

## **IWEA response to the DS3 System Services Consultation on Scalar Design**

**29 April 2016**

The Irish Wind Energy Association (IWEA) welcomes the opportunity to comment on the consultation on Scalar Design.

As outlined in previous submissions, IWEA's overriding objective with the DS3 arrangements is that they must deliver the necessary system services and any required investment for services to facilitate the achievement of the 2020 renewable targets and minimise curtailment. The delays that have been seen to date in increasing the System Non-Synchronous Penetration (SNSP) on the electricity system are of serious concern to the wind industry, and wind generators are likely to see increasing levels of curtailment if these system services are not introduced in a timely manner, thereby putting the 2020 renewable energy targets at risk.

As outlined in our previous responses IWEA believes that wind farms can play an important role in the provision of system services, however the timelines for certainty in relation to revenues is critical. There will be significant build out of wind farms in the next two years in order to be compliant with the REFIT 2 construction deadline of December 2017. If these wind farms are to invest in enhanced provision of system services it is essential that there is clarity in relation to the revenues that will be available to ensure the investment case is there. There also needs to be clarity that the REFIT calculation does not take these revenues into account as this would erode the value of the investment. For wind farms connecting to the system in the next two years, many are currently signing contracts and approaching financial close for their projects. In Northern Ireland NIE has issued a moratorium on new connection offers due to the flood of new application for projects pursuing NIRO accreditation. DS3 will be required for all the projects which will be commissioned before 31 March 2017.

If there is no certainty into the likely DS3 revenues at this time these projects may not be able to deliver the required services as the investment case cannot be made. This is particularly relevant for the provision of Dynamic Reactive Response and Fast Post Fault Active Power Recovery. Barriers to entry could result in significant delays to the delivery of DS3 investments.

### **Questions from the consultation paper**

**Question 1: Do you agree with our proposal to implement a product scalar for faster response of the FFR product? If not, please specify why or identify what element of the scalar design you believe requires amendment?**

IWEA agrees that there should be a product scalar for faster response of the Fast Frequency Response product, however consideration should be given to the following:

- If a response time faster than 0.5 seconds is of use to the TSOs, this could be further remunerated. It should be noted this would be more difficult to achieve so may need extra remuneration.
- IWEA questions whether the benefits of faster FFR increase in a linear fashion as reflected in the scalar calculation.

**Question 2: Do you agree with the implementation of a product scalar for the enhanced delivery of the FFR, POR, SOR and TOR1 products? If not, please specify why or identify what element of the scalar design you believe requires amendment?**

IWEA supports the proposal to introduce a product scalar for the enhanced delivery of the FFR, POR, SOR and TOR1 products. There appears to be inconsistency between the consultation paper and the supporting consultant document. The definition of the product scalar in the consultation paper appears to reduce the payments to providers rather than increasing payments to enhanced providers as put forward in the accompanying document. IWEA notes that the scalar for enhanced delivery should be  $>1$ .

Clarity is required in relation to the definitions of the products and concepts outlined within these triggers, such as “frequency trigger”, “static response”, “droop” and “dynamic response” which are not included in the FFR product definition.

**Question 3: Do you agree with our proposal to implement a product scalar for enhanced delivery of the SSRP product with an AVR? If not, please specify why or identify what element of the scalar design you believe requires amendment?**

IWEA supports the proposal to continue with a product scalar for enhanced delivery of the SSRP product with an AVR. This is consistent with the SEM Committee decision. IWEA requests clarity that the definition of AVR encompasses voltage controllers for non-synchronous generators that meet specified performance criteria. Clarity is also required that embedded generators will be permitted to operate under voltage control unless the DSOs can show good reason why this is not suitable.

**Question 4: What are your views on the temporal scarcity scalars presented for implementation of the DRR and FPFAPR products respectively? Do you agree with the principle behind the scalar and, if not, could you explain your rationale?**

IWEA sees the rationale behind introducing a temporal scarcity scalar which focusses payments at times of high non-synchronous generation levels where the services can be provided by non-synchronous generators. IWEA reiterates concerns in relation to the timelines for information to be available given the expected build out in the coming years, with many wind projects in the process of ordering turbines at this time requiring more detailed information in order to make investment decisions. There is also uncertainty as to the ability of projects connected to the distribution system to provide system services which will also add to the delays of the investment decisions.

If these services are not provided by non-synchronous generators, we would question whether this would provide enough certainty to providers in relation to the level of remuneration that would be available at these times. In order to account for this uncertainty it may result in higher bids for the provision of capacity, thereby delivering higher prices for a given volume of the service.

The introduction of a temporal scarcity scalar based on high levels of SNSP would also be reliant on the level of progress made in the DS3 programme in terms of allowing increased SNSP on the system. Any delays to increasing SNSP would have an impact on the assumptions which form the base of the investment in the provision of these services.

