the TSO to act in this way, instead service providers that are required to secure the system and who generate energy when providing services should be able to value their service provision so that they can compete to secure a position in the energy market even against zero marginal cost generation.

Over and above any regulatory compliance requirement ESB GT believes that this change to the procurement of system service is necessary for two principle reasons. Firstly, the current arrangements, while having operated well to date, are limited by the absence of a volume rationing mechanism particularly where new categories of service providers who can provide their capability with no related energy generation are increasingly connecting to the system. This as evidenced by the recently published DS3 expenditure note by the TSO highlighting the level of storage projects that may connect to the system in 2021 and the implications for expenditure under the current DS3 framework.

Secondly and perhaps more importantly the urgency with which the operational flexibility of the system must be further increased in order to allow the achievement of the electricity sectors contribution to the wider decarbonisation agenda and enable the contributions from other sectors in an economic manner is clear. To allow the investment in the system services required the value of that provision must be revealed to the market. Currently this value is diffused across the ex-ante energy markets, non-energy BM or constraint actions, the DS3 system services framework, the capacity market and out of market service agreements. Against this backdrop ESB GT believes that while there could be an increase in the apparent cost of system service procurement in the short term under the future arrangements, in the long term the customer interest will be best served by allowing the appropriate entry signals for the required system service provision to emerge along with the related degree of competition.

Developing a set of effective system service arrangements centred around the TSOs auctioning for their service requirements close to real time will require significant development effort from both the TSOs and market participants. Transparency and continued strong industry engagement in this change process will be key to supporting market confidence and avoid a moratorium in investment while the new arrangements are being developed. ESB GT welcomes the SEMC commitment to further consultation in 2021.

Below we have sought to answer the specific questions raised in the consultation paper, if you have any questions in relation to any of points raised in this response please do not hesitate to contact me.

Regards,

William Carr

Regulation,

ESB Generation and Trading.

Consultation Questions

Question 1: Are there additional requirements in EU legislation or national policy that should be considered as key guidance for the project?

Adding to the Climate Action Plan 2019 published by the Irish Government and the new Energy Strategy being developed by DfE in Northern Ireland, it is expected that there will be further emphasis placed on the decarbonisation agenda by the forthcoming Climate Action (Amendment) which will look to reflect the Irish Government's commitment to a 7pc per annum reduction in overall greenhouse gas emissions from 2021 to 2030. In developing the future arrangements for system services, ESB GT believe there is a need to focus on ensuring the arrangements can deliver not only the level of service provision required by the TSOs today but also the investment required to ensure the system can continue to operate securely and deliver on the decarbonisation goals set by policy makers and expected by the end users of today and of the future.

Question 2: What should the role of DSOs be in development of the new arrangements?

ESB GT believes that the role of the DSOs will continue to evolve and grow as both a procurer of services utilised to maximise the efficiency of the operation of the distribution system and also as number of service providers to the TSO connected to the distribution system grows. As such it is considered that the DSOs are integral to the development of the new arrangements, so it is important that these arrangements are developed with these future requirements in mind from the outset.

Question 3: Should any further assessment criteria be included in this workstream?

ESB GT welcomes the opportunity to comment on the assessment criteria developed by the SEM Committee given the importance of the role these criteria will play in determining the future arrangements. In relation to Consumer Value, ESB GT recognises the need to ensure the competitive outcomes that result from the new system service arrangement deliver consumer value. In doing so, it is also key to ensure that, given the future system needs, market risks and social policy objective the enabling investment in the provision of these system services that allow the increased range of operational flexibility, must not be overlooked. To deliver Eirgrid's strategic objective to increasing the System Non-Synchronous Penetration (SNSP) to 95% by 2030 a significant degree of investment is required.

The achievement of this objective is widely held as key to maintaining the level of dispatch down of renewable generation at the level currently observed on the system, recently reported by the TSOs as 7.7% in 2019. Failure to do so will lessen the estimated savings that the transition to renewables

will be able to make to wholesale electricity prices. In fact the customers may see additional costs (over and above the subsidies and system services charges) whilst achieving the decarbonisation agenda either through increased dispatch production costs or through this reduced running being reflected in increased support prices in future renewable support scheme auction such as the RESS auctions.

