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2nd October 2020

Dear Dylan, Dear Bronagh,

Ref: System Services Future Arrangements Scoping Paper

Thank you for providing us with the opportunity to comment on the above consultation.

RWE is now one of the world's leading producers of renewable energy. RWE stands as the world's second largest offshore wind developer and third largest provider of renewable electricity across Europe. RWE Renewables Ireland is operating and developing a number of renewable projects in Ireland, across a range of renewable energy technologies including onshore wind, offshore wind and battery storage systems.

We fully support the action being taken now by the SEM Committee with regards to the likely focus of future work to understand the current and future system service requirements for the SEM, in light of the significant changes to the island of Ireland's power system over the next decade. The changing requirements will reflect both the dramatic increase in ambition for the development and generation of significant volumes of new non-dispatchable but controllable renewable electricity, the delivery of the new Celtic Interconnector to France (which would change the reserve requirements) alongside the retirement of many old, fossil fuelled generation stations that have provided significant volume of system services to date.

In this respect, we would note some concern with the proposed timescales for the delivery of the necessary analysis, consultation, design and delivery of a new proposed framework (and potentially a transitional phase) with the attendant IT infrastructure and process required for a 1 May 2023 launch.

We are also cognizant of the recent (and risk of potential future) disruption caused by the COVID-19 pandemic. with the associated resourcing impacts on the regulators, TSOs industry and wider stakeholders. We would urge the SEM committee to commit now, (in advance of additional time pressure) to an extension of the current regulated tariff framework for at least 12-18 months, to ensure there is sufficient time to deliver the new framework, without risk of compromise on the quality, accuracy and usability of the new framework and its attendant system and processes.

Please find attached our response to the specific questions raised. We welcome the opportunity for future engagement with the Regulatory Authorities and TSOs to discuss the system products and services that will be required to meet the future system needs.

RWE Renewables Ireland Ltd also supports the submission made by Energy Storage Ireland and would also commend the Baringa report; "Store, Respond and Save Report"[1] commissioned by Energy Storage Ireland and published late last year.

If you have any questions regarding our response, please do not hesitate to contact me or our Senior Regulatory Affairs Manager, her email address is kate.garth@rwe.com.

Yours sincerely

Cathal Hennessy

RWE Renewables

[1] https://www.energystorageireland.com/wp-content/uploads/2020/02/Energy-Storage-Ireland-Baringa-Store-Respond-Save-Report.pdf

RWE Renewables Ireland Ltd – Response to SEM Committee Consultation SEM 20-044

Section 1 – Introduction and Background

Q1) Are there additional requirements in EU legislation or national policy that should be considered as key guidance for the project?

We do not believe so at this time, but would welcome clarification on the likely timescales that would be required for any derogations to be sought and granted to Regulation EU 2019/943, EU Regulation 2017/2195 (EBGL) and Directive 944 to better understand and calculate the proposed timings for the introduction of a new, compliant framework.

We believe it would also be helpful to ensure that the [to be launched shortly in Ireland] Climate Act Amendment Bill which will set out the statutory basis for decarbonisation and also impact Ireland's NECP are also considered as part of these future arrangements, given the potential impact on the speed and scale of increased electrification and therefore demand for new renewable generation and the changing system services requirements.

We would also recommend that the Regulators take account of the recent proposals from the European Commission regarding the proposed increase in the level of carbon emissions reductions by 2030 and the recently announcement from the Northern Ireland's Minister for Economics, who has just announced N Ireland will seek to deliver a similar level (70% of final demand to be met through renewable electricity) by 2030.

Q2) What should the role of DSOs be in development of the new arrangements?

The role of the two DSOs (ESBN and Northern Ireland Electricicty) must be an integral part of the discussions between Regulatory Authorities and the TSOs. That said, for the purposes of the future system services framework, we continue to believe that the impacts on the national grid infrastructure and the need to manage the transmission grid should remain the key focus for system services design at this time.

Q3) Should any further assessment criteria be included in this workstream?

