EirGrid Locational Scalars Response Paper

March 2019

1 Introduction

EirGrid welcome the opportunity to comment on the Commission for Regulation of Utilities' (CRU) consultation on locational scalars in the Dublin region (CRU/19/011).[1]

CRU/19/011 follows CRU's paper "*Mitigation Measures to prevent a disorderly exit*" (CRU/18/228)[2] which outlined eight mitigation measures to mitigate a security of supply issue in the greater Dublin region. The use of locational scarcity scalars was one of the eight mitigation measures outlined in CRU/18/228.

CRU/19/011 proposes the use of the locational scarcity scalar as a tool to mitigate a potential security of supply issue in the greater Dublin region. More specifically, CRU proposes increasing the DS3 Locational Scarcity Scalar above one for six of the DS3 System Services.

EirGrid broadly supports the measures proposed by CRU not only in CRU/19/011 but also the wider security of supply mitigation measures that CRU has previously proposed in CRU/18/228. EirGrid will continue to engage with and support CRU regarding the Dublin security of supply issue.

While EirGrid is broadly supportive of the measures proposed by CRU in CRU/19/011, we believe that there are a number of clarifications required prior to the implementation of the locational scarcity scalars decision from CRU.

This response paper is structured as follows:

Section 1: Introduction;

Section 2: EirGrid general commentary on CRU/19/011;

Section 3: EirGrid response to specific questions in the consultation; and,

Section 4: Conclusion.

[1] https://www.cru.ie/wp-content/uploads/2019/02/CRU19011-Consultation-Paper-on-Locational-Scalars-in-the-Dublin-Region-updated.pdf
[2] https://www.cru.ie/wp-content/uploads/2018/10/CRU18228-Information-Note-on-DMILC-process-1.pdf

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2 EirGrid General Commentary on CRU/19/011

EirGrid welcomes the consultation on locational scalars (CRU/19/011) from CRU and we are broadly supportive of the proposals outlined by CRU in CRU/19/011. EirGrid recognises the need to address supply issues in the greater Dublin region, and also the challenges in ensuring that any solutions are consistent with existing industry arrangements and the long term vision of the Irish power system. We believe that the measures outlined in CRU/19/011 and CRU/18/228 have the potential to deliver benefits regarding the mitigation of the security of supply issue in the Dublin region.

However, we believe that the use of locational scalars should not be the sole mitigation measure and believe that this approach should be progressed in conjunction with the wider suite of measures as outlined by CRU in CRU/18/228. EirGrid is currently working on the development of these measures where they are applicable to EirGrid. EirGrid will engage with the Transmission Asset Owner and the Distribution System Operator where appropriate on these measures.

While we note the CRU's intention to implement a pragmatic solution in a short period of time, we see these measures as appropriate in the short-to-medium term but may need amendment in the longer term. A more robust and integrated approach may be needed to deal with locational issues, both in Dublin and elsewhere, on a long term basis. We believe this can be achieved through developments in the DS3 programme and are eager to discuss these ideas with the CRU and SEMC.

We have identified some challenges regarding the application of the Locational Scalar, particularly given the CRU's desire to adopt a pragmatic approach that can be implemented quickly. We will engage with CRU to identify a solution to these challenges.

With regard to Capacity Market interactions, EirGrid believe a unit's revenues from locational services should not be used to reduce that unit's USPC in the Capacity Market. We would like to see this principle considered in relation to System Services as a whole.

2.1 DS3 Linkage with Locational Scalars

CRU is proposing to use DS3 System Services to incentivise service provision in the Dublin region, specifically via the DS3 Locational Scarcity Scalar. EirGrid recognise the need to implement the mitigation measure and are cognisant of the need to deliver this mitigation measure in a relatively short period of time.

The DS3 System Services programme was developed to address certain challenges in increasing the allowable System Non-Synchronous Penetration (SNSP) up to 75% by 2020. Its aim is to put in place the correct structure, level and type of services in order to ensure that the system can operate securely with these higher levels of non-synchronous generation. This enables us to increase levels of renewable generation sources on the power system while continuing to ensure that the system operates securely and efficiently.

The results of the programme are now already delivering benefits to the consumer. In recent months the maximum SNSP level allowable has increased to 65%. It is expected that similar trials will be conducted in the coming years with a view to achieving the DS3 programme's overall goal of a 75% SNSP limit.

