



Conor Kavanagh
Eirgrid
160 Shelbourne Road
Ballsbridge
Dublin 4

Leslie Burns
SONI
Castlereagh House
12 Manse Road
Belfast
BT6 9RT

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Viridian Power & Energy Limited

Energia House
62 New Forge Lane
Belfast
BT9 5NF

Tel: +44(0)28 9068 5941
Fax: +44(0)28 9068 5935

Dear Conor and Leslie,

HARMONISED ANCILLARY SERVICES & OTHER SYSTEM CHARGES – RATES

Thank you for the opportunity to respond to the above referenced consultation paper.

Viridian Power & Energy (VP&E) support the principle of harmonised ancillary services on an all-island basis providing it is implemented correctly and enhances generator flexibility. The proposed rates however herald a major, and in our view detrimental, change to the principles and objectives of ancillary services in both jurisdictions. After studying the proposed rates we find that revenue from ancillary services appears to be significantly lower than the current rates on the island. This is inconsistent with the principles of harmonisation and will significantly reduce the incentive for generators to be flexible, perversely increasing the likelihood that they will look for ways to become more inflexible in the market.

We are also surprised that Generator Performance Incentives (GPI) are all penal to generators, and that the resulting revenue gained from generators is not paid back to good performers by recycling payments back into the ancillary services pot. It would appear instead that revenue gained from generators through penal performance incentives, trip charges, and short notice declaration charges is used to subsidise Transmission System Operator (TSO) costs normally recovered through imperfection charges¹. This seems inconsistent with the preceding consultation paper published September 2008 which states that “[a]ny monies collected by the TSOs as charges will be used to contribute to the funding of the next year’s AS expenditure” (p. 10). It is also inconsistent with the promotion of

¹ Page six of the consultation paper states that “other charges are to be used to offset future Dispatch Balancing Costs”.

flexible thermal generation needed to meet the government's renewable energy targets, and suggests that a fundamental review of the approach on GPI in particular is needed.

Indeed it was stated in the September 2008 consultation that "[t]he Transmission System Operators will propose a process to move to a harmonised [generator performance incentive] regime. There will be further consultation on the proposed approach and charge rates" (p. 5). VP&E would welcome an opportunity to contribute to this. In the meantime a hypothecated charge that is recycled to performing generators would, in our opinion, create a clear incentive to improve performance. We also understand that generator performance incentives will be set against derogated values. This inevitably creates commercial incentives to seek derogations which we believe could have unintended consequences.

We also note that changing the emphasis from utilisation to availability based payments diverts value away from generators actually providing ancillary services to those who have the capability of providing such services. This has the effect of diluting payments to all generators and increasing risk for generators who are called upon to provide ancillary services. We are not convinced that payment for utilisation significantly reduces the level of predictability of income for service providers. Generators are able to predict a general level of dispatch and therefore this revenue is reasonably predictable and aligns with generator costs (e.g. loss of real power). Payment based on utilisation also provides better value for money to consumers because it is based on delivery rather than the promise of a service inherent in availability payments. Furthermore, payment on availability is inherently a less reliable metric given that the payment is for the promise of a service, rather than its delivery.

Workshop participants in Dundalk on 24 June 2009 were told that generators can declare off for a particular service at a particular point in time. VP&E would like to know how this would work and what effects it might have on generator behaviour and performance.

In our view the consultation process that jumps from a broad discussion of possible approaches to ancillary services in the September 2008 consultation to a complete set of proposed rates and charges in this consultation lacks contiguity and sufficient engagement with market participants.

Appendix 1 of this letter provides more detailed comments to the consultation paper.

Please do not hesitate to contact us if you would like to discuss our comments further.

Yours sincerely



Kevin Hannafin
Senior Regulation Analyst

Appendix 1 – Detailed Comments

Section 3.2 – AS Allowances

Point 1

VPE has calculated a large decrease in projected ancillary services for Huntstown based on the rates set out in the rates consultation. We would welcome detailed calculations to support the TSO assertion that the allowance to generators remains unchanged.

