

System Services - Future Arrangements – Scoping Paper - SEM-20-044

Moyle Interconnector Response

October 2020

INTRODUCTION

Moyle Interconnector Limited 'Moyle' welcomes the opportunity to comment on the SEM Committee's paper SEM-20-044 'System Services – Future Arrangements – Scoping Paper'. Moyle has delivered system services to both SONI and National Grid (NGESO) for many years, including both static and dynamic frequency response. We understand that frequency response provided by the interconnectors is highly valued by the system operators for its significant quantity of armed response (Moyle is qualified by SONI to deliver up to 100 MW of frequency response), its speed of response and its reliability. Significantly, frequency response provided by interconnector units can be delivered from the baseline interconnector schedule, without the need to position a fuelled unit at additional cost to provide a response capability.

While we offer responses to some of the SEM Committee's specific questions below, in summary we seek early clarity on both the model for procurement of future system services and the specifics of the products that the SOs require. Units are already making investment decisions that extend far into the 'future arrangements' phase; late changes can be costly and result in inefficient outcomes for consumers. By way of example, in Moyle's case an opportunity exists to implement certain changes to system services capabilities in a control system update in mid-2022. Specifications for that programme have already been set, so that unanticipated changes will come at additional cost and bring disruption to the delivery programme.

We have concerns about the introduction of any complex procurement arrangements, particularly any that require systems interaction with the energy trading arrangements. Participants' experience is that two years after go-live of the new energy trading arrangements, delivery of those arrangements is not yet complete, with significant functionality absent, diminishing any appetite for further major changes in design.

If new, realistically deliverable arrangements for May 2023 onwards cannot be defined shortly, certainly by Q1 2021 (as required in Ireland's Climate Action Plan), the existing framework arrangements for the current system services should be extended, as catered for in the current contracts, any additional products required by the SOs should be procured in parallel arrangements and the SEM Committee's spend cap should be adjusted accordingly. Fully fleshed competitive system services arrangements may be introduced later, following full consideration of their impact and interactions.

We respond to the SEM Committee's specific questions below.

INTRODUCTION & BACKGROUND

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

We agree that the ROI Climate Action Plan and any emergent corresponding plan in NI/UK should be afforded significant priority. Beyond that, we do not refer to additional EU legislative or national policy requirements that should be considered.

However, while we note the SEM Committee's previously and repeatedly stated intention to transition to competitive market based arrangements at some point in the future, we note that the (I-)SEM arrangements are not yet implemented in full. Notable gaps include arrangements for secondary trading in the capacity market, which is a requirement of the state-aid approval and for which an interim measure provides an inadequate solution. We respectfully suggest that completion of the SEM modifications should be completed satisfactorily before embarking on a new complex project that affects the energy trading arrangements.

In anticipation that Brexit, resulting in removal of the ability of SEM's only interconnected territory to participate in IEM programmes such as SDAC, TERRE, MARI and others, will make compliance with cross border arrangements envisaged in the network codes, clean energy package, etc. impossible for now, we encourage the RAs to make early and full use of derogations and local (non-EU) arrangements to ensure maximally efficient outcomes for SEM consumers.

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

No comments.

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

No comments.

PROPOSED OVERALL APPROACH

4) Is the general approach to the Project appropriate and complete?

We understand the basis for the RAs' paper, but urge swift decision making in order to have an investable framework in place for delivery from May 2023.

5) For which products is a market based approach appropriate? What sort of market based approach is most appropriate?

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?

Generally, in circumstances where competition is not feasible or appropriate, the RAs should contemplate the value that system services will have in facilitating almost 100 % SNSP. It should be expected that as the energy market matures to a point where in many periods the short run marginal cost of generation approaches zero, a much more substantial part of the cost of wholesale electricity will be made up of network and system services charges, reflecting the necessary investment in these tools to facilitate high penetration of renewables. We refer to the EU SysFlex

studies (not least work package 2) and analysis commissioned by IWEA (Saving Power, the 70 by 30 series of reports) and others.

Therefore the objective should be efficient achievement of an adequate availability of system services to achieve the climate objectives, not low cost system services *per se*. This is clearly likely by 2030 to require multiples of the SEM Committee's current 2021 spend cap (based on the published studies). That is not to suggest competition and efficiency have no role, but that the climate targets should be the overriding policy objective and regulated arrangements may have a key role. Timely delivery against the SOs' system services requirements, to ensure the transmission and distribution network can facilitate the required high penetration of RES-E, should be the overriding objective.

MARKET BASED ARRANGEMENTS

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

The requirement for multiple units to test in a relatively short window before each gate closure deadline has caused challenges for providers and the SOs, especially since testing of some units is dependent on weather conditions. We suggest that the test window should be extended so that a unit may test at any time before the procurement gate deadline, that is even before the procurement gate opens. Further, we acknowledge the SOs' more recent willingness to accept data from operational delivery and we welcome that approach since it may avoid the need for difficult to schedule testing. Provision of satisfactory performance data should be the priority, not a test in a specific temporal window.

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?

We have some concerns about the complexity and governance of the contractual framework. While the contract itself and the protocol document are generally well understood, there are references to a range of supplementary documents, which may not be complete.

On the protocol in particular, the SOs may change this document multiple times each year. Changes must be consulted on, but in practice changes have been proposed that would go beyond simply refining operational practices (for example a proposed new requirement that reserve services should be individually controllable, which was later withdrawn), effectively changing the contractual terms mid-contract. This is clearly inappropriate.

At the same time, operational practices that obviously need to be clearly defined have not been included in the protocol, despite multiple reasoned requests from contracted parties. An example is how FFR performance assessment will be undertaken – Moyle experienced different practice between SONI and EirGrid, yet despite our request no detail was included in protocol v2 and still none in v3. (Although a separate document has now been published.) We therefore agree that the protocol document should, as the RAs suggest, capture all of the rules for providing and procuring system services with increased regulatory oversight.

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

No comments.

AUCTION DESIGN

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

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

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

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?

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

On this series of questions together, we offer comments from the point of view of an interconnector unit.

We note that interconnector schedules are produced following the day ahead and intra-day cross border auctions (and we anticipate similar, though not identical, arrangements post-Brexit). These schedules may result in the headroom available from these units for frequency response varying during each trading day. It is clearly better value for consumers to take advantage of the available interconnector unit headroom for frequency response than to position alternative, fuelled providers for reserve, which will come at increased costs. Therefore any future design, while remaining technology independent, should value interconnector response appropriately when it is available.

For example, if there was a requirement for a unit to commit to delivering a fixed quantity of frequency response for every period in a whole week, lack of knowledge of the interconnector schedules would mean that an interconnector unit could not be contracted for frequency response if there was a possibility adequate headroom would not be available, even if sufficient headroom was outturn available in all periods. This would be a poor outcome for consumers, since alternative units would be contracted at a potentially higher price.

Further, frequency response delivered by the interconnectors is supported by trilateral arrangements with NGENSO (and in future other SOs). Proper consideration should therefore be given to ensure the future system services contractual arrangements remain compatible with these tripartite contracts, for the benefit of consumers.

Moyle would welcome more detailed engagement with the RAs and SOs on interconnector-specific aspects of system services design, noting that we have already been closely engaged with NGENSO on the same subject matter in the evolution of the system services market in GB.