It is important that the implementation of the DS3 Locational Scarcity Scalar will not impact the core aims of the DS3 Programme and does not undermine or change the intent, design, purpose, implementation, or integrity of the DS3 system services project. EirGrid further understands that this is only one part of a suite of measures aiming at reducing the risk of a security of supply issue in the greater Dublin region and may not be a longer term measure depending on the success or otherwise of the other mitigation measures.

EirGrid requests that these points are made clear in the CRU's final decision.

2.2 Enduring Solution to Locational Issues

EirGrid is broadly supportive of the measures consulted on and note the CRU's specific desire for a pragmatic approach that can be implemented quickly.

As outlined earlier, while EirGrid believe that the use of locational scalars may be an appropriate tool for the short to medium term, a more appropriate long term approach may need to be developed. We believe this could be achieved through developments in the DS3 programme, for example as part of the reconsideration of DS3 System Services in 2021-22 for the 2030 timeframe. We are eager to discuss these ideas with the CRU and SEMC.

2.3 Application of the DS3 Locational Scalars

EirGrid believe that the CRU's final decision would benefit from additional clarity on the implementation of the use of the locational scalars and more specifically, how the €12.5m will be allocated across generators in the Dublin region. EirGrid believe that there needs to be clarity as to the level of topographical detail that will apply when determining the locational scalar and whether the scalar should be applied across all generation units in the Dublin region equally. This will be important for EirGrid to be in a position to develop the appropriate locational scarcity scalar as set out in CRU/19/011. EirGrid would welcome further engagement with CRU to address the queries above as part of the final decision.

It is clear that the introduction of proposals from CRU will result in additional challenges regarding the delivery DS3 System Services developments which are currently underway. In particular, EirGrid note that CRU intends to apply the locational scalars in line with the payment rules for the Temporal Scarcity Scalar as set out in the DS3 System Services Market Ruleset and we have identified some challenges associated with this.

EirGrid will engage with CRU to identify a solution to these concerns in advance of the final decision.

2.4 Cost uncertainty

EirGrid welcome the allocation of €12.5m to assist in the mitigation of the Dublin security of supply issue. We accept that the setting of any particular value for a new and untested measure will be imperfect. Given this, we expect that the perfection or otherwise of the €12.5m will be reviewed on an annual basis.

There are a broad range of scenarios which determine the actual outcome amount of the proposed €12.5m allocation. EirGrid notes that there is a level of uncertainty regarding the potential cost and recovery of costs. CRU states that the €12.5m will be reviewed on an annual basis and that the actual cost of the additional scalar payment will ultimately depend on the optimum scalar proposed by EirGrid and the level of relevant services provided by the generators electrically inside the Dublin Region. CRU state that any difference between the €12.5m ex ante allowable revenue and the actual costs expended will be trued up under the established k-factor mechanism, hence ensuring only efficient expenditure is eventually allowed and recovered. EirGrid is operating on the basis that all expenditure incurred is recoverable. Should this not be the case, EirGrid is requesting that CRU outline this in their response. EirGrid is available to engage with CRU on this matter.

2.5 Non Alignment of contract timelines

EirGrid note that there will be a difference between the 6 year application of the scarcity scalar as outlined in CRU/19/011 and the current DS3 System Services Agreements, which are in place until 30 of April 2023, with an option to extend for two additional time periods of up to eighteen months each. We would welcome clarification from CRU regarding this non alignment of contract timelines and are available to engage with CRU on this matter.

2.6 Netting off Revenues

EirGrid believe that the efficacy of the DS3 System Services is reduced when determining the Unit Specific Price Cap that applies to Capacity Market bids. A generator that provides both capacity benefit and locational-specific System Services to the system is more beneficial than one which provides capacity benefit alone, all other things being equal. However, the current Capacity Market rules mean that, where a Unit Specific Price Cap applies, both units would receive the same remuneration overall, and the former unit would

not receive any additional revenue for its provision of services. This significantly dulls any incentive for a unit to provide critical System Services in such a scenario.

