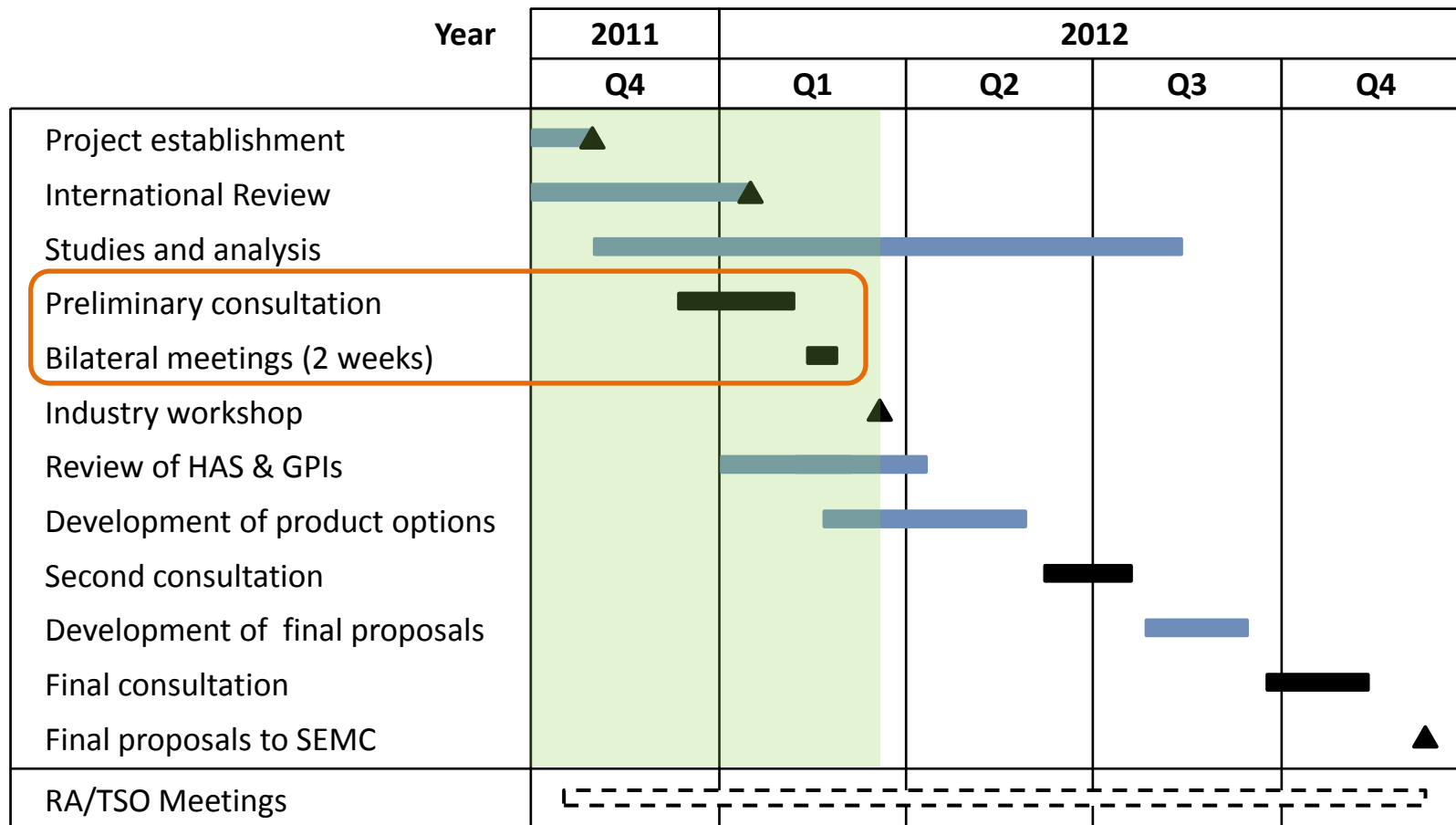


System Services Review Update

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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

