



IWEA response to the SEM Committee consultation on DS3 System Services

11 October 2013

IWEA welcomes the consultation on DS3 system services and the opportunity to respond. IWEA recognises the importance of the DS3 programme and system service review for the electricity system in Ireland and in particular in relation to the integration of renewable energy into the electricity system. IWEA commends the work being carried out by EirGrid and SONI in this regard.

Ireland has an obligation to meet the 40% target under the RES-E Directive, and the SEF in Northern Ireland has also outlined a target of 40% in Northern Ireland. The role of the RAs is to facilitate meeting that in the most cost effective manner. Without DS3 programme, the achievement of these targets will be more difficult with higher levels of installed capacity, and therefore higher costs, required. It is essential that the DS3 programme is progressed in a timely manner to ensure that the targets can be met in the most efficient way.

System Services

IWEA supports the proposal to introduce the new system services as outlined in the paper. These services have been identified as being required to ensure greater levels of renewable generation can be used on the electricity system on the island of Ireland. The provision of these system services will assist in achieving greater levels of renewable generation in an efficient manner.

Timelines

IWEA is concerned regarding the timelines for the implementation of the new system services regime. While we acknowledge that a robust economic analysis is appropriate to ensure value to the consumer, we are concerned that this be carried out in a timely manner. It had been expected that this consultation would include aspects in relation to the overall budget which may be allocated to System Services, payments which may be made for the provision of these services, and the commercial terms that may apply to them. IWEA is concerned that the system services project is now behind schedule for the implementation of a new system services regime in 2015, which will reduce curtailment and facilitate the build out of renewables to meet targets. IWEA requests the RAs ensure timely decisions and no further delays to the decision making process. IWEA requests that a clear sequence of steps and target dates is provided for:

- Review of Terms of Reference (TOR) for the economic analysis.
- TOR issued for the economic analysis
- Completion of the economic analysis
- SEMC evaluation of the economic analysis

- SEMC definition of commercial terms of system services regime
- System Services live

The consultation paper notes that a phased implementation approach may be used for system services. IWEA is concerned that such an approach may not work well for making investment decisions based on the provision of services.

Economic Analysis of System Services

In the consultation paper the Regulatory Authorities outline that they have requested a further economic analysis of the system services to be carried out, and have signalled the intention to publish the terms of reference (TOR) for this analysis.

IWEA has made a submission to the RAs outlining the context of the system services review to ensure that any assessment of costs and benefits is set appropriately within the broader context of renewable energy targets and Government policy.

- Government policy has set a target of 40% of Ireland’s electricity to be sourced from renewable generation in 2020. This is a binding target which is set in European legislation and there will be penalties and infringement proceedings if this target is not reached.
- In order to meet these targets in an **efficient** manner the DS3 programme needs to be delivered to ensure the increase of the SNSP from 50% to 75%. The introduction of system services is an essential component of this programme. Failure to deliver these system services may result in the use of alternative more expensive technologies or less efficient use of resources through the need to build higher levels of renewable capacity, which will ultimately increase the cost to the consumer both in monetary terms and in terms of providing a competitive and sustainable source of energy in the long-term.
- **The Electricity Regulation Act, 1999** outlines the obligations of the CER in relation to the promotion of electricity from renewables:

(3) It shall be the duty of the Minister and the Commission to carry out their functions and exercise the powers conferred on them under this Act in a manner which—

(b) the Minister or the Commission, as the case may be, considers protects the interests of final customers.

(4) In carrying out the duty imposed by subsection (3), the Minister and the Commission shall have regard to the need:

(f) to promote the use of renewable, sustainable or alternative forms of energy.

(5) Without prejudice to subsections (3) and (4), it shall be the duty of the Commission:

(a) to take account of the protection of the environment;

(b) to encourage the efficient use and production of electricity;

(d) to encourage research and development into—

- (i) methods of generating electricity using renewable, sustainable and alternative forms of energy and combined heat and power, and
- (ii) **methods of increasing efficiency in the use and production of electricity;** and

(e) to require that the system operator gives priority to generating stations using renewable, sustainable or alternative energy sources when selecting generating stations.