The Locational Services proposed in this consultation are an additional benefit to the system above and beyond a capacity benefit. In order to properly incentivise delivery of these services, a unit's revenues for providing these services should not be considered when determining its USPC. This is true for all DS3 System Services and not just locational aspects. In that consideration, if CRU is minded to change the approach for location services, EirGrid look forward to working with the SEMC in the future to achieve this across all DS3 System Services. The reconsideration of DS3 System Services in 2021-22 for the 2030 timeframe would appear to be a suitable time for this consideration.

3 CRU Consultation Questions

3.1.1 Question 1

Do you have any views on the CRU's objectives and principles in relation to introducing locational signals to Dublin via the DS3 System Services Locational Scarcity Scalars?

3.1.1.1 EirGrid Response

EirGrid are broadly supportive of the approach consulted on in this document. Our views are outlined in detail in Section 2.

3.1.2 Question 2

Do you have any comments on the CRU's determination of the amount to allocate to cover the costs of adjusting the System Services Locational Scarcity Scalars in the Dublin Region?

3.1.2.1 EirGrid Response

As per earlier comments we would like to engage further with CRU on how this amount will be distributed. We would also like to confirm the specifics relating to cost recovery given the uncertainty as to what the final expenditure will actually be. See Section 2.4 for more details.

3.1.3 Question 3

Do you have any comments on the CRU's proposals to adjust the Locational Scarcity Scalars for the recommended System Services? Are there other considerations the CRU should take into account in determining the appropriate services?

3.1.3.1 EirGrid Response

We have worked with the CRU to identify the appropriate services in dealing with this issue, and therefore support the approach used here.

3.1.4 Question 4

Do you have any views on the CRU's proposal to set the Locational Scarcity Scalar values for a five-year period on an initial basis and then five years in advance on an annual basis in subsequent years?

3.1.4.1 EirGrid Response

EirGrid believe that the locational incentives should be set for an appropriate length of time to provide some certainty underpinning the incentive for generation to locate in the Dublin region. A five year period initially with an annual review thereafter would seem sensible.

However, EirGrid believe that longer term signals for system services are appropriate generally. We understand that the approach consulted on here aims to provide a solution in the short to medium term. We believe a more holistic and robust long-term solution could be incorporated as part of future developments of DS3 System Services. See Section 2.2 for more details.

3.1.5 Question 5

Do you agree with the CRU's proposals in relation to the payment basis for the System Services Locational Scarcity Scalars?

3.1.5.1 EirGrid Response

It is clear that the introduction of proposals from CRU will result in additional challenges regarding the delivery DS3 System Services developments which are currently underway. EirGrid will engage with CRU to identify a solution to these concerns in advance of the final decision.

3.1.6 Question 6

Do you have any views on how additional revenues received by providers from the application of the Locational Scarcity Scalars should be considered in relation to the CRM and the calculations of a unit's Unit Specific Price Cap (USPC)?

3.1.6.1 EirGrid Response

We believe a unit's revenues from Locational Services should not be used to reduce that unit's USPC in the Capacity Market. We would like to see this principle considered in relation to System Services as a whole, as part of future developments of DS3 System Services. See Section 2.6 above for more details.

4 Conclusions

EirGrid welcomes the proposals from CRU in CRU/19/011 regarding the increasing of the Locational Scarcity Scalar above one in the Dublin region. EirGrid view this as a positive measure that may assist in the mitigation of a security of supply incident in the Dublin region.

EirGrid recognises the need for balance between the certainty required and the level of flexibility the CRU is attempting to achieve and we recognise the difficulty faced by CRU in delivering this balance.

EirGrid believe that this approach on its own will not remove the risk a security of supply incident in the greater Dublin region. We believe that this measure is part of a wider suite of measures aiming at reducing the risk of a security of supply issue in the greater Dublin region as outlined by CRU in CRU/18/228. We believe a longer-term solution will best be achieved through more developments in the design of DS3 System Services.

EirGrid believe that the introduction of proposals from CRU will result in additional challenges regarding the delivery DS3 System Services developments which are currently underway. EirGrid will engage with CRU to identify a solution to these concerns in advance of the final decision. EirGrid believe a unit's revenues from locational services should not be used to reduce that unit's USPC in the Capacity Market. We further believe that this principle should apply to all System Services.

EirGrid welcome further detailed engagement with CRU to work through the detailed implementation clarifications identified in this paper.