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RE: SEM-21-069 System Services Future Arrangements – High Level Design Consultation Paper

Wind Energy Ireland (WEI) and RenewableNI (RNI) welcome the opportunity to engage with the SEMC and respond to the SEM-21-069 System Services Future Arrangements – High Level Design Consultation Paper.

WEI is the largest representative body for the Irish wind industry, working to promote wind energy as an essential, economical, and environmentally friendly part of our low-carbon energy future. RNI is a collaboration between Wind Energy Ireland and RenewableUK and is the voice of the renewable electricity industry in Northern Ireland. Together we represent a large majority of the renewable industry supply chain on the island.

General Comments

Our members wish to make the following general comments regarding the Consultation Paper, in particular on elements that we believe remain ambiguous and in need of further discussion amongst industry, SEMC, the Regulatory Authorities (RAs) and the TSO, as a priority.

Clarity on Expenditure Caps

Firstly, we wish to highlight the current uncertainty regarding expenditure caps, noting there was ambiguity at the recent industry workshop regarding a definitive RA position on this point. On the one hand, the expenditure cap is being discussed as an immovable element. On the other, it has not been made explicit in the Consultation Paper that an expenditure cap will not apply to the new auction design being considered by SEMC. We would request clarity on this.

It is worth reflecting that our members believe a decision regarding the expenditure cap will be particularly relevant if a layered procurement approach is pursued. We discuss this further in the relevant question below, but without further detail on the likely services deemed to be eligible for those segments of procurement, the overall feasibility of a likely expenditure cap cannot be commented on at this stage.

As mentioned in our response to the specific question below regarding layered procurement, our members currently assume this to be a transitional framework with appropriate flexibility such that services can ultimately move to the market-based auction (without expenditure cap) when demonstrated to be competitive or appropriate. Therefore, the nature of expenditure within this framework is far more nuanced than has been previously discussed and would require consideration by the RAs.

Obligations under Grid Code and Licences

We would also like to highlight that the Consultation Paper does not consider the existing obligations under Grid Code and Licences, relating to specific obligated System Services. At present, neither of these consents take account of the value or cost of these services, and the TSO can always fall back on these services in comparison to contracted or procured services. To motivate competition in procurement, we would encourage the RAs to reflect on mechanisms to incentivise the TSO to procure as much as possible from the new System Services market. As such, we would be in favour of the TSO paying the clear value of these services, and that these services are included in the overall pot of services being considered within this new High-Level Design.

For members of WEI and RNI, there is an important aspect regarding removal of barriers in the new market. Addressing this automatic fall back open to the TSO, regardless of value or cost, will help to mitigate potential hindrances in the new market. In addition, since the TSO is the sole purchaser of these services, transparency and clarity of procurement behaviour should be clear for the full market, including new entrants. This provides further reason to think carefully about incentivising the TSO to procure as much as possible (including services under the Grid Code), from the new market.

Appropriate Allocation of Risk

We note that the Consultation Paper is silent on appropriate allocation of risk. It is our view, a view which we share with the TSO, that investment risk as it relates to reducing constraints and curtailment, should be placed with the entity best placed to manage this risk, i.e., with the TSO in the case of network build out and increasing the limits of SNSP.

It is unacceptable, in our view, that there is currently no strong incentive for the TSO to take on this risk as the one best placed to manage it. This is particularly concerning given the amount of current focus regarding lack of generation capacity into the future and an increasing need for new renewable generation (and System Services providers) to come on stream.

Clearly, WEI and RNI members would advocate a similar approach for new generation as well, but at the very least if certainty can be established via System Services development, this would represent a very positive step. Therefore, we would encourage appropriate risk allocation to

be part of the System Services framework along with clear and binding delivery of network and operational metrics as is required to drive investment in new System Services.

Essential Role of System Services

Next, we believe that the Consultation Paper doesn't adequately acknowledge the very great system and market changes required in the next decade, which System Services can be used to support. Namely, the increased penetration of wind and other renewables, the increase of this type of technology providing System Services, and the reduction of thermal units on the system in line with emissions reductions and climate targets.

