COILLTE
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By email to: dlindsay@cru.ie

Date: 30th January 2020

Re: Coillte Submission on CRU 19152 – Discussion Paper on the Approach for Transmission & Distribution Price Review Five

Dear Sir/Madam,

Coillte welcomes the opportunity to make this submission on the above referenced consultation on Electricity Networks Price Review Five 2021 - 2025.

Coillte is the largest forest company in Ireland and as such, we play a critical role in contributing to the reduction of greenhouse gas emissions, enhancing Ireland's energy security and contributing to a post-carbon and climate resilient economy.

Coillte is also focused on enabling key national policy objectives that cover a range of industries including renewable energy, housing, healthcare, education, inward investment, infrastructure development, water, tourism and agriculture. In particular we are one of the biggest developers of renewable energy in the State. In this regard Coillte expects to make a significant contribution to the onshore wind ambitions set out in our National Climate Action Plan. Delivering on the 70% RES-E target set out in the Climate Action plan will, amongst other things, require:

- A strong pipeline of renewable projects with grid connection agreements,
- Effective management of renewable curtailment,
- Effective management of renewable constraint,
- Competitive and frequent renewable auctions &/or an active Corporate PPA market.

PR5 has the potential to support all of the above objectives and as such we see the PR5 decision as being one of the most significant determinants of success or failure when it comes to delivering on the ambitions set out in the Climate Action Plan. The level of ambition being set out demands urgent action from both SO's and it is critical that they are supported in this endeavor through the PR5 process. Proven solutions that work need to be implemented quickly. Where a clear need has been demonstrated for either financial or personnel resources to deliver, these need to be provided for. The SO's need to have the ability to appropriately remunerate staff based on local market trends to ensure that they can secure the necessary talent to deliver on this ambitious plan. Implemented efficiently, these costs will in fact be investments that can pay dividends for consumers. Flexibility will also be a key part of this as we progress through the period.

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Coillte is an active member of the Irish Wind Energy Association (IWEA) and our staff actively participate in a number of the Association's committees. In particular, Coillte fully support and endorse the recommendations proposed by IWEA in its separate submission (30th January 2020). In this regard we note and wish to emphasize the following key issues:

1. **Views on CRU's approach to PR5 and on issues CRU should consider in order to achieve the objectives set out.**

Coillte is supportive of the proposal to establish "Facilitating a Secure Low Carbon Future" as the central strategic objective of PR5. We would propose to address the requirements to deliver on this objective under the key pillars identified above:

a) A strong pipeline of renewable projects with grid connection agreements

The projects required to Facilitate a Secure Low Carbon Future require timely planning permission for their associated grid connection offer. This would be greatly supported by early meaningful engagement with the SO's during the development phase to support parallel consenting of the grid connection method with the renewable generation project. In order to submit the planning application for the connection method it will also be necessary to receive a letter of consent from the TAO. TSO / DSO and TAO should all be appropriately incentivised to deliver on this key enabling measure.

It is critically important that the SO's are incentivized under PR5 to deliver complete ECP batches annually. We support the proposal to prioritize the first 25 offers in each batch based on project size as this will ensure that sufficient capacity is able to bid into auctions to meet the targets put forward in the Climate Action Plan. We expect that the batch sizes could be increased from the 50 proposed in the current ECP consultation while still maintaining the critical annual frequency and we would encourage this to be incentivized under PR5.

b) Effective management of renewable constraint

In the period to 2030 the Climate Action Plan requires us to treble the current installed capacity of renewables on the system, while demand levels are expected to increase by c.a. 50%. This cannot be achieved in a cost effective manner without significant investment in the transmission and distribution system. This investment needs to be efficiently funded through the PR5 process.

We would note also, given the long lead times associated with new grid infrastructure, investment will need to be made in design and consenting of the grid during the next 5 years to support the needs of the system in the period 2030 to 2040. Early stage investment designed to support the system needs over such long time periods always carries some risk of stranded asset costs though these can be

managed and over the long term these risks are likely very low. What is not so clear is the very substantial risk of not making these investments. There is an overarching need both globally and nationally to decarbonize the power system and without this network investment, this may be delivered in an inefficient and costly manner due to high network constraints. We would strongly support greater co-operation and collaboration between the DSO and TSO in relation to the management of both constraints and curtailment.

c) Effective management of renewable curtailment

SEAI funded research supported by Coillte has demonstrated that the most critical system integration measures required to manage curtailment are;

- The removal of existing operational constraints (facilitating SNSP levels in excess of 90% with minimum constrained on conventional generation of 400-600MW on an all island basis,
- The delivery of new interconnection,
- Appropriate market design to incentivize efficient power flows on interconnectors.

We strongly support the detailed proposals from IWEA in relation to the delivery of these integration solutions including recommendations to limit the total dispatch down of renewables.

d) Competitive and frequent renewable auctions &/or an active Corporate PPA market;

We would note that competition in auctions will be greatly enabled by appropriately sized annual ECP batches with prioritisation of the 25 largest offers. Parallel consenting of grid connection methods will also be a key enabler to ensure that the maximum number of projects are "shovel ready" in advance of each auction, increasing competition and reducing costs for consumers. In relation to cPPA's we would note that the volume of cPPA's available to contract will likely be closely correlated to the price at which generators are able to contract. To this end, effective and transparent management of constraint, curtailment, shallow connection method specification and costs all have the potential to impact on the size of the cPPA market in Ireland. We therefore strongly support all measures in the IWEA position paper that would deliver energy at least cost to both PSO customers and cPPA counterparties.