In the formation of the Regulated Arrangements the value of increasing the provision of DS3 system services was qualified by estimating the impact of increased dispatch down of renewable generation resulting from a lack of system services and the related increase in system production costs. This analysis was underwritten with the assumption that the cost of dispatch down was limited to the increased short run costs of increased running of conventional generation. ESB GT believe that in the context of the decarbonisation agenda, this assumption would, if replicated for 2030, underestimate the impact on both the quantity and cost to the end user of supported renewable generation that will be developed over the decade.

ESB GT believes that, the long-term value of system service adequacy is significantly higher than the current €235mill annual cap applied to the DS3 framework. Any estimation value to the consumer of the new system service arrangements must include the value of achieving the policy that delivers a greater environmental benefit as well as reducing the level of dispatch down that will result in reduced prices for power

To support the required investment in system services to achieve the required increase in operational flexibility ESB GT proposes that Investor Certainty be added to the assessment criteria. This Investor Certainty can be best delivered through transparency of both the evolving market framework and the underlying TSO service requirements and their drivers. Additionally, transparency on the nature and triggers for regulatory intervention is key to allow investors to commit to the expenditure in the months ahead to create the pipeline of projects that will compete under the future arrangements post Apr'23.

Question 4: Is the general approach to the Project appropriate and complete??

The development of a competitive framework for system services can be seen as the next step in the evolution of the SEM from a conventional synchronous system, whereby the inherent characteristics of synchronous generation on which the system relies such as, inertia, voltage and frequency regulation, short circuit current, etc. are almost considered to be a by-product and is included in the wholesale energy price. As the level of SNSP increases these inherent characteristics become increasingly scarce until their scarcity becomes a binding constraint on the ability of the system to securely accommodate further increases in SNSP. The DS3 framework, in part, sought to and succeeded in placing a value on these characteristics and through the application of scalars highlighted the system conditions when they were most scarce. This incentivised service providers to seek to maximise their service provision under these system conditions and price signals.

In the promotion of a market-based approach to system service procurement ESB GT believes that both the Regulation (EU 2019/943) and Directive (EU 2019/944) are seeking to reveal the value to the system of the services required by the TSOs in operating the system securely and to society of the increased penetration of low emissions generation. In the context of SEM and the drive to increase SNSP towards 100%, the importance of revealing this value is paramount to allow the required investment in the provision of the services in the locations and under the system condition required by the TSOs.

To a varying degree the locational nature of the TSOs requirement for services will define a smaller number of existing service providers capable of supplying the demand for the service. At the limit it may be the case that only a single service provider is in a position to participate in a potential service auction which would raise concerns of market power and the potential for market abuse. However, ESB GT believe that while the interests of consumers must be protected, the best long-term approach to mitigating this concern is to allow a clear price signal to emerge and ensure that barriers to entry are minimised. The efficacy of reducing barriers to entry was recently seen in the impact of the decision to prioritise service provision with the ECP-1 process with a significant number of projects coming forward as a result and bringing significant competitive pressure to bear on the outcome of the DS3 Capped Procurement process.

Question 5: For which products is a market-based approach appropriate? What sort of market-based approach is most appropriate?

ESB GT agrees with the view articulated by the TSOs in recent related workshops that there must be a holistic or system-wide view taken in the approach to the future arrangements. It may be tempting to focus attention on the services that are less geographically focused in developing a market-based approach such as ramping or reserve provision and leave the more geographically focused services to be developed at a later date. But it is unlikely that this will deliver the required increase in operational flexibility since the investment signals for these geographically focused services will be dulled and could result in sub-optimal investment from a system operations perspective.

For example, consider a situation where an area of the system has a reactive power requirement which is current served by a conventional generator. In low wind periods this unit is in merit and trades ex-ante, submits PNs to the TSO and is dispatched to run. Part of basis for the unit being in merit is that under the current DS3 arrangements the unit is remunerated for system service capability it makes available when on load. If under this situation only a market-based approach to ramping and reserve service procurement was put in place and this unit was not contracted to provide these services, it would result in increasing the costs that the unit would be required to recover from the energy markets. If as a result of increasing the level of its energy market bids the unit was not in merit the TSO would, in order to ensure the reactive power requirement was met, constrain on the conventional generator increasing the dispatch production costs. The total costs seen by the consumer will differ depending on the approach taken.