Investor certainty – whilst we note this is perhaps implicit in the criteria of system need, adaptability and simplicity we note the urgent need to ensure that investors will continue to regard the Irish system services market as a positive investment destination to ensure the pipeline and development of assets continues to match the needs of a decarbonised electricity system.

Decarbonisation, whilst we would always seek a technology agnostic approach, we suggest that designing in the ambition for zero carbon provision of future system services will help meet the wider economic and societal challenges ahead and will help to future proof the new market framework. We recommend the findings from the Baringa Report Store, Respond and Save Report" which sets out the carbon and costs savings were this to be done in relation to this point.

Section 2 - Proposed Overall Approach

Q4) Is the general approach to the Project appropriate and correct?

We agree with the broad approach to the Project but we would request urgent clarity on how and when the RAs and TSOs will assess and determine levels of market power that currently exist and that are likely to exist [assuming no fundamental changes to the electricity market] given the impact this is likely to have an future auctions and or tenders.

It is unclear that were the RAs & TSOs to find evidence of significant market power, would this lead to a derogation to the requirements for market based provision of [some] or all current and future services, and in which case how long [and for which products] would any future derogations last – given the impact this would likely have on future investment.

Q5) For which products is a market based approach appropriate? What sort of market based approach is most appropriate?

We would agree that as a minimum, products whose revenues can be stacked (and procured separately) – could be procured via a market based approach. We would not support the bundling of multiple products, given the risk that this could lead to an unintentional distortion in the provision of services from different generation as well as from demand side response.

Similar to the approach utilised within the recent RESS auction, there must remain the presumption to sufficiently competitive markets with competitive pressure able to support the market based approach. Our preference would eventually be for a market based auction system which can procure services closer to real time.

However, there is not currently a sufficient level of competition, so until the point that correct and adequate investment signals and market platforms are in place and bringing forward new investment, we would expect regular tenders with a fixed duration to remain a feature of the system services market and will likely be required during a future transitional phase.

Q6) For which products is a market based approach not appropriate? Why is a marked based approach not appropriate for these products? Will an alternative approach be more economically efficient? What sort of alternative approach should be considered?

We note that future system services which are location specific (reactive power and congestion management and inertia) are unlikely to be suitable for a market based approach given insufficient levels of competition to drive an economically efficient outcome at the specific locations.

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In additional – inertia may not be suitable (at present) given the lack of revenue certainty that would be available whilst there are still incumbent conventional plant on the system (providing the services) which do not require any capex repayment.

Where these services are required, we believe these should be tendered for on the basis of fixed term contracts, with transparency of the services procured, cost and associated carbon emissions. In addition, it will be vital that the Regulators, TSOs and in future DSOs provide clear, long term forecasts on the size and location of future system need in order to provide effective and timely investment signals for the provision of future low carbon providers of system services.

There must be transparency regarding the volume, price and duration of any system services procured in a non-market based way and the current level of information asymmetry between the TSOs and other market participants must be addressed.

Section 7 – Market Based Arrangements

Q7) Do stakeholders believe the current qualification process is the most efficient approach? Do stakeholders have any alternative proposals?

For new build assets the current qualification process creates substantial risk on the timing of the energisation, commissioning and testing of projects under the current six-monthly DS3 procurement gate framework. This is an area which requires greater flexibility and agility, particularly in light of the current impacts of COVID (we have previously set out our views on this in an earlier consultation.)

Q8) What are stakeholder views on the overall current governance arrangements included the contractual principles., the Protocol Document and the market ruleset? Should these be modified into an overall protocol document which captures all of the rules for providing and procuring System Services with increased regulatory oversight?

A move to greater industry involvement via mechanisms similar to how the energy and capacity markets are managed may be more appropriate i.e. Mods Committee structure than the current arrangements. It is a material risk to projects that the TSOs can alter service conditions during a contract that have financial implications for projects.

Greater industry involvement in the review process is necessary.