The paper doesn't appear to acknowledge the step change with these developments, nor does it reflect this in considerations of the High-Level Design. Specifically, we note that the position of offshore wind and likely System Services from these assets and associated networks, is not covered in the paper. We will come back to this later in our response.

More generally, the paper does not signal what kind of services providers are expected to participate in the new market, or any justification for why any specific services or providers should not be able to compete competitively in a new market. It is our preference that this market should be unambiguous, with sufficient investment signals to provide sufficient choice to the TSO, without the enduring crutch of fixed term contracts that could become a barrier to services becoming far more competitive over time.

Adequate Investment Signals

Noting the important role for System Services over the coming decade and beyond, it is critical that the SEMC and RAs understand that this new market must have sufficient signals to ensure that it is invested in. This is particularly important, when we consider the new type of providers likely seeking to provide these new services, e.g., storage, wind, and other renewables, and dedicated System Services providers. We note that regarding payment for services, there appears to be some confusion, as discussed in the second industry workshop.

At the workshop there was reference to System Services being provided at no cost, with cost minimisation, the lesser of bid price and auction clearing price. Undivided focus on cost minimisation in System Services fails to realise the customer benefits of this new market in supporting the transition to net zero, supporting the system during the closure of thermal stations under IED, and supporting the TSO in increasing SNSP to close to 100% over the coming decade. None of these significant system and societal changes can be minimised simply based on cost. We would expect the RAs and their consultants to be able to monetise the intrinsic benefits of System Services beyond 2030 compared to costs and weigh the necessity of realising these benefits as per the overall interests of the end customer.

Transitional Arrangements

Finally, we wish to raise another observation concerning the new framework, which we believe is unclear in the Consultation Paper, namely the transitional arrangements.

By transitional arrangements we mean the transition from the current tariff-based model, with reliance on Grid Code obligations as a fall-back, to the new market-based regime. We also mean by transition, certainty of process, certainty of timing and certainty of intention for the new market in terms of types of new providers, volumes, and types of services. In respect to all these aspects of transition, the paper is completely silent.

The transitional arrangements are significant and important factors when you consider the endeavour of the RAs, to create a new and novel framework that is primarily market-based. Therefore, given it is something new, our members require adequate transparency, early warning, and signal of intended direction, intended purpose, and needs so that existing and new entrants can review, prepare and be able to provide suitable products at the point when System Services reaches Go-Live.

We cannot accept any intention for service needs to be published a year in advance, as if it were an established framework, like the current regime. At the very least, we believe that industry needs certainty as to whether it is intended for a big-bang from tariff regime to market-based regime. We appreciate this is a difficult ask and we would welcome continued engagement with the RAs and the TSO to discuss the best approach.

Question 1: Do stakeholders consider that the commitment to putting these arrangements in place on an enduring basis, at least to 2030, represents sufficient certainty of process?

Considering that the current arrangements are due to expire in 2024, on reflection, our members believe it is unreasonable that the new arrangements would only remain in place for a six-year period.

As we outlined at the System Services industry workshop (on 7th October), a large majority of our members would expect to see the new regime to remain in existence on an enduring basis, with some adjustments as needed. As outlined at that meeting, the heightened renewables targets, the challenges of reducing of emissions and reducing degree of fossil fuel plant all necessitate a clear, concrete, and decisive development of a robust and enduring System Services procurement regime.

At this stage, it is important for as much clarity as possible given the move to brand new approach to procurement of System Services. We would not be in favour of an opaque process up until the TSO signals, a year or so in advance, the types of services that are required. This is putting the cart before the horse in terms of hampering a fuller consideration and transparent

discussion about the best market design to achieve the aims that we believe should be the focus of this new market.

We also wish to point out that given the intention is for a move to market-based procurement approach, an end date for such a regime is out of step with this intent. It is important to note that none of the other markets currently in place in the SEM, barring the Capacity Market, have been established with an expiry date. Certainty has not been created in these markets with the inclusion of an end date, or certainty of longevity. It is an accepted fact that an open and free Balancing Market will endure. The same assumption should be established for a new open, free System Services market-based procurement.

