

DS3 System Services Consultation – Regulated Tariff Calculation Methodology

This questionnaire has been prepared to facilitate responses to the consultation. Respondents are not restricted to this template and can provide supplementary material if desired.

Please send responses in electronic format to DS3@eirgrid.com or DS3@soni.ltd.uk

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Respondent Company	<i>IWEA</i>

Note: It is the TSOs' intention to publish all responses. If your response is confidential, please indicate this by marking the following box with an "x". Please note that, in any event, all responses will be shared with the Regulatory Authorities.

Response

confidential

The closing date for responses is Friday, 18th December 2015.

Question	Response
Overview of Proposed Methodology	
<p>Question 1: What is your view on the high-level methodology outlined by Pöyry in its paper?</p> <p>Question 2: Do you agree with Pöyry's proposed approach to managing inflation risk?</p>	<p>IWEA is concerned that long term contracts cannot be offered under the regulated tariff structure. Regulated tariffs are to be introduced in circumstances where there is not sufficient competition. In order for competition to emerge it is important that the value of system services is revealed to the market.</p> <p>The overarching aim of the wind industry is to ensure that system service providers are incentivised and can invest in the required technologies so that the system can operate at higher levels of SNSP and reduce the levels of wind curtailment. As we increase our installed wind capacity towards meeting our 2020 targets and beyond, this is becoming more important. It is essential that the investment case is clear for the providers of system services and that the tariff methodology is clear, transparent and easy to understand. The complexity of the different methodologies makes this more difficult and runs the risk of deterring investment.</p> <p>The consultation paper outlines that a cost plus approach is to be used as this delivers the best value to the consumer. There are a number of concerns in relation to this approach:</p> <ul style="list-style-type: none"> • The value to the consumer will only be delivered if the required services are delivered. It is essential that the methodology selected delivers the required investment in services if any value is to be delivered to the consumer. • Identifying the cost of provision for system services may prove to be difficult. • Where the incremental investment cost are to be applied, the selection of specific investment will obviously have a significant impact on the level of tariff that will be approved and potentially risks introducing technology bias. • It is possible that the technology will change when the tariffs are reviewed. This could result in a significantly lower tariff being set, which brings uncertainty to the investments being made. In particular if the required revenue is based over the lifetime of the project and the contract length differs from this, additional risk is placed on the provider of the service that they will not have a sufficient revenues over the lifetime of the project.

	<ul style="list-style-type: none"> • The paper notes that income in other markets would need to be taken into account, such as the energy market and the capacity market. It is not clear what this interaction would be and whether this approach results in the system services market becoming the “missing money” market rather than the capacity mechanism. • A value based tariff approach is likely remove some of the uncertainties associated with a cost plus approach whereby some of the uncertainties in relation to the expected tariffs would be removed. This could be a more transparent and predictable method. This approach has been suggested for some of the services where the cost cannot be easily identified, however we would suggest that this approach be used in all cases where a regulated tariff is required. <p>There is discussion within the consultation paper in relation to the use of scalars. In relation to the within year variation associated with the granularity of the payments, IWEA notes that any variation that adds uncertainty to the investment case runs the risk of deterring investment.</p> <p>IWEA supports the second option for inflation indexation which is based on actual inflation, and which is similar to the current approach used.</p>
Incremental Investment Cost Estimation	
<p>Question 3: Do you agree that investment costs can be identified specifically for increasing Fast Post-Fault Active Power Recovery, Dynamic Reactive Response, Steady-State Reactive Power and the Ramping Margin services capability? If not, please explain your reason.</p>	<p>IWEA does not have detailed information in relation to the investment costs of the services.</p>

Question 4: Do you agree that the TSOs should develop the necessary inputs to the calculations and that the Regulatory Authorities should approve them? If not, who do you propose should develop and approve them, and why?

There should be consultation with service providers in relation to the necessary inputs to the calculations. The calculations should be approved by the RAs.

Operational (Opportunity) Cost Estimation based on Production Cost Modelling

Question 5: Do you agree that investment costs for increasing individual service capability only cannot be identified for the Synchronous Inertial Response, Fast Frequency Response and the reserve services?

IWEA does not have a view on Question 5.

Question 6: Do you agree with Pöyry's proposal by which the tariffs for these services will be informed by the marginal cost of provision of each service?

Please see answer to Question 1 above.

Question 7: Do you agree with the proposal to

<p>use the same portfolio scenarios (and the same study years) for the volume calculation and regulated tariff calculation processes?</p>	<p>IWEA made a number of comments in relation to the portfolio scenarios in our response to the volume calculation consultation. These should be taken into account here. These are outlined as follows:</p> <p>2016/17 Volume Requirements</p> <p>It is not clear from the consultation paper how or when the volume requirements for system services for 2016 will be evaluated. This is an important area to be decided in a timely manner as the procurement of these services needs to take place early in 2016. We would urge that immediate attention is paid to this aspect.</p> <p>Given the issues to date and the current position of the North South Project, the assumption that it will be built and operational before 2020 would seem optimistic. A sensitivity check should be carried out to assess the impact of a later operational date.</p> <p>2020/21 and 2021/22 Volume Requirements</p> <p>The consultation paper outlines that there is no certainty in relation to renewable energy targets beyond 2020 at this time, and therefore proposes that the volume requirements after 2020 will be the same as for 2019/20. While IWEA welcomes that there is certainty provided in relation to the minimum requirements for these years, there should be flexibility to increase the volume of services to be provided if policy determines that higher levels of renewables are required. Consideration should be given to continued extrapolation out to 2022.</p> <p>IWEA welcomes the proposal to set the volume requirements for each service to the maximum value from the portfolio scenarios studied to ensure that prudent volumes of system services are procured.</p>
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Managing Expenditure

<p>Question 8: Do you agree with the TSOs' view that it may be necessary to adjust tariff levels post-calculation to manage the scale of payments?</p> <p>Question 9: What are your views on the options proposed by Pöyry for managing expenditure?</p>	<p>IWEA does not agree with the proposal to adjust the tariff levels post-calculation to manage the scale of the payments. If the chosen methodology for tariff calculation is correct and robust, then adjusting the tariff would not make sense from a process point of view. The ability to adjust a tariff also undermines investor confidence by creating significant uncertainty in the revenues associated with the provision of a service. Once again this runs the risk of deterring investors.</p>
<p>Other Issues</p>	
<p>Question 10: Do you agree with Pöyry's view that payments for Dynamic Reactive Response and Fast Post-Fault Active Power Recovery should be targeted? Do you agree that they should be targeted at times of greatest need? What are your views on targeting payments to specific types of technologies?</p> <p>Question 11: What is your view on the proposed</p>	<p>While we acknowledge that the provision of system services should be done on a competitive basis, it is important to ensure that the expected generation mix to deliver Government policy on decarbonisation is taken into account.</p>

approach to determination of the Steady State Reactive Power tariff?

Question 12: What is your view on the proposed approach to determination of the tariffs for Ramping Margin services? Do you agree with the suggestion to use the cost of the required equipment for keeping a CCGT 'warm' to inform the tariff level?

Question 13: What is your view on the proposed inclusion of commodity price indexation?

IWEA supports the inclusion of commodity price indexation. If indexation is not included, the risk of increased commodity prices would need to be taken into account in the remuneration required by service providers which could end up increasing the cost to consumers.