

## **IWEA response to the DS3 System Services Consultation on Competition Metrics**

**02 November 2015**

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

**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. It should also be recognised that the market re-design currently underway, along with changes to the capacity remuneration mechanism, bring a lot of uncertainty for generators in relation to forecasting revenues in the coming years.

IWEA is concerned at the level of complexity associated with the DS3 System Services workstream. The level of complexity gives rise to uncertainty in the revenue streams associated with the provision of services. In order to develop an investment case there needs to be a clear understanding of the investment case and the process which should be kept as simple as possible.

### **Previous IWEA position**

IWEA previously outlined a preferred position of regulated tariffs for the initial years until the market and capacity mechanism changes have been implemented, with the potential of moving towards a competitive approach when there is more certainty in the market and better information on level of service provision available. A transition to a competitive approach could only take place when the market is sufficiently established so that a competitive process can be supported with the uncertainty reduced from its current level. It may be the case that there is more competition for some services than others but competition in these services would be expected to evolve if there is appropriate remuneration in place. While we welcome the regulated tariff being set for 5 years, we believe that the provision of one year contracts does not provide the certainty needed for investment. For system services where there is insufficient competition to have an auction, the proposed regulated tariffs on a cost plus basis with one year contracts are not sufficient to promote investment and thereby incentivise competition.

We urge the SEM Committee to consider avenues to ensure the DS3 programme remains a programme which incentivises investment in flexible assets which will enable increased penetration of renewables on the electricity system in line with our policy objectives.

## **Competition Metrics and Market Power**

It is essential that any measure introduced to mitigate market power is appropriate. The use of targeted market power could run the risk of deterring investment required in providing the necessary services if there is a perceived risk of targeted market power measures being introduced. It is essential that there is a viable case for investment in the provision of system services.

## **Participation of Wind**

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 2 years in order to be compliant with the REFIT construction deadline. 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.

## **Consultation Questions**

### **1. Do you agree with the high level approach set out for identifying and defining the relevant market as set out in section 3?**

As outlined above we believe this process is unnecessarily complex, in particular in light of the number of products and markets that will need to be defined. We would suggest a simpler approach be implemented at the outset.

### **2. Do you agree with the use of the proposed metrics for assessing potential market power as set out in section 4?**

Again this section of the consultation paper appears quite complex. While we welcome that there are a number of different metrics which may be more appropriate depending on the circumstance, it is not clear what exactly is being proposed here. It should be noted that the lack of a relevant market with which to provide data to measure market concentration should be given due consideration by the SEM Committee.

### **3. Given that the approach to assessing market power is for the purposes of determining whether a product is auctioned or is paid for under a regulated tariff mechanism, do you agree with the proposed approach to analysing market power for DS3 system services?**

Please see above answer to Question 2.

### **4. Respondents are asked to provide views on potential interactions between the system services products.**

It is likely that there will be significant interaction between some of the system service products, however it is difficult to make a real assessment until further information is available on the volume of each service required and the capability of the existing fleet.

We believe there needs to be further quantitative assessment provided to industry before a decision is made. This workstream is particularly important for the DS3 programme, and the SEM Committee should not therefore rush decision without adequately assessing the interactions.

**5. Do you agree with the high level proposals for when to apply market power mitigation measures as set out in section 6?**

IWEA sees merit in intermediary steps to manage market power which can still enable the auctions to run and to deliver new investment in system services in cases where this is appropriate. We highlight the need to promote and create competition in subsequent competitions, and call on the SEM Committee to consider avenues to support investment signals.

**6. Do you agree with the proposals for the types of market power mitigation measures that may be employed as set out in section 6?**

**7. Do you think there are alternative market power mitigation measures that could be employed that have not been mentioned in this paper?**

We have no additional comment.

**8. Are there any other issues, relating to assessing whether or not a market is competitive, that have been omitted from this paper?**

We remind the SEM Committee of the need to ensure that the signals emanating from this process remain investable. We believe it is likely new entrants/investments will be required to deliver flexibility in the ancillary services and energy market, and the DS3 programme is a key enabler for this.