



## **About EAI**

The EAI is the representative body for the value chain on the island of Ireland, and the national representative at Eurelectric, the pan-European body for the value chain. In the context of this consultation, EAI represents the interests of the main providers of the existing suite of services and the investors who will continue to provide these services and any others required by the SOs on the journey to a system capable of achieving 100% SNSP and the decarbonisation of the power system and final energy consumption in the economy.

EAI's main concerns with this consultation relate to the impact of an SS auction on market outcomes, in a centrally dispatched highly constrained system like Ireland, and the ability of this high-level framework to attract the much-needed capital investment in the Irish system. The focus of the EU target model is to use short term markets to deliver price signals for efficient dispatch but there is growing concern in relation to its ability to deliver the long-term signal that is needed for investment certainty. Existing EU legislation (SOGL, Electricity Directive, Elec Regulation) sets out an approach to the procurement of system services by SO's, but this framework may be reformed and supplemented over the coming years to ensure the availability of flexibility services for SOs and also to ensure that the IEM is internally consistent. EAI is following this market design debate closely via its membership of Eurelectric.

EAI supports long term competitive procurement of services to suit the respective plans for Ireland and Northern Ireland. This response aims to cover the issues raised by EAI's members in relation to how we will transition to an enduring framework for the competitive procurement of system services. This response also aims to address the key issues raised in the consultation regarding Governance, Auction Design and Market Design.

## **EXECUTIVE SUMMARY**

The objective of any future arrangements should be to complement a holistic design which realises the value of services to a system that will gradually reduce its carbon emissions over the coming decades, largely due to increased volumes of renewable power generation, and which will play a lead role in decarbonising final energy demand across the economy. The current value of system services, and the existing expenditure cap of €235mn, was calculated based on 40% of final electricity consumption deriving from renewable electricity over a calendar year, enabled by the system being able to accommodate 70% at any one time (SNSP), and the annual reduction in both wholesale electricity costs and costs of carbon. Today, the system is trialing 75% SNSP, and we are planning for a system that will be capable of absorbing 95%+ by 2030 at any one time, and an 80% average over the year 2030. In 2030, Eirgrid estimate that the system will operate at 75%+ SNSP for 60% of the year. The value proposition



for system services now looks very different and enduring arrangements for SS need to endure beyond 2030.

Eirgrid has flagged that the existing cap could be breached in the next year or so and has further estimated that system services could be worth approximately a total of €690mn each year, using a methodology detailed in its EUSYSFLEX study 2.4 which has subsequently been validated by AFRI. The RAs appear to have endorsed this figure in the slide-deck presented at the first SS workshop. Participants understand that this figure is net of the €235mn budget for existing services, meaning that €350mn could be made available for new system services from April 2024 onwards when the new arrangements are introduced. EAI would welcome confirmation of the RAs' view on the increased expenditure that can be expected to be forthcoming on the SSFA from 2024.

As a first step on the road to finalising future arrangements, which will need to endure beyond 2030, and in order to avoid a hiatus in investment in the short term, EAI recommends that the RAs re-evaluate the existing cap. There is also an urgent need for clarity in relation to the transition between the existing and the new regimes, with a view to having a single coherent framework for SS at some point in the near future.

The objective of the RAs, and the enduring arrangements, should then be to realise the significant value of system services to ensure that carbon reduction objectives will be met. The enduring system services framework must facilitate sufficient investment signals and delivery of system services as necessary to accommodate the increasing levels of renewables that are required to meet the ultimate policy goal of reaching net zero carbon across this island by 2050. The driver behind increasing system services provision continues to be the facilitation of increasing levels of renewable generation. This autumn has shown the reliance the SEM still has on its conventional fleet for energy when there is no wind available. While not all of the service provision required to meet the new targets can be delivered utilising the existing generation fleet, the existing fleet will continue to play a role going forward. In addition, as not all investments in system services will be active energy market participants, the market has to be able to facilitate multiple types of investors.

Investment decisions are hanging on the outcome of this consultation. If SS revenue does not provide investor confidence the necessary assets will not be delivered. The consultation, however, provides little clarity on how investment can be realised. The 2030 target of up to 80% RES-E require SNSP approaching 100%. 2030 targets need new zero carbon providers of DS3 services as well as traditional dispatchable generation assets. This represents very significant new capital spending needed from investors, and vastly more than was needed to reach the 2020 targets. Moving to 80% renewables and beyond presents challenges for Regulators and policy makers alike, who now have to anticipate how system security can be achieved when conventional units make up a smaller proportion of the delivered energy.



Investors in the required SS need to understand what commitment is being required from them where they are successful and what certainty can be provided for conditions that are outside of their own control. The consultation does not adequately address the risks that currently exist for system services in the way of penalties, scalars, grid code, expenditure caps etc. EAI would like to see greater clarity in advance of a decision as to how the allocation of risk will be determined. TSOs have previously acknowledged that the risk should sit with those best placed to manage that risk, and whilst it might be considered something for the detailed design, the high-level principles should set out what risks an investor is expected to bear.

We are concerned that the primary objective of the RAs' approach is to realise value via the cost reduction SS can achieve in other revenue streams, primarily energy payments in the ex-ante markets and possibly capacity payments. This 'cost minimisation' approach to market design has been in evidence over the last number of years and has arguably resulted in the capacity shortages we are now seeing, and which have now prompted significant regulatory intervention in the market. The RAs must learn the lessons of the current predicament by taking a wider view of the value of electricity and a holistic view of how revenue streams interact with each other.

