DS3: System Services Consultation –

Finance Arrangements

This questionnaire has been prepared to facilitate responses to the consultation. Respondents are not restricted to this template and can provide supplementary material if desired.

Please send responses in electronic format to DS3@eirgrid.com or DS3@soni.ltd.uk

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Note: it is the TSOs' intention to publish all responses. If your response is confidential, please indicate this by marking the following box with an "x".

Response confidential ☐

Submission to DS3 System Services Third Consultation

From: Grange Back-Up Power Ltd

Introduction

Grange Back-Up Power welcomes the opportunity to respond to the TSOs third DS3 Consultation Paper and makes the following key points:

1. Bankability of Projects for Providing System Services

The paper seems to be ignoring the first principle of business namely that any investment or project will need to repay the capital sum and earn a return over a period that is bankable. If a project is not bankable then investors (whether of existing or new plant/equipment) will not make the required investments resulting in failure to provide the required system services. The TSOs' implication that contract duration be limited to a maximum of 7 years, coupled with a proposed 3 - 5 year review of the rates, will add enormously to the non-bankability of medium to largescale investments, should these be required.

Grange Back-Up Power accepts that system services contracts alone are not going to make projects bankable, nor can they as they form only part of the revenue stream. However, with the appropriate duration and locked-in terms they can add considerably to project bankability, which we believe will be a cucial element for plant/equipment owners in providing the required type and level of system services.

2. Structure and Terms of System Services Contracts

The proposal by the TSOs in this consultation paper on contract structure and terms is a 'one size fits all' approach. This does not apply in most aspects of business where a portfolio arrangment applies namely a mixture of short, medium and longer term contracts. We are urging the TSOs to adopt this more practical widely-accepted approach to ensure the optimum plant/equipment portfolio to deliver the required system services in the future.

For system services contracts, Grange Back-Up Power urges the TSOs to continue with a tranche of short-term contracts (1 to 2 years) for plants that decide not to upgrade/modify their plant/equipment, then for players who have made investments of say less than €50m medium-term contracts of 3 to 7 years would be offered and finally, in rare and particular cases, where an investment of >€50m is required then longer-term contracts of 7 to 12 years would be offered.

3. Proposed Wording on Contract Duration and Rates

Grange Back-Up Power proposes the TSOs recommend the following wording in their final document to the SEMC that 'in rare and particular circumstances the TSOs may offer a contract of 10 to 12 years on plant or equipment which offers particular system services either because of technology, location or other reasons'.

On the matter of the frequency of reviewing system services rates we propose the TSOs discard their one-size-fits-all approach and simpifly this to read 'rates will be reviewed at the end of contracted periods and new rates applied where appropriate'. This doesn't necessarily imply a huge additional raft of valuation work for the TSOs but rather valuing them every 3 years and plugging these into system services contracts going forward.

4. TSOs Seem to be Selecting the Contract Winners in Advance

In section 3.3 the TSOs present two scenarios (Generation Investment and Alternative Investment), neither of which seems practical. Leaving that aside, the failure of the TSOs to clarify if the two scenarios are intended to illustrate the two ends of a broad spectrum of solutions is confusing or, are the TSOs however unwittingly pre-selecting the contract winners to provide these services. If the latter is the case then this is quite wrong and outside of the remit of the TSOs; a raft of regulatory decisions and Directions have been issued since market deregulation in 2000 to ensure all players are treated in a fair and equitable manner in the market. Any pre-selection of the contract winners or skewing of the playing field is in contravention of fairness and justice, and cannot be tolerated.

Grange Back-Up Power believes that the solution to providing the required system services will lie somewhere between the two scenarios with additional new plant – designed and built to provide these services - playing a part. The difficulty with this consultation is that such developments are 'locked out' though (i) failure to make any reference to their possibility and

(ii) by constructing the system services contract terms, however unwittingly, in a way that damages their bankability.

5. Upgrading Existing Plant to Provide New System Services

Upgrading existing plant to provide new system services is a challenging and risky task. From enquiries in the industry we understand that no audit was carried out by or on behalf of the TSOs to establish the views of CCGT plant owners about this, or to canvass the views of OEMs as to the practicality and economics of this and whether these plants could perform to contract assuming the major modifications were carried out. We are at a loss to know as to why this proposal was made without some discussions and consultation with plant owners/operators and OEMs, while carefully avoiding any reference to any additional new plant/equipment specifically built for the new market.

6. No Reference to ITC/Gate 3 Process

Over the past five years the regulatory authorities in conjunction with the TSOs engaged in a wide-ranging and detailed ITC/Gate process. Despite its sometimes lack of transparency, the electricity industry bought into this process and actively particpated in it. However, throughout the DS3 programme no mention has made of ITC or Gate 3, and no recognition given to some of the projects that came through that process.

7. Impact of Electricity Prices

Grange Back-Up Power is conscious of the need to provide the lowest cost electricity to consumers across the island of Ireland over the longer term. It supports the SEMC that any increases in System Services levels need to be such that the consumer benefits. The additional annual savings of €295m is a considerable sum for the industry when the full 5,200 MW wind scenario with enhanced operation is implemented. If this is done in a fair and equitable manner then for all parties then the outcome will result in consumers north and south, investors and RES targets all being winners.

Sincerely yours

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Richard Walshe

Director, Grange Back-Up Power Ltd