Conversely, if the market-based approach developed included reactive power than the conventional generator would have looked to meet the demand in this market, increase its ability to clear in the ramping and reserve markets and trade energy ex-ante, submit PNs to the TSOs and be dispatch to run. It would, however, depend on how far ahead the market solution for services was determined.

For the same situation but in high wind periods, the conventional unit is assumed out of merit, under the current arrangements the unit will be constrained on by the TSO at its short run marginal cost to provide reactive power and remunerated for its service provision at the base regulated rate. This may result in the TSO increasing the curtailment of non-synchronous generation in order to balance the system. There is no price signal generated to investors that there would be a value to the system of locating reactive power from low or zero MW providers in this area.

If a market-based approach was implemented to procure reactive power than the conventional generator would have looked to meet the demand for this service, given the likely depressed energy market prices that exist in high wind periods, the price in this market would then reflect the conventional unit's short run marginal costs which would result in a strong signal to potential low or zero MW providers of the value of reactive power in this area.

Additionally the conventional unit having recovered at least its short run marginal costs in the reactive power market would be in a position to compete in the energy market with zero marginal cost generators and would be able to trade ex-ante, submit PNs to the TSO and be dispatched. As a result, the TSOs would not be required to act against the outcome of the energy market to resolve the constraint.

It is worth noting that whether the reactive power requirement is met through a market based approach or as per the current arrangements the cost borne by the TSO, and therefore ultimately the customer, reflects the conventional units short run marginal costs but under the market based approach that value is revealed to the market and will act to stimulate entry.

On this basis ESB GT believes that all services, whether there is a geographical focus to the TSO's requirement or not should be included in the market-based approach when an efficient design can be put into effect.

Question 6: For which products is a market-based approach not appropriate? Why is a market-based approach not appropriate for these products? Will an alternative approach be more economically efficient? What sort of alternative approach should be considered?

As noted above ESB GT believes in order to arrive at a holistic approach which will deliver the operational flexibility required by the TSOs all services should be included in the market-based approach to procurement. The design of these market-based approaches remains yet to be determined and the ability to work with their complexity managed. However, there will also be circumstances where, due to outages on the system, the level or location of a service requirement

maybe temporally changed. In these circumstances it may not be feasible to put a related market based procurement process in place at short notice and possibly, even if it were possible to put them in place, there would not be a sufficient period for the market signals to emerge. In order to provide for this and the potential of under-delivery from contracted service providers the TSOs will necessarily need to retain the ability to access the service capability from uncontracted providers for a short period whilst confidence and procurement requirements are better forecast. To avoid this action by the TSO from undermining the market-based arrangements ESB GT believes that the TSOs should be incentivised to minimise the degree to which this ability is utilised and also establish a set of fall-back remuneration arrangements with service providers. It is key that the market works and that the value reflects the need to secure the right volume across the system at all times. As we transition to this market the ability to freeride by the TSO on the innate ability of these types of technology will lessen as they are potentially replaced by single service providers.

Question 7: Do stakeholders believe the current qualification process, is the most efficient approach? Do stakeholders have any alternative proposals?

The six-monthly qualification process utilised under the DS3 system framework has operated effectively to allow new and existing service providers to put new contracts in place or to amend existing contract parameters. However, the gated nature of the existing process does place a risk on participants that they could face up to a six-month delay in contracting with the attendant loss of revenue of this period. ESB GT proposes that under a market based approach a continuous on boarding process would be implemented such that once a service provider had completed the requisite testing and reporting process that they would be able to register as a qualified service provider in much the same way as registration in the energy market operated currently and then to participate at will in any market for services that may exist

Question 8: What are stakeholder views on the overall current governance arrangements including the contractual principles, the Protocol Document and the market ruleset? Should these be modified into an overall protocol document which captures all of the rules for providing and procuring System Services with increased regulatory oversight?

ESB GT supports the proposal that the relevant documentation and processes would be consolidated into a single code document. The recent consultation published by the TSOs on the Balancing Terms and Conditions under the Article 18 of the EGBL showed how diffuse the requirements on service providers are currently. This approach would deliver a more open governance structure supporting the ability of services provider to propose modifications which they see as supporting their ability to provide services . Notwithstanding this, given the legal requirements placed on the TSO to procure services to maintain the secure operation of the system, nothing in these arrangements should

prevent the TSOs from specifying new or amending existing services or service quantities to be contracted so as to meet their requirements.

