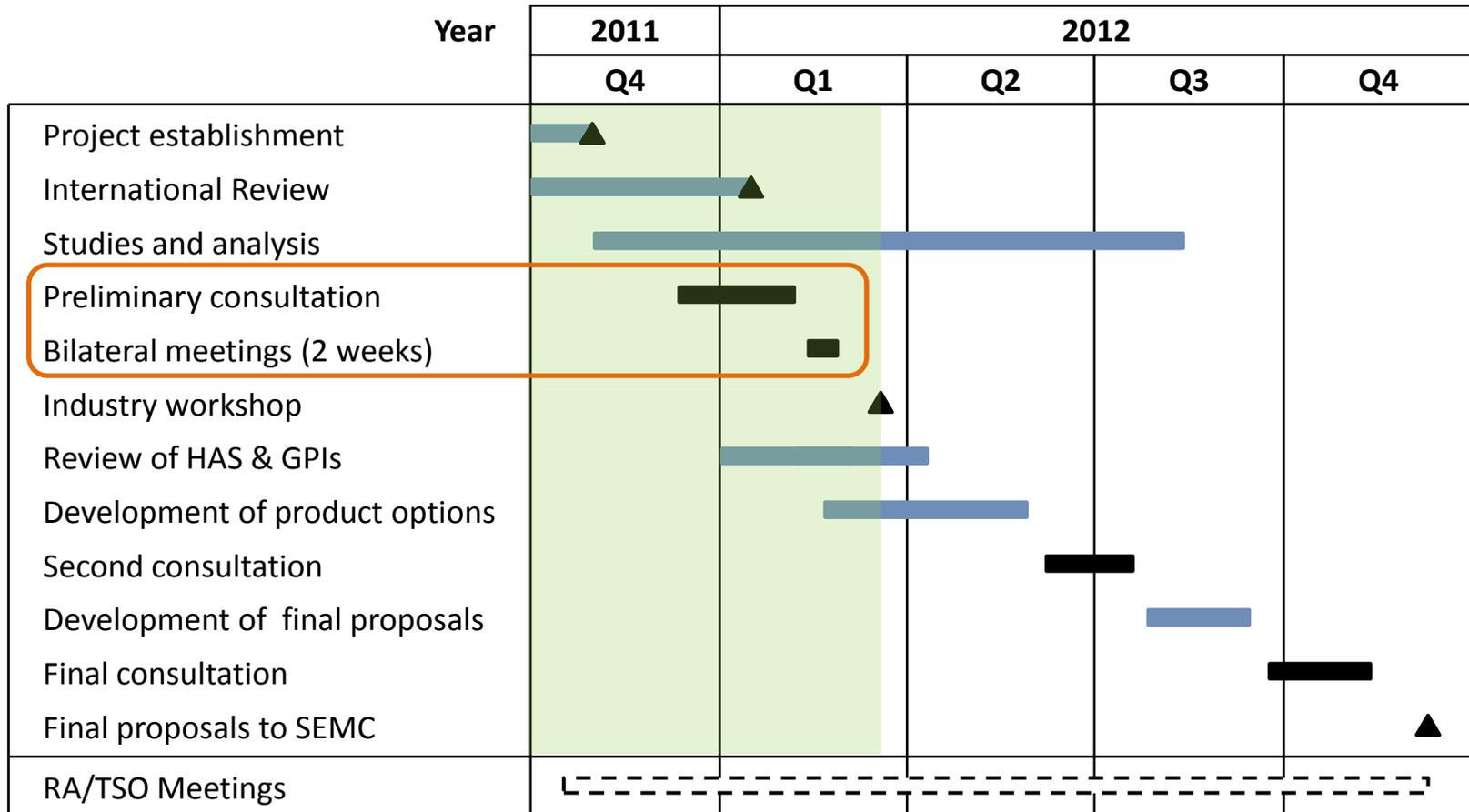


# System Services Review Update

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# Progress to date



# Consultation: Key Messages

- Revenue adequacy is required
- “Investibility” of System Services
- Performance incentives accepted
- Product design and system needs
- Interaction with SEM



# Revenue Adequacy

- Portfolio changes are needed for the effective achievement of RES-E targets
- Financial business case for investment is not sufficiently strong
  - Impact of changing policy and legislation since SEM go-live
  - Worldwide financial crisis – “credit crunch”
- Widespread view that there is currently a revenue gap
  - Increased revenues are required to ensure appropriate investment
  - Provision of long term revenue adequacy

**Action: TSOs will carry out further analysis (including financial modelling) to ascertain revenue adequacy**

# “Investibility” of System Services

- Revenue adequacy alone is not sufficient
  - “Investibility” (bankability) of system services revenues is necessary
- Simplicity and transparency of arrangements central to this
- Widely held view: “Don’t touch capacity payments”
  - Unless compensated with other revenue that is equivalent
- Wide range of contractual arrangements in responses (from daily markets to 10yr+ fixed contracts)

**Action: TSOs will develop options for contractual structures**

# Product design and system needs

- Further detail on product design and system needs will form part of next consultation
- Some novel product ideas provided by respondents
- Product areas:
  - Frequency Control (Inertia -> reserve -> ramping/flexibility)
  - Voltage Control (FRT -> dynamic reactive power)
  - Other services / special services
- Interaction with Grid Code changes needs to be kept in mind (e.g. RoCoF, voltage control standards)

**Action: TSOs will develop product options and more information on system needs for the next consultation**

# Performance Incentives

- Need for performance incentives generally accepted in principle
  - Providers should not be paid if service is not delivered
- Aspects to be considered:
  - Contracted capability
  - Reliability of delivery
- Performance incentives will ensure consumer interests are protected

**Action: TSOs will develop options for performance incentives as part of system service arrangements**

# Interaction with the SEM

- General view of respondents that interaction with SEM should be minimised
  - System Service payments should be separate and explicit
- System Services Review needs to be carried out independently of SEM evolution and EU target model
  - System service needs in SEM are unique
  - Proposals will be mindful of the SEM evolution but will not be dependent on it

**Action: TSOs will seek to implement arrangements for system services that are broadly compatible with SEM evolution**

# TSO Observations

- Wind had not been considered by respondents as an integral part of the system services solution
  - Responses and discussions focussed on the complementary conventional portfolio
  - Up to 75% penetration => wind must be a provider
  - Potential interaction with external supports needs consideration
- Conflicting objectives
  - Simplicity and transparency of arrangements
  - Desire for all services to be remunerated
  - Large number of proposed new services
  - Targeting system needs

# Summary: TSO actions

- Explore Revenue Adequacy question through system and financial modelling
- Develop investible products and arrangements that:
  - Meet the needs of the system
  - Provide appropriate long-run cost recovery
  - Reduce overall cost to consumers
  - Facilitate wider policy objectives
- Issue next consultation paper in June 2012
  - with Industry workshop

# Next Steps

