

Submission by Bord na Móna Energy Ltd.

on

**Harmonised Ancillary Services
&
Other System Charges**

Rates Consultation

SEM-09-062

Harmonised Ancillary Services & Other System Charges Rates Consultation 2009-10

Introduction

Bord na Mona Energy Ltd, (BnM), welcomes the opportunity to respond to the recent consultation paper on the proposed rates for Ancillary Services and Other System Charges for the period from 1st October 2009 to 30th September 2010, ref SEM-09-062.

Bord na M6na recognise the importance of these services to ensuring the optimal operation of the transmission system both in terms of security of supply, and in minimising the capital and O&M costs associated with the transmission of electricity to the consumer. These services will provide an increasingly important role in the achievement of the RES-E target of 40%, which will be principally provided by large numbers of intermittent generators, widely dispersed across the transmission and distribution networks.

Bord na M6na believe that the ancillary services and generator performance incentive structures that are put in place can play a crucial role in delivering the optimal mix of complementary conventional generation technology to provide the necessary flexibility and security of supply whilst minimising the environmental impacts and cost to the consumer. It has been suggested that there could be a re-balancing of the monies disbursed through the Capacity Payment Mechanism (CPM) towards Ancillary Services, which could give a more targeted investment signal for new plant that can offer superior performance in terms of availability, flexibility, reactive power, etc.

The consultation on the scope of the medium term review of the CPM included a discussion of the links between AS and the CPM, and Bord na M6na look forward to engaging in that process. It is imperative in this regard that the establishment of the new harmonised ancillary service arrangements for the SEM includes a robust mechanism for the annual calculation of AS rates, to allow potential developers to make reasonable estimates of the revenues from this mechanism over the medium term. A system which could lead to significant year on year volatility in the rates will add another risk factor to investors looking at the market, and will increase the cost of financing new generation capacity.

This paper responds to a number of the consultation points raised in the paper. Bord na M6na also take this opportunity to express concern at the tightness of the timeline for the implementation of these new arrangements, which potentially could lead to disruption to the levels of service provided, if not managed carefully.

(1) Currency Risk and stability of the Rate setting mechanism

It is recognised that there is a need to forecast a currency exchange rate to develop a harmonised rate for the two markets. It was not clear from the decision paper in January, or at any other part of the consultation process, that the allowances to the TSOs in each jurisdiction would remain separate and independent of each other.

The independence of the two pots adds another factor of uncertainty, which will act to increase the potential for volatility in the AS rates into the future. It was acknowledged that the similarity in the overall allowances per unit energy produced is co-incidental, and could change in the future. In this regard, Bord na Móna question how harmonised the new ancillary service arrangements are, where the allowances for the two jurisdictions in the market remain separate. This leads to the potential that future rates will be struck to balance divergence in the allowances in the two jurisdictions as well as re-balancing movements in exchange rates.

As discussed in the introduction, this is the type of issue that adds to investment risk, and ultimately increases consumer costs through higher investment costs and delays to the delivery of new capacity.

(2) AS rate setting process

The determination of the rates used a weighting for the main services, (70% Reserve, 30% Reactive Power), with a further detailed breakdown of the various categories of reserve. This process was based on historical analysis of the supply and demand of the various services, as well as consideration of the incentive rates going forward.

It is important from the point of view of transparency and forward visibility of how these rates can change in future year, that a more quantitative approach on the weightings of the AS allowance to individual services is presented to market participants. Whilst it is acknowledged that the TSOs have used best judgement, they splits appear somewhat arbitrary, and give no feel for how they might change from year to year, e.g. with the increases in demand for certain services, or due to new capacity being introduced to the market.

(3) Proposed Alternative Replacement Reserve Option (Ref section 4.4.2)

Bord na Móna support the proposal to have a two tier rate for replacement reserve, to incentivise capacity that can provide this class of reserve from a de-synchronised state. It is noted that the RAs have used this assumption in the estimation of ancillary service revenues in the consultation paper on the 2010 BNE peaker price. That paper further acknowledges that any changes to the final AS rates structure on the basis of this consultation will be incorporated into the final 2010 BNE price.

BnM believe this option gives a specific signal for the development of additional peaking capacity onto the network, and is an example of how ancillary services can differentiate between operating characteristics offered by different plant in a way that the CPM cannot.

(4) Generator Performance Incentives (GPI) Parameters

It is acknowledged, as stated previously, that there is a need to improve both compliance and the capability of the portfolio in terms of offering key services including flexibility, reserve and reactive power, to allow the TSOs meet the challenge of incorporating the levels of intermittent renewable power onto the grid required to meet the RES-E target. The GPI parameters selected will penalise underperformance of generators in relation to the parameters selected.

It was also noteworthy to hear the concerns raised at the workshop, principally from generator's based in the North, which have been subject to similar penalty structures under the SSS arrangements. In particular, the measurement of performance in relation to key reserve parameters, (e.g. Primary and Secondary Reserve) following an incident can depend critically on the resolution of the SCADA equipment and transducers recording the event. The discussion further suggested that there is no particular standard for this equipment across the market.

Bord na Móna contend that further analysis and discussion on the measurement of performance should be conducted before the adoption of these new GPI measures. The principle of harmonised performance incentives requires that there is a standard approach to performance measurement for all operators in the market.

(5) Implementation Timelines

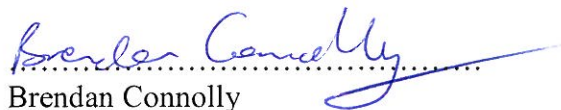
The implementation timeline proposed is very short given that the AS agreements are not yet available, to generators, and there is a need to put in place new billing arrangements.

Service providers will have to consider the levels of service which they are obliged to provide, and additionally the risk of offering higher levels of availability, given the potential penalties which will attach to under-delivery of the certain services.

In addition, as stated in the previous points, there is a need to standardise the measurement of performance across the market, to ensure fairness and equity amongst market participants.

In this regard, Bord na Móna suggest early engagement of the RAs and TSOs with service providers, to adequately address these issues. The implementation schedule should allow for business readiness testing of the new arrangements before October, with a deferral of the introduction if there is the potential that early adoption could cause disruption to the provision of services.

For and on behalf of
Bord na Mona Energy Ltd



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