Governance Arrangements

Question 2: What are stakeholders views on the options and recommendations presented for qualification/registration? Are there further options that may be considered?

WEI and RNI note from the Consultation that SEMC are minded to proceed with option 2 – a rolling 90-day application process for qualification/registration. Our members support this proposal, as it removes the cliff-edge issue that has been an unwelcome feature of the tariff arrangements. We would note however that TSO resources are likely to become an issue to process the number of providers contracting and testing on a regular basis, and therefore funding needs to be provided for this process.

Question 3: What are stakeholders views on the proposed formalisation of the QTP?

Regarding changes to the QTP, we acknowledge the intention that the TSO would issue a call for evidence each year to allow for industry, new entrants, and new technologies to input into the design of the trial. Following this the TSO would then design a trial and would publicly consult on its proposed trial design. In general, our members welcome the formalisation of the QTP process, however we wish to highlight the need for this process to be streamlined and efficient given that it will be an annual process. Clearly there needs to be a robust process which can facilitate consultation with industry and trialling of new technologies. It would be essential that sufficient resourcing is allocated to the TSO as part of their price control revenue, to ensure that the process is delivered in a robust, reliable, and efficient manner.

It is also important to note that we would encourage that before the QTP is progressed, industry gets much more clarity as noted above, regarding the types of services and volumes to be procured and transitional arrangements.

Question 4: What are stakeholders views in terms of the introduction of a single System Services Code?

WEI and RNI note from the Consultation Paper that SEMC intend on going ahead with option 2 – A System Services Code is to be developed which will replace the current multiple System Services documents.

WEI and RNI members are in support of amalgamating documents if this leads to efficiencies, however we would highlight that any changes need to have sufficient oversight and appropriately defined governance. We note the concern expressed by the TSO regarding the complexity of delivering such a code, for example from a legal perspective, but we would like to see more justification for this and would welcome further discussion in due course.

Question 5: What are stakeholders views on the options in terms of governance of rules changes?

No WEI/RNI response is provided to this question.

Question 6: Do stakeholders have views on the potential to amalgamate different Panel meetings?

We note from the Consultation Paper that option 2 suggests the creation of a System Services Code Panel, on a transparent basis with specific participants. We would favour the creation of a System Services Code Panel. Where our members would not agree, however, is that this panel is streamlined with other existing Code panels. All existing Code panels perform important and individual functions as necessitated under each of the individual Codes. The existing panels all operate within different remits and therefore are structured differently. In short, we would not want to see these panels being amalgamated as it would reduce transparency of decision-making and could remove direct and elected involvement by industry.

Whilst we acknowledge the rationale being related to cost and burden to industry, the creation of a new market-based procurement regime for System Services will require additional input and participation regardless. It is necessary that this new regime be governed by its own Code, and that this is afforded the same transparency of decision-making and change management, as other existing panels. We can on the other hand sympathise with the additional resource burden associated with an additional panel being created to govern the intended System Services Code. We would as above, expect that the TSO can be adequately resourced to provide this service, in addition to fulfilling their functions on other Code panels.

Question 7: What are stakeholders views on the funding arrangement proposals?

WEI and RNI note SEMC's preference for a funding arrangement that retains the principle of applying charges through each trading period on the grounds that applying the charges collectively at a given period is a more equitable approach when compared to smearing the forecast costs over the year. As the SEMC notes however, System Services costs are likely to be highest during periods of high wind output when wholesale prices are lower.

The fact that wind output is negatively correlated to wholesale prices is an efficient economic signal on the grounds that it encourages electricity demand to respond to electricity supply, rather than the other way around. Key to maximising the output from renewable resources, is to create price signals that encourage demand to respond to periods where renewable output is greatest.

We would be concerned by the prospect of creating a customer charge that would in effect be diametrically opposed to wholesale prices, dampening price signals for end consumers to the detriment of investment in load shifting and energy storage. Customers are also unlikely to have the facility to optimise their consumption response regarding two contrasting price signals (wholesale prices and System Services trading period charges), so it is unclear whether the creation of such a charge, while perhaps cost reflective, would result in an efficient response on behalf of the end consumer. In short, such a charge is likely to cause confusion, inhibit desirable price signals elsewhere in the market and undermine consumers ability to participate fully in the energy market, a key goal of the Clean Energy Package.