In relation to the objective to transform the role of the DSO, we would strike a note of caution against any proposal to make functional changes within their business to tick an independence box, if this results in duplication across the group. For example a requirement to set up independent HR or IT systems function could add on substantial costs, be very disruptive to the business and take up considerable management time and effort to implement. At a time where there is an enormous task in front of both SO's to deliver on the enabling measures demanded by the climate action plan, this could be an unwanted distraction.

2. What performance targets should the CRU consider for Eirgrid and ESBN?

Specific performance targets and incentives designed around the following key metrics would be very beneficial:

- Provision of detailed constraint & curtailment reporting, providing hourly datasets of actual SNSP levels, conventional generation levels and interconnector flows during constraint and curtailment events (tagging volumes of constraint and curtailment taking place) would provide greater transparency on actual system operation compared to defined constraints and would generate useful datasets that could help inform improved system operation,
- SNSP limit increases,
- Reductions in must run conventional generation MW's,
- Reporting on increases in CO2 emissions due to imposition of system operational constraints (compared to unconstrained dispatch) and establishing targets to lower these,
- Detailed reporting on planned and forced outages including renewable dispatch down associated with these and specific incentives to minimise these,
- Incentives to increase IC efficiency during curtailment events either by supporting the delivery of market improvements or by countertrading on the interconnector to increase exports during curtailment events (to the extent allowed under law),
- Incentives to reduce absolute dispatch down levels due to constraints and curtailment,
- Annual Firm Access designation to target MW capacities with grid connection agreements in line with the installed capacity requirements of the Climate Action Plan.

Ultimately, the entire energy industry is working towards a zero carbon economy and sustainable future for Ireland. All incentives and performance targets should in some respect link to positive progress towards 'zero-carbon' and Ireland's 'economy'.

3. What outputs and outcomes should CRU consider in relation to ESB and Eirgrid?

Points related to outputs and outcomes have been incorporated under Q2 above.

4. Comments on the proposed Regulatory Framework and future Regulatory Framework questions:

We would like to take the opportunity under this heading to call out a particular growing issue we see in relation to the commercial efficiency of existing risk allocations associated with future constraint and curtailment of renewable energy projects. Historically there was renewable target of 40% RES-E with firm grid offers, ATR's with target delivery dates. Modelling of constraint and curtailment in this system resulted in figures that remained within a relatively narrow band. Curtailment was typically forecast to increase to 4-5% and then stabilise, constraints may have had some short term forecast increases but reduced over time as ATR's were implemented. This was relatively manageable for project developers and

in any event the risk of increases in constraint and curtailment had no impact on consumer costs as it was all absorbed by developers within the revenue supported under REFIT.

The current context is a much higher RES-E target of 70% (with significant upward pressure anticipated within the lifetime of a typical project), non firm connection offers (no ATR's, no timelines for firmness), along with considerable further uncertainties that developers need to consider when trying to make provisions for future constraint and curtailment in auction bid models. Modelling results will therefore likely be over a much wider band when a plausible range of input assumptions are considered.

In the future consumers will be paying for this either directly (through some form of constraint / curtailment compensation) or indirectly (where onshore and offshore developers incorporate their assumptions into auction bids). Commercially efficient contracts allocate risk to the parties best placed to manage them. Developers have almost no ability to manage the risk post auction bid, consumers properly represented by SO's and CRU can manage this risk. We would further note that a Business as Usual (BaU) approach provides no transparency to DCCAE / CRU / SO's or consumer in relation to the costs being incorporated into bids for constraint and curtailment. All that is visible is the final price incorporating all capex and opex assumptions and return expectations including any required risk premium. This makes it challenging to carry out informed CBA's (or design appropriate outcome based incentives) in relation to implementation of solutions and to understand the consumer impact of success or failure in implementing constraint and curtailment mitigation solutions. A BaU approach also assigns the risk of forecast errors for constraint and curtailment fully to developers, even though developers have no ability to manage this risk. In time, as this risk is appropriately priced this is likely to lead to commercially inefficient outcomes for consumers.

A near term partial solution to this problem could include:

- In relation to the Clean Energy Package Market Regulation, implementing IWEA's recommendation on priority dispatch and constraint and curtailment compensation, including compensation for curtailment of non-firm generation on the basis that curtailment has nothing to do with firmness.
- Consult on firm access policy and including a re-examination of the definition of firm to ensure greater visibility of firm access dates for a sufficient volume of projects to meet targets and provide competition in auctions (with proportionate, appropriate incentives on SO's to meet these targets).

While it likely wouldn't meet an "ease of implementation test", we would suggest that it would also be worthwhile to undertake a more fundamental re-examination of the risk allocation that exists under the current regulatory environment to determine whether a more efficient alternative could be found. Our view is that a system with a more appropriate risk allocation would likely deliver better outcomes for both generators and consumers.

5. Issues CRU should consider to ensure that the Regulatory Framework delivers on the principles and questions set out in this section:

Any points over and above those incorporated in the IWEA response have been considered in Q4 above.

6. Views on retaining certain PR4 methodologies for PR5

Coillte would have no strong view regarding the methodologies applied provided they give the SO's sufficient resources, capital and flexibility to deliver on meeting Ireland's 2030 targets in the most cost effective manner possible.

If there are any comments or queries in relation to our response we would be happy to discuss. Please contact the undersigned.

Yours sincerely

[No signature, sent by email]

Paul Blount
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Coillte CGA

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