Adequate procurement of System Services in the early to mid-2020s will represent good value for money for the island of Ireland and will help set the foundation for a net zero carbon economy. Failure to procure adequate System Services will result in renewable power being dispatched down, failure to meet government RES-E targets, and place unnecessary additional costs on energy consumers. This will increase the risk of future uneconomic procurement of emergency system services later. It also risks the viability of dispatchable generation assets, introducing potentially inefficient and inappropriate exit signals on generation which will be needed for decades to support RES-E integration.

A second aspect of the RA approach is the interpretation and implementation of existing relevant EU legislation and also, preparation for how the EU approach is likely to evolve over the coming years. The approach should not be reactive and blind. The EU approach has focused on the creation of short-term energy markets in order to drive efficient dispatch, and minimisation of any distortion of these short-term signals by extra-market payments for energy and capacity.

In order to achieve compliance with the Balancing Guideline in this instance, the RAs have interpreted the product as a capacity product that will be remunerated based on availability. i.e., providers will receive payment irrespective of the system trigger, either automatic or via TSO dispatch instruction. The objective of the EU approach is to avoid over-compensation or double payment for capacity (i.e., capacity would not have been made available absent this payment) or energy that may be remunerated elsewhere. A complication here is that energy injection/reduction is required to provide some services.

The objective of the RAs is to use short term markets/auctions to reveal the value of system services. The RAs will procure a desired volume of services based on the bids submitted by participants. The what (product definition) and the how much (volume) is unclear and makes responding to this high-level consultation difficult. We know that the EU objective is for products to be standardised to the greatest extent possible and for these standard products to be procured in short term markets max one day before delivery, but that there is also a degree of flexibility towards longer-term contracts for non-standard products where there is a demonstrable need. i.e., where there is a risk of an uncompetitive outcome for the product or market. If System services are not going to be procured through an EU compliant process, there needs to be clarity from the RAs as to how compliance will be achieved. Further information is required on what derogations will be required from the EU, and where derogations are not required that this is clearly set out.

Instead of the product and quantities, this consultation focuses on the when and the timing of any short-term auctions, with the RAs stating a preference for an auction to take place after closure of the Day Ahead Market, currently 11am on D-1, and before submission of the final PN's by noon on D-1. The auction should be timed to enable an efficient dispatch by the TSO, while allowing market participants to optimise their ex-ante energy and system services market positions. Whilst this is currently aided by a requirement for final PNs to be the same as ex-ante market positions, there has been upward pressure on dispatch balancing costs despite the introduction of ex-ante markets, including a balancing market in 2018. This is due to the highly constrained nature of the Irish System, where system actions are inevitable and will often preclude energy actions from balancing the system.

EAI does not have a preference for the timing of the auction but notes EU preference for auctions to take place at least one day before physical delivery, in the ex-ante markets.

The following are key points for the design of any auction;

- The decision to continue to apply a fixed contracts framework for new technologies is welcomed and acknowledges the need to provide revenue certainty for those technologies that will rely on SS income as the primary revenue. On an enduring basis in the absence of fixed contracts it would be useful if the system services market design was cognisant of facilitating this type of investment where some technologies will play across one main market in which a strong signal for investment should materialise for them.
- Transparency in data in relation to volumes required, volumes utilised etc, will improve understanding of the needs of the market and make investment more predictable.
- EAI is of the view that clarity is needed in respect of which products will be subject to competition. This will, in itself, facilitate a greater understanding of market interactions.



In order to determine which of the options is preferable EAI are of the view that the RAs should provide (at least at a high level) examples of how the proposed options could work in practice and that this would inform an approach to the following key issues;

- Timings of auctions, it has not yet been made clear if any of the proposals can be made workable
- Can secondary trading be accommodated within the proposed timeframes?
- Can secondary trading work, and if not, how are risks managed?
- How will the market be informed of the needs of the system, short term and long term?

## **CONCLUSION**

In conclusion, the EAI is concerned that the RA approach in this instance will not deliver the significant investment required and also risks distorting signals in other markets. The urgency to deliver on this workstream, in terms of meeting ambitious carbon reduction targets whilst also achieving compliance with the evolving EU target model, is well appreciated by all stakeholders. However, it is imperative that we take a step back to ensure that the investment challenge is well understood and that the market is configured to deliver in the limited time now remaining. We have a window now before these arrangements are finalised and before a number of auctions take place next year to ensure that the market is pointed in the right direction. Eirgrid's 'Shaping our Electricity Future' is expected to provide clarity on the SO's vision for the market when it is published over the coming weeks.

In this response EAI has proposed an approach that would; prioritise a re-evaluation of the cap for existing services; provide clarity on the transition between the existing and enduring regime and that ultimately will deliver a coherent framework for the procurement of all services. EAI's ability to respond in detail has ultimately been constrained by the absence of information in relation to the product definition and the future volume requirement and would have benefited from some worked examples across different technologies. Further engagement between RAs, TSO and industry is now required in November before any move to final decision on these future arrangements. EAI looks forward to participating in this process.

*Electricity Association of Ireland, 21<sup>st</sup> of October 2021*