Q9) Should System Services continue to be funded through network tariffs? Are there views on alternative arrangements?

it is important to ensure there is sufficient funding available for the current and future procurement of system needs. We believe that a move to a supplier based charge (similar to the imperfections charge) may be more appropriate, and note the ongoing discussions within the UK regarding a similar move being considered for the Balancing Use of System Charges (BSUoS).

Ensuring sufficient clarity on the shape and type of charges that will face the different types of users (particularly storage where it is not yet known how future network charges will be

set). We would recommend that this topic is included within the proposed network tariff discussion (due next year).

Q10) Should all services be procured through a single daily auction framework or should bespoke arrangements be developed for the separate products?

In principle, we support the idea of procuring more services through a single daily auction, as this would help enable / increase participation from a range of technology providers, including wind. That said, there must be sufficient volumes able to participate in an auction before any such change is implemented and it is likely that a combination of both longer term contracting and short term arrangements will be required across different products and services.

Q11) What are stakeholders' vies on the timing of auctions?

It is too early to tell based on the information provided so far. We would be happy to engage further once more information is available.

Q12) Do stakeholders have any proposals on how best to ensure commitment obligations are met?

We cannot provide comments at this time.

Q13) What are the significant interactions within potential System Services product markets and between System Services markets and the energy and capacity markets? How should issues arising be addressed?

It is important to ensure that whilst the TSOs retain commercial control over the type and level of system services procured and the provider of the system services offered must retain the commercial decisions as to which products / services they seek to offer.
It will be important to ensure that in future (particularly for location specific services) that a clear hierarchy of provision is engaged up to ensure delivery of both the local and national system security requirements. Ensuring policy design is appropriate will reduce the risk of any double counting of the same capacity and or balancing energy being provided to multiple services within the same time period.

Q14) Do stakeholders have further views or proposals in relation to auction design?

As per our response to question 11, we do not have clear view for these details at this time.

Section 4 – Fixed Contract Arrangements

Q15) Do stakeholders believe there would be benefit in maintain the Fixed Contract Arrangements for future procurement runs?

We agree that the Fixed Contracts Arrangements (for a 6 year period) provided a degree of revenue certainty and helped incentivise and provide investor certainty in the investment in new assets designed to deliver the necessary volumes of services. Whilst we would not

expect to see this as a permanent feature within the SEM, we believe a similar approach will help develop and support the interest and investment from new providers (including demand side response) in the short to medium term which will be required before more market based auctions for more products can occur.

Section 5 – Additional Considerations

Q16) Do stakeholders have views on the list of additional considerations above? Are there any further issues to consider?

We agree that the additional considerations shown (market power, sufficient investment certainty and mechanisms required to smooth the transition from regulated contracts to competitive auctions should be considered in more detail.

In terms of investment certainty for viable projects to be progressed that facilitate the energy transition, we believe this is critical, given the significant increase in renewable generation planned as well as the proposed electrification of other vectors (including heat and transport) which will coincide with many existing thermal generation units being retired. We believe as well as supporting the transition (particularly through the planned achievement of the high SNSP levels) it is critical that the providers of the future system services do themselves not contribute to additional (and avoidable) carbon emissions.

Q17) What are stakeholders' views on the potential existence of, and options for mitigation of, market power?

Please note our earlier comments regarding the need to address current levels of market information asymmetry. We are concerned that without clarity on the size, type and volume of system services procured from larger (and mostly pre-existing) conventional [fossil-fuelled and hydro] generation that has low no capital repayment requirements, it will not be possible to devise effective mitigation strategies to reduce the level of market power.

Regulators must ensure that procurement of system services does not bundle services together that cannot be separately valued, as this may preclude the appropriate valuation of all the services (even those, such as inertia that may come "for free"). Without being able to ascribe a need and value for such services, it will be harder to bring forward the necessary investment in new technologies that can provide such services in future.

This will also be important in terms of future locational system services (including constraint management, voltage control and inertia) – that these will be procured from interpedently owned and or operated assets, so that network companies do not invest in assets which could be delivered through a market based approach.