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Conor Kavanagh

EirgridThe Oval, 160 Shelbourne Road
Ballsbridge, Dublin 4,

Leslie Burns

SONICastlereagh House
12 Manse Road, Belfast**Ref: SEM-09-062 Harmonised Ancillary Services & Other System Charges Rates Consultation**

Dear Conor and Leslie,

I attach ESB International (ESBI) response to the above consultation.
Please note that ESBI is also signing the joint submission from the NI generators.

Kind regards

Ramón Cidon
Market Strategy Manager
Independent Generation
ESB International



ESBI Response to **SEM-09-062** Consultation about
Harmonised Ancillary Services & Other System Charges
Rates Consultation

1. Introduction

This response is submitted by ESBI's Independent Generation Business. ESBI has no objection to all or part of it being published by the Regulatory Authorities (RAs).

ESBI has carefully reviewed the proposals contained in the Consultation Paper and wants to thank the RAs and TSOs the work done on this paper. We appreciate the opportunity to comment on this consultation paper but would like to note that we have major reservations on the both the Harmonised Ancillary Services (AS) design and Rates proposed. If implemented as proposed, a number of plants which are now providing base load and hence safety to the system will experience a large drop in their income from Ancillary Services provision.

Moreover, the methodology is more focussed on penalties rather than on creating payments and "incentives" for generators to perform ancillary services needed by the system. The generators will be exposed to high punitive charges and penalties resulting in at best a highly volatile and uncertain AS income, at worst even a potential loss making position for providing AS.

So, final proposed charges do not meet with the General Guidelines for Ancillary Services (SEM-08-128), "*AS providers should be able to reasonably predict their annual income from providing AS and the financial implications of failing to fulfil their contracts*"

ESBI considers that the methodology will alarm possible future investors and does not create an environment that encourages needed new investments in the island of Ireland.

ESBI does not agree with the methodology proposed and has the next high level comments:

- The methodology mixes AS payments with other Charges (Trips, SND and GPI). The overall income to be derived from these Charges is not quantified, and its use is not fully explained. The relationship between these Charges

(Trips, SND and GPI) and any resulting Dispatch Balancing Costs is not explained or consulted on in this paper.

- The design intention of creating a harmonised framework is not met. In particular, the methodology proposed, fails to pay for Black Start to NI generators while continuing to pay to ROI generators. It will create a market distortion and doesn't provide a level playing field. Additionally, the methodology lacks clarity on future payments for existing Black Start providers in NI.

Additionally, it is proposed that there will be separate AS Allowances for NI and ROI, both capped at current levels and independent of each other and also different Grid Codes will be applied. This separation does not seem to be consistent with the aim of delivering a harmonised AS market.

- The methodology introduces high volatility and uncertain AS income, in particular compared to the current SSSA arrangements and even more, penalties can exceed payments, and also, there is the possibility that a single trip or compliance failure can incur multiple penalties.
- The methodology proposed in the paper provides for generators to declare themselves 'off' for a particular AS service but it is not clear at what point this becomes a grid code compliance issue, so the new regime is a confusing mix of declaring availability for services, payments and penalties, while at the same time trying to remain compliant.
- The new AS arrangements should, as a minimum, leave Generators in a commercial position that wouldn't be worse than it is under the current SSSA arrangements.

2. ESBI Detailed Comments

ESBI committees to complying with Licence and Grid Code obligations with regards to the provision of reserve, reactive power and black start. However the current proposals raise substantive concerns in relation to the commercial impact of the proposed arrangements and the new and significantly greater risks and uncertainties that the arrangements create.

In the next paragraphs, it is going to be detailed our disagreements and comments about the different issues of the consultation paper.

2.1 Rates framework

ESBI considers that the methodology proposed is not satisfactory because it mixes AS payments with other **charges** (trips, SNDs and GPs). Overall income to be derived from these charges is not quantified, and its use is not fully explained. The relationship between these charges and any resulting Dispatch Balancing Costs is not explained or consulted on this paper.

2.2 AS Allowances

According with the General Principles and Common Features of Harmonized AAS and Other system charges (SEM-08-128): *“No significant AS allowance changes from those allowed for currently should arise from the implementation of these all-island...”*, so the reverse criteria about the charges and penalties should be similar.

The new methodology establishes as one assumption in the design that there is no increase in either the NI or Ireland AS allowances as a result of the harmonisation process. However, the charges and penalties proposed have been considerably increased and it is clear that NI generators are going to lose incomes compared to existing arrangements.