Question 9: Should System Services continue to be funded through network tariffs? Are there views on any alternative arrangements?

On the assumption that there is a positive correlation between high levels of SNSP and the scarcity and in turn the value of these system services, it is not clear that a close to real time recovery of system service costs through time of use charges for any given trading period would be possible..

Where this signal was sufficiently strong it would act to reduce demand in these periods which would tend to increase SNSP or curtailment of non-synchronous generation. Instead from a system operation and also from a decarbonisation point of view the appropriate signal would be to increase demand when the availability of renewable generation is highest either through customer demand or through storage. Additionally, this signal would be counter to the energy market pricing which are likely to be low when the availability of zero marginal cost generation is high.

On this basis ESB GT supports the continued recovery of system service costs through network tariffs but recognises that the increased volatility will represent an additional challenge to the TSOs in forecasting the level of provision to be made for these costs.

Question 10: Should all services be procured through a single daily auction framework or should bespoke arrangements be developed for the separate products?

ESB GT believes that all services required by the TSOs to securely operate the system should be procured so as to reveal their value and open the market to competition from new categories of service providers rather than their provision being compelled through an industry code or regulatory requirement particularly where the obligation is only placed on a subset of the industry. This is currently the case in the provision of secondary fuel capability, with obligations to provide this service falling on new and existing conventional generation with resulting distortive impacts on the capacity market.

Where the provision of a service will impact on a service provider's position in the energy market, holding the procurement of the service close to the DAM process will allow the service provide to forecast their position in the energy market and reflect this position in their bids to provide a service. Conversely where there is no relationship between the provision of the service and the providers energy market position, such as in the provision of secondary fuel capability it would be possible to hold the procurement process well in advance of the delivery period.

In this way ESB GT believe that for those services whose provision are related to the energy market are best captured under a single framework but this does not mean there should be a single auction

process that seeks to combine the procurement of all services resulting in an unresolvable degree of complexity. Instead the procurement could be held over a series of auction processes with services potentially grouped by locational requirement or service definition.

Question 11: What are stakeholders' views on the timing of auctions?

ESB GT believes that the timing of the auctions is related to the underlying driver of the TSO's requirement. If for example the requirement of reactive power capability is driven by the forecast demand in a specific area, then this service requirement could be procured once the forecast of demand is established and potentially in advance of the Day Ahead Market (DAM) process. Conversely for example where the operating reserve requirement is driven by the forecast largest infeed to the system then it may be most prudent to wait for the DAM process to conclude allowing improved sight of the service requirement before engaging in operating reserve procurement.

In considering the interaction between the timing of the DAM and service procurement, there is a trade-off between the market in which the costs of generators, who provide system services, should be recovered. Where there is very high availability of zero marginal cost generation in the energy market but there remains a requirement for non-zero marginal cost generation to provide services, energy market prices would be expected to tend towards zero with the non-zero marginal cost generation recovering their costs through system services. With the decarbonisation agenda and the related increase in levels of zero marginal cost generation connected to the system this situation will become increasingly frequent. Given the exclusive nature of the DAM in SEM, ESB GT believes that, for those service providers whose service provision also results in a related energy position with a related PN the system service procurement should be held in advance of the DAM.

Additionally, ESB GT propose that services with the strongest locational element to the TSO's requirement should be procured in advance of more system wide services. This will allow those service providers that have been contracted to provide locational services and who have the capability to provide other services to reflect on their position and capabilities in later procurement processes.

Question 12: Do stakeholders have any proposals on how best to ensure commitment obligations are met?

In order to ensure that the required services are delivered by the contracted service providers there is a requirement of a firm commitment model that would see service provider who fail to deliver facing a financial penalty and potentially, where there is repeated non-delivery, a requirement to re-qualify to provide the relevant service with exclusion from the procurement process while the related testing and reporting are undertaken. Related to this is a need for an acceptance that where a service provider is not contracted in the procurement process it should have no residual obligation

to provide the service to the TSO except where due to the failure of a contracted service provider to deliver the uncontracted service provider is required to maintain system security. In this situation the uncontracted service provider, who has now provided a service, without contract and at a significant value possibly close to the potential of VOLL, should not be rewarded with a breakeven payment. This free-rider or free insurance situation will only be negated by ensuring that the compensation paid is significant and also rewards the service provider for the failure of the procurer to secure sufficient provision.

