

Harmonised Ancillary Services & Other System Charges

Rates Consultation

Synergen's response to SEM-09-062

This paper is Synergen's response to the TSOs consultation on harmonised Ancillary Service (AS) rates as set out in SEM-09-062. Synergen has no objections to this response being published.

1 Issues arising from the structure of the AS payments proposed

Synergen notes that "other charges" revenues are used to off-set balancing costs. Whilst these charges provide an incentive to perform "well" and avoid these charges, they do not specifically reward better performance. Further, it is not clear that such charges are necessarily targeting "poor" performance, or outcomes that are controllable by the generator.

The purpose of a penalty payment should be to allocate costs (and provide an incentive for future performance) to parties that operate outside of normal parameters. Considering this principle in the context of SNDs, Synergen considers that:

- trips are a natural consequence of the processes of generator in use and consistent with the normal characteristic of all generators – thus tripping is not a failure of performance against a reasonable expectation;
- the frequency of tripping is a more reasonable measurement of "normal" generator performance;
- it is counter intuitive to penalise all trips if the objective is to encourage a high level of reliability in the long run;
- it is not clear that all trips are caused by the generator – if charges of this magnitude are imposed it should be clear that the generator was responsible for the trip; and
- a trip, say by lightning strike, would be treated differently in terms of costs paid by the asset owner, to a similar event on a generator.

Synergen therefore considers that there should be flexibility the application of such charges, and that in terms of equity, it would seem that the short term unavailability of network assets should be charged on the same basis.

Further, the RAs need to ensure that there are no penalties imposed on generators that take action to improve the flexibility, security, or response, of the network at certain times. This could arise if a generator has given sufficient notice to de-load to avoid any SND charges, but is then requested to remain on the

system by the TSO. In these circumstances, the generator should not have penalties if it remains on the system as requested (i.e. does not de-load as originally planned) but de-loads as soon as possible after the system requirement has passed.

1.1 The impact of AS charges on other “market” arrangements

Synergen is concerned about the desire to increasingly reward flexible (primarily peaking) plant through via AS payments. Specifically, this may well serve to increase market revenues to the BNE peaker calculation used within the CPM calculation, not through the energy market, but through the payment structure in a services provision mechanism that is 10% of the size of the CPM “pot”. Thus, relatively small changes in the distribution of AS revenues can have significant wider implications in central elements of the market arrangements - directly impacting on the level of CPM rewards within the market to all generators.

Moves to change the balance of AS payments from utilisation increasingly towards availability based payments serve to exacerbate this effect. It is unclear how the CPM BNE revenue modelling will account for “charges” paid by any new entrant for other charges, or under the AS schedule, will be taken into account in terms of determining its revenue requirement from the CPM.

In the context of the ongoing RAs’ CPM consultation (where CPM revenues look likely to fall by over 10%), and where there is a RA desire to reduce CPM volatility (which Synergen believes raises several options that may serve to suppress the CPM generally) there is considerable concern on Synergen’s part that the required and appropriate revenues for efficient generators are being reduced when there is likely to be an increasing reliance by conventional generation on AS and CPM revenues as increasing levels of intermittent generation are commissioned.

2 Future developments

Section 8.1 of the consultation paper comments on possible areas for the development additional of Ancillary Services. Noting that the TSO arrangements were consulted on and the RAs’ decision of January was to not include new services at this stage, the development of such services will be incremental, as the generation sector develops, and Ancillary Service requirements evolve.

In this context Synergen believes that ongoing consideration should not only be given to charging parties that do not meet required standards, but in some cases providing additional payments to parties that exceed the required levels of service – where there is a cost benefit to customers as a whole in so doing. This would provide a better balance of “carrot and stick” incentives than is delivered through the existing regime.