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3<sup>rd</sup> June 2016

Ref: TEL/PH/16/090

**RE: Consultation on DS3 System Services Contracts for Interim Arrangements**

Dear Sirs,

Alongside the answers to the questions raised in this consultation TEL would like to draw further attention to areas both within this consultation and in the wider DS3 process.

The fundamental point of DS3 is to maximise the benefit to consumers from the high levels of wind capacity on the island, which requires significant and timely investment primarily from thermal generators. This investment will only happen if there is a supportable investment case. Without this, investment will not occur and the DS3 project will not succeed.

TEL would like to raise the following points in response to the DS3 system services consultations to date:

1. Auction Design
2. Interim Arrangement Payment Basis

**1. Auction Design**

TEL welcome the decision by the SEMC to reconsider the Auction Design but need to emphasise the importance around the restricted timeframes for achieving the DS3 targets for 2020. The process that is implemented for DS3 System Services must provide the greatest opportunity for this timely investment.

In order to get sufficient investment to meet the demand for System Services there has to be clarity throughout the process. The process should be as simple as it can be (bearing in mind the extensive changes for capacity and energy revenue streams in I-SEM). There must be sufficient revenue certainty to entice new investment to provide system services. Without this new investment the DS3 project will not succeed and it will not be possible to reach the 75% SNSP level.

**2. Interim Arrangement Payment Basis**

TEL agree with the TSOs view that system service providers should only be paid for where delivery and quality of performance can be measured. However, TEL do not agree with the divergence from the decision paper that payments will be based on dispatch position only. TEL believe the implementation of the decision that DS3 will be paid irrespective of constraints on the better of a generators market or dispatch position should be performed

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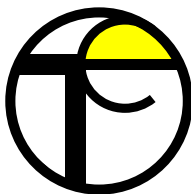
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during the interim period as there is less complexity now than there will be in the enduring arrangements in the I-SEM

If you have any questions regarding any of these comments or our answers to the specific questions please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Paraic Higgins". The signature is written in a cursive style and is positioned above a horizontal line.

**Paraic Higgins**  
**I-SEM Analyst**