Point 4

VPE would welcome a description of the Winter Peak Demand Reduction Scheme (WPDRS) component of the AS allowance and why this service continues, given that the SEM was supposed to remunerate demand side participation directly, and that WPDRS was expected to be phased out.

Point 5

The rationale behind this point needs further analysis. Is it not true that the lack of improvement in AS services is because insufficient funds have been made available for this service in the past?

Section 4.2.1 – Proposed As Rates

Reserves

The rationale for decreasing tertiary reserve rates has not been adequately explained. Is it not true that increased tertiary reserves are needed with higher wind penetrations given the relatively slow changes in wind farm output with changes in wind patterns?

Reactive Power

Table 4.1 makes no reference to the current payments for lagging and leading power based on utilisation. Is it not true that with large lagging or leading services that the real power from generators is reduced? How will this be paid for if utilisation is not included in paying for reactive power capability? Is payment for services based on utilisation not inherently better value for money for consumers in that there is clear unambiguous evidence that the service was used? Payment on availability is inherently a less reliable metric given that the payment is for the promise of a service, rather than its delivery.

We note that there is no explicit reference to use of Automatic Voltage Regulator (AVR) for provision of real time reactive power services in the proposed AS rates. We understand from previous consultation documents (notably the September 2008 consultation paper and the January 2009 decision paper) and subsequent discussions with the TSO that AVR use will attract double payment of reactive power rates. We presume that the final documentation will include confirmation of this pricing for AVR use.

Black Start

Should future payments for provisions of new black start capability not be established through an open competition?

Replacement reserve

We presume de-synchronised replacement reserve is already paid for by the capacity payment mechanism in the SEM and on this basis we do not support the proposed alternative replacement reserve option outlined in section 4.2.2.

Windfarms

We would welcome confirmation that the above payments will be available to windfarms if they can demonstrate provision of any of the above services

Section 5 – Trips and Short Notice Declaration Charge Rates

Trip Charges

VP&E contend that it is not possible, anywhere in the world, to find a generator with any significant service record that has not tripped at some point in time. We therefore contend that tripping is a normal characteristic of any generator and that the power system should be designed to allow for this. However a generator which trips at a rate greater than the average imposes an undue burden on system operation and incentives to deter this behaviour are thus warranted. On this basis we suggest that all generators in the SEM should be given a standard trip allowance per annum, based on say average trip rates, and that trip charges should be imposed on generators that exceed their allowance. Again a hypothecated approach which recycled these trip charges to those generators who had below average trips would enhance the incentive compatibility of the mechanism.

We also suggest there should be a careful definition for what caused the trip and that events, such as lightning strikes to the transmission networks, that trips a generator should be TSO excused trips that do not attract a trip charge.

Three categories of trips are defined as follows based on the rate of MW loss:

1. Direct Trip Rate of MW Loss ≥ 15 MW/s
2. Fast Wind-down Rate of MW Loss ≥ 3 MW/s & < 15 MW/s
3. Slow Wind-down Rate of MW Loss < 3 MW/s

We note the addition of charges for slow wind-downs and suggest that improved incentives would be provided if a minimum slow wind-down rate of say 1MW/s was applied hence changing the range for which slow wind down applies to >1 MW/s and <3 MW/s. This would send a positive signal for generators to be very slow in winding down which would therefore improve system operation.

Short Notice Declaration charges

We note that 12 hours is a significantly long timeframe for avoidance of SND charges. We are concerned that such a long timeframe may reduce the existing flexibility in dispatch between Eirgrid's National Control Centre (NCC) and generators. If the NCC needs to adjust generator output in a relatively short timeframe will this trigger SND charges? We suggest that an NCC operator over-ride is provided for where changes in SND are as a result of NCC requested dispatch instructions. We also suggest that the timeframe over which SND charges apply might be reduced from say 12 hours to 6 hours.

The January 2009 decision paper approves a 10MW tolerance band for SNDs to account for small fluctuations in output due to ambient temperature changes. We consider that the 10MW dead band is sufficient for most changes in daily ambient conditions but may be insufficient in the event that de-icing equipment is deployed by a CCGT plant. It would be appropriate in this instance to increase the dead band to 15MW during de-icing events.