It is clear from the legislation that the CER has a legal obligation to promote the use of renewable energy in line with government policy of reaching renewable energy targets and to encourage methods of increasing efficiency in the use and production of electricity. The DS3 workstream aims to satisfy these requirements.

IWEA recognises the RAs obligation to protect the interests of customers in terms of the costs of delivering the required investment, but ultimately the customer will benefit from renewable energy in the long-term through reduced SMP, reduced reliance on fossil fuel imports etc., and delivery of DS3 in a timely manner will facilitate this.

- The RES-E Directive outlines a number of obligations on the member state to enable the integration of renewable energy and to minimise curtailment. Article 16.2(c) states:

*“Member States shall ensure that **appropriate grid and market-related operational measures are taken in order to minimise the curtailment of electricity produced from renewable energy sources.**”*

The DS3 programme has been developed partly in response to this requirement.

- Any delays to the DS3 programme are likely to increase the levels of curtailment seen by windfarms.
- The provision and sourcing of system services is an essential part of the fundamental shift from the traditional fossil fuel based energy system to the low carbon energy system of the future. Discussions have commenced at a European level looking at a framework for climate and energy policy for 2030. The continued reduction of greenhouse gas emissions will continue to be a part of this framework, and ensuring the delivery of the DS3 programme will ensure that the Irish electricity system is moving in the right direction.

Value of investment

As outlined in our response to the Third Consultation on Systems Services, there is a risk that if the value of services does not at least reflect the cost of providing the services, the required investments will not be made and the services will not be provided. The infrastructure does not currently exist to provide

the level of services needed to deliver 75% SNSP. Therefore investments are needed and the arrangements underpinning the services need to be sufficient to support investment. In order to fully appreciate the benefit to consumers, consideration should also be given to external factors other than market price such as any penalties that might accrue from not meeting Government targets, emissions trading benefits, amongst others as provided for below. Any analysis to be carried out cannot focus only on the short term consequences but must consider the long-term benefits of restructuring the generation mix, which can only happen if DS3 is delivered. IWEA recognises the RAs obligation to protect the interests of customers in terms of the costs of delivering the required investment, but ultimately the customer will benefit from the efficient delivery of renewable energy in the long-term and delivery of DS3 in a timely manner will facilitate this.

IWEA believes that the system services will need to be introduced and the value associated with them will need to be sufficient to incentivise investment, based on Government policy and renewable energy targets. There is concern that focusing on the minimisation of costs in the short term will not deliver the longer term benefits to the consumer and a holistic approach needs to be taken. The analysis to be carried out should look at how the required services can be procured in a way that balances the costs and the benefits of increased levels of renewables. Particular aspects that should be taken into consideration include:

- Reduction in SMP
- Reduced exposure to volatile fossil fuel prices
- Constraint payments
- Capacity payments
- REFIT
- AER
- Impact on long term CCGT/peaker balance
- Jobs
- Tax intake
- Rates
- Security of supply - reduced reliance on imported fossil fuels and system security.
- Carbon penalties
- Penalties for not reaching EU targets
- Wider environmental benefits including air quality improvement.
- Reduced number of grid connections necessary to meet 2020 target, resulting in reduced connection/reinforcement costs.

Conclusion

IWEA supports the proposal to introduce the new system services as outlined in the paper. The provision of these system services will assist in achieving greater levels of renewable generation in an efficient manner.

IWEA believes it is essential that the system services workstream is treated as a priority by the regulatory authorities and is carried out in a timely manner. IWEA requests that a clear sequence of steps and target dates is provided for the remainder of this workstream to ensure that the programme is kept on schedule. IWEA supports the proposal in the TSO recommendations paper to have system services tariffs in place in October 2015. This will ensure investment decisions can be made and services delivered on time to ensure delivery ahead of the 2020 target deadline, and to ensure that curtailment levels can be minimised as early as possible. Delays to this timeline will result in increased curtailment and reduced investor confidence.

A lot of progress has been made in recent years to ensure the appropriate framework is in place to deliver the 2020 targets including:

- The introduction of REFIT 2
- The conclusion of the Treatment of Wind in the SEM consultation process
- Increasing levels of construction

The delivery of the DS3 programme is another essential component of this framework and it is essential that this is progressed to ensure continued delivery of projects to ensure the 2020 targets can be met.