Question 13: What are the significant interactions within potential System Services product markets and between Systems Services markets and the energy and capacity markets? How should issues arising be addressed?

Under the current DS3 system service framework service providers whose service provision is related to electricity generation have the facility to reflect their forecast DS3 revenue in their energy market bidding. This creates a competitive tension between this category of provider and encourages the maximisation of service provision to strengthen that providers position in the energy market. To an extent this competitive tension acts to push down energy prices but there is a related increase in the level of bids in the capacity market.

In this way the level of the DS3 expenditure by the TSO as currently capped at €235mill does not reflect the real cost and value experienced by the customer, as an element of this expenditure is effectively recycled through to reduce energy market prices. Conversely, the impact on the capacity market will tend to push up the clearing price in capacity auction where a cap in CRM (ECPC) is inappropriately reduced by the DS3 value thus reducing any investment signal in DS3 services. The combination of these effects risks clouding the signals each of the market elements are producing and could result in inefficient entry or exit. There is a need for these prices to be separate where possible and the sequencing of the markets be determined that ensures that the full value of these products can be reflected in the price consumers pay and ensures that they are not treated as positive externalities that are to be used at below cost. It is convenient to argue that existing generators have the ability and have provided this service for a minimal value in the past, but the real value is now being realised as the accommodation of greater renewables on to the system. To net off these values only results in the investment signal being dampened.

One of the potential advantages of the competitive procurement of system services under the future arrangements is to provide clear signal to the market of which services and under what system conditions there is value in provision and thereby encourage new entry. For example under the current arrangements there is an underlying assumption that all priority dispatch generation should generate when available, under the revised arrangement for system service where the value of operating reserve was higher than energy in high SNSP periods this would act as a signal to wind generation to, where possible, self-curtail their output in order to provide operating reserve.

The interactions between energy, capacity and service provision require the future arrangement to be developed with whole system dynamics in mind, including the incentives created by both existing and future renewable support mechanisms.

Question 14: Do stakeholders have further views or proposals in relation to auction design??

Outlined below are a number of more detailed design areas where ESB GT believe careful consideration will be required:

Sequencing

How the markets are sequenced and the consequence of risk of this sequencing on securing revenues will also impact on the investability in these many markets. The timing and sequence of the markets and when they provide information to physically realise market outcomes (mostly during the transitional period as the DS3 plus programme results in the means to coordinate and operate the systems closer to real time with the new technical parameters) will need to be defined so as to reduce risk and secure investment.

Service Groupings

The logistical challenge of participating in up to 14 daily system service auctions would be significant for service providers, to the extent that it is possible. ESB GT believes to reduce this challenge and the related system and process costs consideration should be given to the possibility of grouping services that could be procured together. There would be a trade off in so doing for both the TSO and service providers in terms of the quantity of services to be procured by the TSOs, likely to be driven by the highest requirement in the group and the quantity of service which can be offered by service providers, likely to be driven by their lowest level of capability in the group. This peak max has been a feature of power system capabilities design and is considered to be of value for the consumer.

Service Interaction

While there is likely to be potential trade-offs between the requirement for different services e.g. increasing inertia could act to reduce the quantity of FFR requirement, ESB GT does not believe that seeking to dynamically optimise the service requirement across services based on offers received should be considered in the first instance. This would potentially result in too high a level of complexity and uncertainty. Instead given these markets will be a repeat game, the dynamics between services can be learnt by participants, TSOs and service providers over time.

Temporal Granularity

In structuring a daily auction framework, a key consideration is the temporal granularity to which the required services are procured. Increasing the granularity from a single daily requirement towards varying on a trading period basis would increase the complexity of the auction process and introduce additional risks for participants whose providing units include minimum operation times. However, it is likely that the TSOs real time requirement for services will vary significantly over the course of a trading day with changing demand and load flow patterns. As a result, the ability of a service provider to provide services over a narrow time period without incurring a significant related cost is potentially an important market signal that would only be allowed to emerge with a higher degree of temporal granularity.