Question 8: What level of involvement should the DSO/DNO have in the governance process?

We have incorporated our response to question 8 under question 9 below.

Question 9: How should the interactions with distribution connected parties be governed?

Whilst we recognise the importance of ensuring the DSO/DNO is fully involved and engaged in the governance process, our preference would be for Option 3 – the TSO Led approach, as this would continue the direct relationship between the TSO and provider and would likely lead to a more efficient outcome in terms of procurement processes and product standardisation. If, as anticipated, a System Services Code Panel is set up, we would expect representatives from the DNO/DSO to be fully represented and able to take a full role within the framework.

Specifically, for DSO/DNO connected sites there should be a defined involvement of the DSO/DNO in the governance of the services that have an impact on the DSO/DNO network. The existing TSO DS3 governance arrangements are suitable for distribution connected sites, however the DSO/DNO should be involved in any associated specifications that differ due to the distribution connection characteristics, either by means of a defined DSO/DNO agreement,

or the clear demarcation of responsibilities. The obligation should be on the TSO and DSO to work together and ensure a seamless process for providers.

Also, regarding question 9, with the offshore policy announcement that EirGrid will be the future Offshore Transmission Asset Owner and System Operator, this additional relationship will also need to be considered in this context. As the contractual relationships have not yet been addressed, it will be important to ensure all aspects of future provision of System Services are covered, particularly as EirGrid in its role as both offshore TAO and TSO) will connect multiple offshore projects who will be capable of providing future System Services and may also seek to provide the same services procured by EirGrid as onshore TSO. Clear roles and responsibilities will need to be developed to ensure full transparency and ensure all future System Services providers are competing on a level playing field. It is vital to ensure a market-based solution is developed that provides clarity for all stakeholders and reduces the need for additional and complex reworking of the market design once offshore projects are connected.

Question 10: Are there any further considerations for the High-Level Design of the Governance Arrangements?

No WEI/RNI response is provided to this question.

Auction Design

Question 11: What are stakeholders views on the Auction Design options and SEMC Recommendation?

We have included our response to both questions 11 and 12 below. This is because at this initial stage, we cannot provide constructive or informed views on the type of auction design most suitable. Our members can see the attraction of a market-based solution for System Services which has the potential to reflect the value of these services to the system and encourage, via market signals, new entrants to support the increased intermittency on the system out to the 2030s and beyond. We have provided general comments, therefore, below.

Question 12: Are there any further considerations in terms of the Auction Design options?

Firstly, it is important to reiterate our view that the paper is currently lacking sufficient detail for us to be able to provide a clear view on which auction design option is preferable at this stage. We have provided this feedback in stakeholder engagements with the RAs during the Consultation. Our members are supportive of a market-based approach where appropriate and can see the attraction of this regime insofar as EU compliance. However, we would concur with other industry bodies that at this stage it is unclear in the absence of worked examples, how the various options are intended to operate, at what times, and with what interactions with other markets.

We believe it would be premature to settle on any one approach in a High-Level Design decision without first considering detailed assessment of the various options and interactions. To do so could lead to issues down the line during implementation stage. In our view, the Consultation Paper is shy on answering fundamental design questions and providing detail on when/how these questions are going to be addressed. We would also note that the auction design, coupled with the layered procurement and lack of volumes and types of services, does not provide confidence as to how certain the market-based model is.

Furthermore, there appears to be a lot of room for interpretation in the paper in addition to lack of detail, e.g., expenditure cap remaining, the intended purpose of layered procurement. In addition, there is no clarity provided as to how the overall roadmap and interactions with ongoing workstreams such as firm access policy, EBGL and the Clean Energy Package Articles 12 and 13 (and associated systems for non-priority wind), is being considered. This lack of clarity is very concerning to our members who are concerned that interactions and gaps will be missed in this High-Level Design and then might be completely overlooked when design becomes more developed.