ESBI considers that the charges for the non-provision of services are disproportionately higher than the equivalent payments for provision of such services and the relation between rates and charges proposed does not meet with DG.3 of Ancillary Services Design Guidelines “*Both rates and charges will be set adequately high levels in order to reward consistently high performing service providers and to encourage poor service providers to either improve performance or declare realistic service levels*”

As least, there should be an overriding principle that the extent of the charges that can be imposed on a generator for underperformance should never exceed the value of the payments received by the provision of such services, so at the worst position the generator wouldn't earn anything from ancillary service (net neutral position)

Finally, as it was established in the High Level Design Paper in relation to the design of AS, “*service providers should be able to reasonably predict their annual income from providing AS.....They should also be able to predict the financial outcomes of failure to fulfil the contract*”. However, the proposed payments and charges are not highly predictable because they are based fundamentally on dispatch/constraint decisions which are outside the control of the generator. Further, given the material negative difference between charges compared to payments, the truth of the matter is that generators are in worse position in estimating their actual financial outcome.

2.3 Exchange Rate

ESBI considers that the Rate calculation methodology introduces an additional risk to the generators, because the Exchange Rate is fixed for one year. Our opinion is that it is an unnecessary risk, and as similar to SEM FX, the Exchange rate for ancillary services should be established daily.

2.4. Ancillary Services Rates

ESBI notes that under the new proposed ancillary services rates, NI plants that were designed for base load operation which aids system security are going to experience a large drop in their income because they will be paid on realisable reserve rather than a flat rate for availability as under SSSA.

Additionally, some technical parameters defined under the new AS agreement, for example time to provide Replacement Reserve, could not be achieved by NI plants because they were designed under SSSA parameters.

ESBI considers that any proposal that changes the previous rules and the commercial and financial position of the generators should try to be as balanced as possible between the different players. Nevertheless, it seems that with the current proposal, NI generators will experience the greater number of changes from the previous contract.

2.4.1 Black Start Payments

ESBI considers that the design intention of creating a harmonised framework is not met. In particular, the methodology proposed, fails to pay for Black Start to NI generators while continuing to pay to ROI generators. It creates a market distortion and doesn't provide a level playing field. Additionally, the methodology lacks clarity in whether future payments for existing Black Start providers in NI.

Under the present proposal, NI generators appears to be at a disadvantage because they are not going to receive any payment from black start service but could be penalized for failing black start tests.

2.4.2 Short Notice Declaration (SND)s and Trip Rebates

ESBI agrees with the TSO's argument about Trips and SND charges. They should be designed to incentive and to improve the safety of the system through the reduction of the effect of the trips and SND charging with a higher penalty to faster and higher load loss associated trips/SND's.

However, the new charges calculated using the formulas result in trips and SND charges between 8 to 10 times higher than ones under previous arrangements, so it seems like only a revenue policy is being considered. Therefore, ESBI does not agree with the Trips and Short Notice Declaration (SND) formulas proposed.

ESBI also notes that the SOs propose to charge generators with double penalties. Under the new system, it could happen that a generator would have to pay charges for trip and SND, which is doubles the penalties compared to the previous system of just applying the highest penalty. ESBI proposes that the SOs harmonise to the model currently used in NI where only the larger of the two charges is imposed.

As example on these previous considerations, we attach the following table of a NI plant with figures confirmed by SONI

Date	SSSA Rebate	HAS Charge	SND Charge	HAS Trip Charge	Total SND & Trip	Difference SSSA HAS
01/04/08	£12.180	£34.680		£72.887	£10.7567	£95.387

The TSO has indicated to ESBI that under new AS arrangement the trip definition has changed and it is expected to increase the number of events defined as a trip by 80%.

As it is shown, the combination of trip and SND charges is going to be the biggest factor in reducing net income for generators. Hence, it is critical to provide from the

TSOs further clearer clarification on the implementation of these charges in order to evaluate the proposal.

2.5 Generator Performance Incentives (GPI's)

ESBI agrees with the TSO's argument that GPI's charges should be designed to ensure that the generators maintain the performance required in the Grid Codes and hence charges should be banded to reflect the severity of the deviation from the requirement in the Grid Code.

However, ESBI has checked that the proposed formulas use higher coefficients than the ones used in the previous SSSA arrangements, so it seems like only a revenue policy is being considered. Therefore, ESBI does not agree with the GPI's formulas proposed.

Additionally, ESBI wants to remark that associated with harmonising GPI charges it is also need to harmonise Grid Codes, because GPI charges are a result to compare with minimum parameters established in the Grid Codes. If it is not done, a market distortion will be created and so on, a level playing field it is provided.

2.6 Implementation Issues

ESBI wants to remark that the notice of termination of SSSA was received three months ago by NI generators while no alternative contracts have yet been negotiated. New contracts should be negotiated and agreed before termination notice for old contracts. This also forces TSO/generators into a schedule of contract negotiation and approval during peak holiday period.

Also, it is not clear that 1st October is going to be achievable for implementation of the consulted AS payments and other charges, given the number of queries and genuine concerns on these new arrangements.