DS3 – CAN IT BE FINANCED?

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Investor Perspective

Small variables

- Modelling assumptions and Methods
- Renewable Deployment Rate
- Technology Developments
- Contract Structure and Allocation

Big Variables

- Will Greenwire Deliver 1GW interconnection?
- What will THE EU target Model do?
- Could the rent allocation question reduce €355m to €150m?
- If ROCOF fails to deliver, tear up the modelling to date

Who’s going to invest?

Wind Farm Developers

- Traditional 15-20 years in Wind Industry (asset life 25 years, stable policy, relatively immune to market changes)
- Wind Farmers are “Believers” in high penetration of renewables, and instinctively support anything with the word “Storage” or “battery” or “Flywheel”
- But bank project finance won’t touch a DS3 project. €2m DD costs and no long term financing to spread the cost over

Utilities

- Are comfortable owning both gas assets and customers, giving stable returns, without long term guarantees.
- But is DS3 a core utility skill or business area? Are any of the ds3 products hedges against changes in fuel prices?
- Do have access to funding, but need to show steady rather than exciting returns to investors. Can DS3 do this?

Standalone innovators/IPPs/Technology companies

- Can probably generate a pipeline of ideas and concepts and permitted sites, and bring new technologies to bear
- Tend to understand the power system less well than utilities or wind farm developers
- Personalities and emotional attachments to certain technologies and concepts are a problem in this area
- But can individuals raise €50-100m to build a plant? Who is the money?

In all cases the regulator and system operators will have to “come to meet” the investors half way, ensuring they understand the sensitivity of the revenues of the new DS services to power system changes.

Timelines?

	Step 1	Step 2	Step 3
Option analogy	Purchase call option on US shares	Exercise or abandon the option.	Reap dividends (8.7%) indefinitely.
Greenfield site for DS3	Spend €2-3m on R&D, modelling, grid, site procurement and planning and EPA licencing.	Spend €50-100m constructing the site.	DS3 revenues for 5 years certain, 5 years more risky.
Retrofit for DS3	Spend €1-2m on engineering and modelling	Put together a project to minimise cost of retrofit, downtime etc.	DS3 revenues for 5 years certain, 5 years more risky.
Under what cover?	*Consultation papers or letter of intent.*	*Letter of intent and/or AS Contract*	*AS contract*
What timeline	*3-4 years*	*2 years from financial commitment to first revenues*	*10 year payback, then decommission/relocate to recover residual value*
In real terms	*2011-2015*	*Q1 2015 to Q1 2017*	*2017 to 2027*

Latest DS3 Paper

Many positives:

- Letter of intent structure is very welcome
- Recognition that current practice of only allocating AS contract on commissioning is unworkable if main reason for investment is DS3 revenue
- Rate Scalar is sensible workaround for ensuring services are only procured from efficient sources, without imposing full dispatch risk.
- Some increase in complexity, but this should not be seen as a negative.
- Much clearer allocation of revenues to services
- Overall, it’s a well argued and justified case for procuring new services

Latest DS3 Paper

Open questions:

1. If this is to be effective by time wind penetration is high, is there really a pipeline of greenfield projects which can deliver? Can retrofit deliver the balance?
2. Letters of intent will be issued for capability greater than grid code at the discretion of the system operators, but:
   - Does the letter of intent confer a queue position?
   - Is it first come first served?
   - Do you have to have planning and grid in hand to enter the queue?
   - If a service is oversubscribed day one, will the Rate Scalar be used to filter?
   - If a project is delayed, how is this measured and queue position impacted?
   - What is a reasonable long-stop date ("use it or lose it") for reaching financial close/commissioning?
   - Would an ancillary services contract (conditional only on passing the commissioning tests) be more appropriate for raising construction finance?