Locational Requirements

As noted above, for some services there will be a strong locational element to the TSOs service requirement. In some cases, this locational requirement maybe be nested within a wider service requirement in the same way as within the Capacity Market the Greater Dublin Area capacity requirement is nested in the wider Ireland requirement. To reflect this ESB GT believes that where a service includes a locational element the procurement process should sequentially move from the most narrowly defined area to the widest. There is also a requirement to recognise that this potentially offsets higher capital costs in networks or provides a significant value. Even at this stage the granularity or reduced lumpiness of assets (power and service provision) must also be taken into account. As the merit order becomes smoother the ability to self-despatch must also be considered a possible eventuality by the TSO.

Realisability

The wholesale energy markets are underpinned by an assumption that any firm MWh generated on the system can be utilised to meet any MWh of demand, in a relatively small system such as SEM this assumption can become stretched and gives rise to many of constraints that the TSOs are required to manage. This may be due to history or the nature of global industry practise of centralisation, cheek by jowl configurations to make transmission and fuel savings and the reliance on economies of scale to manage costs and in turn prices. However, it also provides the customers with the benefit of an energy price based on the bids of the marginal unit across the whole system whether or not the marginal unit can physically deliver the marginal MWh of demand. To an extent this results in the energy market becoming a financial commitment market rather than a physical commitment market. This may change as we see the democratisation of power and the increased decentralisation being offered by new storage and generation technologies.

ESB GT believes that the nature of service provision against which the system is secured by the TSOs should be a physical commitment market as a result only those service provider who are in a position to deliver the relevant service requirement should be in a position to participate in the procurement process, this places an additional risk on service providers that maybe unable to deliver due to a system outage but it is considered necessary in order to ensure the system remains secure.

While these more detailed areas can be more fully developed through further consultation and industry engagement, ESB GT believe that the principle design criteria for auction design should be delivering the services the TSOs require to maintain system security in the interest of customers in a manner that allows the required investment to come forward in a timely manner.

Question 15: Do stakeholders believe there would be benefit in maintaining the Fixed Contract Arrangements for future procurement runs?

ESB GT believes that there is a risk determining in advance the offer of long-term contracts as part of the future arrangements that could have the effective of freezing investment until the long contracting process takes place. To avoid this ESB GT proposes that long terms contract would only be issued under the future arrangement where it was demonstrated that near time procurement was unable to deliver the required services and further, certainty be given to service providers who entered the market in advance of the long term contracting that they would not be excluded from participation.

Question 16: Do stakeholders have views on the list of additional considerations above? Are there any further issues to consider?

ESB GT is conscious of the complexity and the interactive nature of the system services market with other elements of the SEM arrangements. Additionally, given the urgency with which the operational flexibility of system must be increased ESB GT is concerned that the implementation of the future arrangement will act to reduce the ability of the TSOs to define and procure the additional system services they require in the near term.

As such ESB GT proposes that earlier clarity be given to the market on the extension of the DS3 Regulated Arrangements beyond April'23 under which new services can be defined and procured with a commensurate increase in the expenditure cap. And as the future arrangements are developed and the relevant system and processes implemented existing service can be transitioned to be procured under these arrangements.

Question 17: What are stakeholders' views on the potential existence of, and options for mitigation of, market power?

ESB GT recognises that market power could arise in the provision of system services particularly where there is a strong locational element to the service requirement and no new investment signals had resulted in entry or exit. However, ESB GT does not agree that the potential presence of market power can be assumed to translate into market abuse, nor can it be assumed that it will be enduring. Given the short-term nature of the proposed daily auctions ESB GT believes that ex-post



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analysis of participants behaviour would be the most effective method of mitigating against the risk of market abuse rather than ex-ante measures which could distort the market outcomes , this is important to provide the right signal to entrants that rules are enduring and that effective competition can deliver the evolved, rather than prescribed or envisioned, outcome. Uncertainty of outcomes allows participants to seek to take advantage of these differences and secure an income stream in a competitive fashion. Trying to address what is viewed as a concern today may result in myopic interventions at the cost of possible investment signals to new entrants.

In the longer term ESB GT proposes that minimising the barriers to entry is the most effective method to ensure services are provided to the TSOs in a timely manner which represent value to the customer and delivery on the energy transition. ESB GT believes that in valuing the adequate and timely provision of services to the TSOs the long-time whole economy benefits of decarbonisation should be considered.