**Question 5: Do you agree with the volume scalar proposal set out by the TSOs? If not, what part of the scalar design proposal do you believe requires amendment?**

IWEA has some concerns in relation to the volume scalar as this adds to uncertainty in relation to the expected revenues from the system services. If the tariffs are set through an auction, a volume scalar does not make sense given that auctions result in price discovery based on the cost of service provision. For regulated tariffs, if the tariff is set correctly there should be no need for a volume scalar as a budget should have been allocated correctly.

It is essential that the system services are delivered to ensure that the SNSP levels can be increased and curtailment of renewable generation reduced in order to deliver value to the consumer. While the intention of the volume scalar is to protect the consumer, it cannot be to the detriment of the required investment.

In the event that a volume scalar does need to be applied, IWEA would call for an ex-ante approach to be used, so that providers can have certainty ahead of time as to the likely revenues.

**Question 6: Noting that our minded-to position is to not implement a product scalar for the SSRP product with Watt-less VARs, do you believe there is a material requirement to implement this scalar? If so, please provide justification as to why you believe this scalar is required.**

IWEA does not have a strong view on this proposal. If there is a need to invest in reactive power assets which are available independently of active power generation then a product scalar that could help achieve these capabilities would be appropriate.

**Question 7: Noting that our minded-to position is to not implement a product scalar for the enhanced delivery of the DRR product, do you believe there is a material requirement to**

**implement this scalar? If so, please provide justification as to why you believe this scalar to be required.**

IWEA does not have a strong view on this proposal.

**Question 8: Noting that while our minded-to position is to not implement a product scalar for this service [SIR with reserve] at this time, do you agree with our proposal to potentially reassess the impact of introducing this scalar at a later stage, or do you believe there is a material requirement to implement this scalar at an earlier opportunity? If so, please provide justification as to why you believe this scalar to be required.**

It is important to ensure that the correct incentives are in place to ensure the lowest stable minimum generation levels for generators on the system. IWEA welcomes the analysis carried out to date outlining the perverse incentive that could be introduced with this scalar. If it can be ascertained that other incentives are more appropriate these should be used, however IWEA welcomes the proposal to reassess this at a later stage.

**Question 9: Do you agree with the rationale as to why we propose not to implement this [product] scalar [for faster response of FPFAPR]? Can you propose an alternative approach as to how this scalar could be introduced?**

IWEA agrees with the rationale that this scalar would dilute the revenue available to non-synchronous generators (particularly wind farms) to incentivise their faster response of FPFAPR. Consideration should be given to whether FPFAPR qualification could be restricted to the class of generators it is intended to incentivise where the additional benefit of provision through a particular technology class can be shown.

**Question 10: Do you agree with the rationale as to why we are proposing not to implement this [temporal] scarcity scalar [for reserve products] at this time? If not, can you provide rationale to support your views?**

IWEA agrees with this rationale. The proposed scalar would introduce uncertainty in relation to the potential revenues, and could also result in market power concerns whereby a generator could declare some of its power stations unavailable in order to increase the temporal scarcity scalar received by its other power stations.

**Question 11: Noting the rationale provided as to why we are minded to not implement a locational scalar for SSRP at this time, do you agree with this proposal and the rationale behind it? If not, can you provide rationale to support your views?**

IWEA proposes that consideration be given to the introduction of a locational scalar for SSRP that is not based over the short time periods as outlined in the consultation paper. If there is an ongoing need for SSRP in a particular location a longer term scalar could help to drive the required investment. In the absence of locational scalars, generators may need to be constrained on to

provide SSRP in particular locations. If this can be achieved through market mechanisms this may be more appropriate.

**Question 12: Do you agree with the rationale as to why we are proposing not to implement this [temporal scarcity] scalar [for SIR]? If not, can you provide rationale to support your views?**

IWEA agrees with this rationale.

**Question 13: Do you agree with the rationale as to why we are minded not to implement this [temporal scarcity] scalar [for FFR]? If not, can you provide rationale to support your views?**

IWEA agrees with this rationale.

**Question 14: Do you agree with our proposals for the performance scalar design? If not, what part of the scalar design proposal do you believe requires amendment?**

IWEA supports the proposals for the performance scalar design and acknowledges the benefits of incentivising good performance. In order to address the data gap, IWEA proposes that the Performance Scalar be initially set to 1.0, and if data becomes available showing reduced performance then this can be taken into consideration in an updated scalar. We do not consider it appropriate that an industry or technology average be used as this penalises one generator based on the performance of others. The paper initially outlines that the performance scalar is within the control of the service provider, however if it is not set to 1.0 initially this provides an inconsistent message.

The proposed “pass rate” calculation has the advantage of simplicity compared with other methods and appears to be appropriate, however further detail is required on the proposed pass / fail tests for each service.

### **Summary**

IWEA welcomes the opportunity to comment on this consultation and welcomes the progress not being made in relation to DS3 System Service design. We remain available to discuss any details from the consultation or the wider DS3 programme.