Lastly, the particular area for wind generators that is lacking, is acknowledgement of how this new framework will incentivise the necessary participation of the increased penetration of wind, insofar as being future System Services providers. Coupled with this, there appears to be little acknowledgement of how this framework and final auction design will help incentivise System Services providers to help support in intermittency of increasing levels of renewables. Therefore, as mentioned above, this is the root of the concern with the lack of worked examples to outline the effects, intent, impacts and benefits of any of the auction design options raised.

Market Design

Question 13: What information is required to get a full view of the volumes requirements for System Services?

Our members agree with the SEMC as stated in the paper about the importance of the TSO providing accurate, detailed, and timely analysis on volumes for System Services. It is important for the market to have accurate information on the future needs of the system in addition to the current needs of the system to make investment decisions. Accurate and accessible information is essential for new entrants, for example. We believe that formal and binding documentation is required.

Whilst we acknowledge the TSO's comments at the last workshop regarding some of the details on volumes being scattered across various public documents, we would not agree that this is sufficient. For new entrants, this does not provide a single, transparent, and accessible location to outline what is required from the System Services market. Furthermore, a single location

would encourage greater certainty, accuracy and focus from the TSO as to what is required at any given moment and would also potentially ensure that they take account of the changing nature of the system overall, as it directly relates to System Services. Such is the importance of accuracy and certainty; we suggest an incentive in the TSO price review should be considered.

In our view, at least a 5 year and 10 years look ahead will be required for long-term forecasting and this should be updated on an annual basis. For short-term forecasting more information is needed on the granularity of this forecast and how it fits with the auction design e.g., will half hourly forecasts be available and will these be updated. These are just some considerations that such reports should seek to capture, since the overall effect of this workstream is to create a new and functioning market for services, alongside the other markets in the SEM currently. There is much learning that can be taken for how these previous markets were developed, the degree and accuracy of information published, etc. that should be reflected in this workstream.

Lastly, it is important to reiterate that at this stage in the process, industry needs timely, early forecasting given the new and unknown regime being created. Publication of what is expected and needed, needs to be well-expressed and signalled early for new entrants and to ensure diversity of market participants to this market. Therefore, volumes and how these will support emissions targets, wind penetration and renewables intermittency in a meaningful, accurate and transparent way, is necessary.

Question 14: What are stakeholders views on the development of Secondary Trading of System Services?

Any ex-ante market design option would require a deeply liquid secondary market, trading down to real time. This is a necessity to allow renewables, which will be required to deliver 80% of Ireland's and at least 70% of Northern Ireland's power by 2030, to be able to participate. The possible use of obligations and scalars to penalise non-delivery, especially where this non-delivery may be due to a lack of firmness, would make this need even more acute.

Question 15: What are stakeholders views on the proposals regarding Commitment Obligations and Scalars?

At the outset we must state that the usefulness and logic of obligations and scalars is fundamentally intertwined with the auction design and firmness. Since our members are not clear on which auction design would be suitable at this time, and the treatment of firm access is a matter of active discussion with the TSO (with a new Firm Access Policy under development by EirGrid) we cannot be definitive on our positions regarding this question.

While we do recognise in principle the need for a commitment obligation to ensure service availability, we believe that more clarity is needed on how such a commitment will be based for service providers. It should be noted that priority dispatch units for example are not

required to submit FPNs but are already actively involved in the provision of reserve services, and it is not yet clear what the requirements for non-priority dispatch renewable units will be.

It is also unclear from the Consultation Paper how any of the scalars will work and there is also a lack of clarity about how they will be formulated during the detailed design. The RAs current proposal is to retain three of the scalars that are currently used (performance scalar, product scalar and locational scarcity scalar) but to remove the temporal scarcity scalar. Unfortunately, there is no information provided on whether or how the remaining scalars will interact with any of the medium- or long-term procurement of System Services. In the absence of detailed information, it is difficult to give informed opinions on the proposed retention of scalars at this stage. In short, we would welcome an opportunity to engage further with the RAs on proposals regarding Commitment Obligations and Scalars before anything concrete is put in place.

Question 16: Do Stakeholders have views on the introduction of the concept of Firm Access to the System Services market?

The use of firm access as a mechanism in the System Services regime adds significant complexity to the market, and, if handled poorly could increase risk to participants. Without the development of an adequate solution, this could increase costs to the end consumer and undermine the market and its effectiveness.

For example, if a participant is unaware as to whether they will be able to deliver a service, due to dispatch down, and may be penalised for this through scalars, and not compensated, due to lack of firmness, this would act as a barrier to a unit participating in the market. If, however, units are compensated for being unable to provide a service and others are called on to provide the same service in their place, there is a risk that the cost to the end consumer rises. This is particularly dangerous if a financial cap is placed on the cost of services overall as it will reduce spend on other services and disincentivise investment by potential providers of those services.

We note that a new Firm Access Policy is currently under development by the TSO. Until there is clarity on the status of firm access as per Article 12 and 13 implementations, we would not consider any such element should form part of the System Services design.

At the time of writing, it is our view that firm access being set at non-firm for System Services is not addressing the underlying issue. Namely, that constraints are not being reduced at any scale and that market participants cannot trust constraint reduction forecasts provided by the TSO (which is the basis on which providers are expected to agree to the terms of their offers). Furthermore, where System Services may be locational for good reason, exacerbating this via firm access treatment will likely concentrate this advantage and provide no incentive for the TSO to actively reduce constraints, as they are required to under the Clean Energy Package.

In short, given the fundamental interactions across other areas of work by the RAs, we would urge caution and close co-ordination in how this stream of the framework is progressed.

Question 17: Do stakeholders have views on layered procurement of System Services? What approach could be taken to support this?

When reviewing this section of the Consultation Paper, our assumption as to the intention of layered procurement is that it is to provide a layered method for services to start participating, with a view that over time where competition becomes established, more and more services could transition to a solely market-based model. This would mean that the segments of “less competitive” and fixed term procurement would reduce in volume over time. However, this assumption has not been satisfactorily confirmed by the RAs in the paper, therefore we would welcome clarity that our interpretation of layered procurement is correct.

If our assumption above is correct, then our comments regarding transitional arrangements in this response, would apply to layered procurement. At this stage, it is not certain which services would fit into each of the segments and this must be made clear as it impacts investment signals for service providers. Furthermore, the transitional arrangements of when a service would be deemed competitive enough to move to market-based procurement is also unclear.

On the basis of layered procurement being a transitional framework to ultimately lead to full market-based procurement, we would be supportive as this approach could provide an optimal manner of procuring services in terms of security and costs. Whilst some services could go to short term markets quickly, others will take time to do this, through a processing of “learning while doing” i.e., layered procurement and others are more suited to competitive long term volume capped auctions.

On the other hand, our members would not be in favour of a layered procurement becoming a solidified segmentation of procurement types as this will not progress procurement very much beyond the current tariff-based model for System Services.

Finally, our members believe that more clarity is needed on a roadmap, services volumes, and timeframes for procurements to help clarify this proposed framework and how it will operate. We would also expect clear justification for which services fit in which segments, including how new products will be supported to transition to market-based as the market matures.

Conclusion

In summary, WEI and RNI believe that the SEM-21-069 Consultation Paper leaves our members with many unanswered queries and concerns regarding System Services Future Arrangements. We would also like to reiterate that significantly, in our view this Consultation Paper does little to provide comfort that broader aspects of EU compliance and cooperation are part of the overall development of this new regime, i.e., EBGL standardisation of products and the move to market-based System Services.

It would be our strong preference that further clarity is provided in response to our concerns raised above, in addition to further engagement across industry, the RAs and the TSO, before any progression to the Detailed Design phase of this workstream.

We would like to thank the SEMC and the RAs for the opportunity to make this submission in regards the SEM-21-069 System Services Future Arrangements Consultation Paper, and we look forward to engaging with you further on the details in our response.

Best Regards,

Dave Linehan

Dave Linehan

Head of Research, WEI

On behalf of WEI and RNI