

**TYNAGH ENERGY**

**L I M I T E D**

**Proposed DS3 Auction Design**

**Scarcity Driven Annual Regulated Tariffs**



# Scarcity Driven Annual Regulated Tariffs

1. Why an alternative proposal
2. Criteria for the proposal
3. Outline of the proposal
4. Steps for the auction
5. Conclusion





# Importance of DS3

## Consumer Benefits

- DS3 Decision estimated €355 Million per year in consumer benefits from the increase in wind generation,
- €180 million of this going directly to consumer

## Renewable Energy Targets

- Significant reduction in emissions leading to reduced national fines
- SEAI has estimated that the cost to Ireland may be in the range of €100 million to €150 million for each percentage point Ireland falls short of the target\*



# Why an alternative proposal?

**Very real risk that DS3 will not be successful**

## **Investor uncertainty**

- Competition test
- Cap and clawback
- 15 year forecast availability
- Interim tariff rates

## **Current proposals are unworkable**

- Commitment model
- Annual auctions even when insufficient volume
- Annual availability forecasts
- Perverse incentive as losers cheaper than winners



# Original Criteria for Procurement

## Consumer Interest

- Efficient cost
- Protected from over-payment
- Net Payments do not exceed total value

## Investment

- Certainty for investors
- Entry signals
- Exit signals
- Incentivises efficient providers

## Minimises Curtailment

## Renewables Targets (2020)





# Criteria for Successful Auction Design

## Scope

- Maximise SNSP up to 75% while ensuring System Security

## Schedule

- Need to have the required volumes in place by 2020

## Cost

- Cannot exceed the current budget of €235 Million



# Scarcity Driven Annual Regulated Tariffs

## Outline

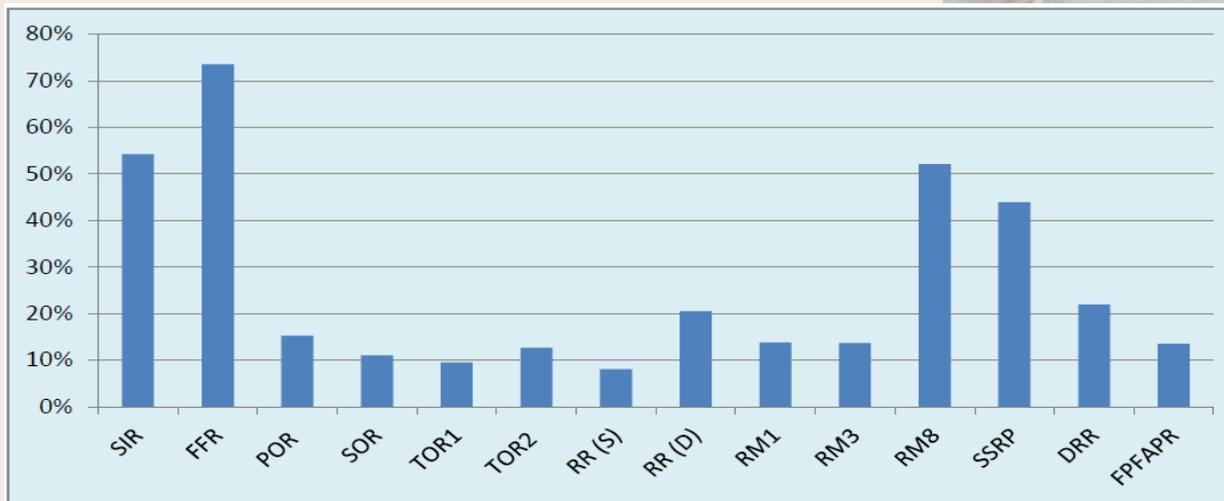
- Amend regulated tariffs annually to encourage investment in those services with greatest need
- Tariffs X Required Volumes = €235 Million
- Auctions held for Long term contracts for new investment
- Tariffs act as a ceiling for auction bids
- Participants paid at cleared price for each service for term of contract



# 1. Scarcity and Value

## Establish Scarcity

- Establish existing volumes through Interim Tariff process
- Establish required volumes as described in Volume Calculation Consultation
- Establish scarcity for each service



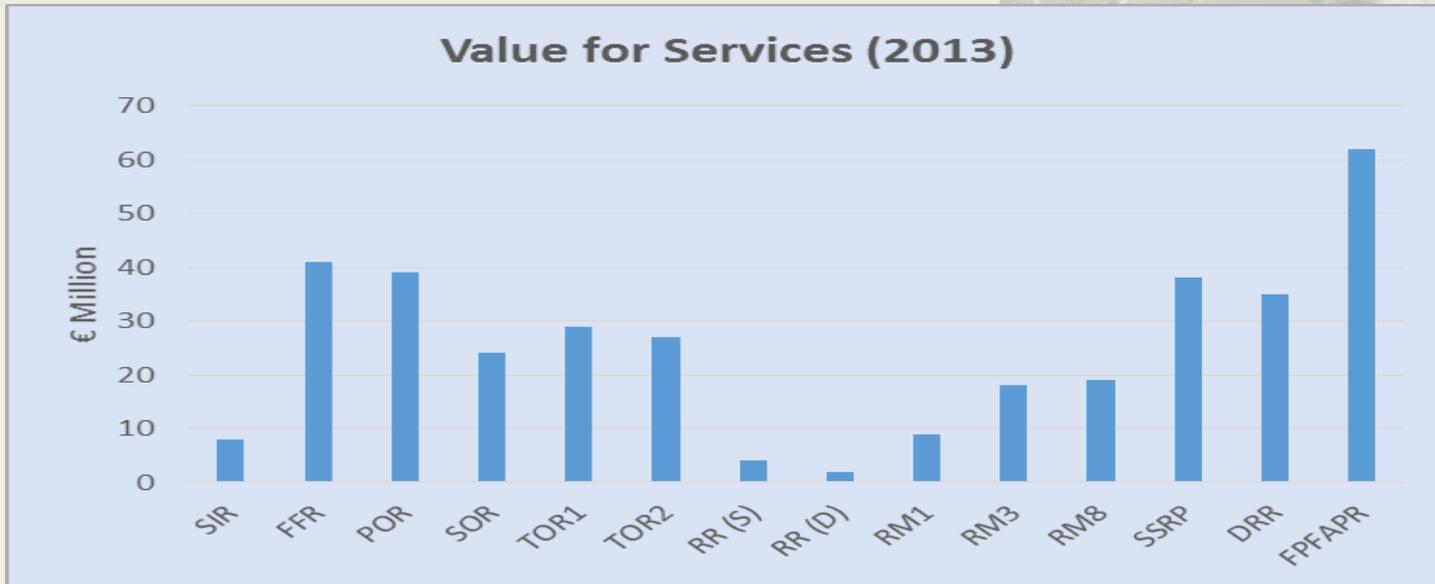
Source: DS3 System Services Procurement Design and Emerging Thinking



## 2. Establish Value

### Establish Value

- Establish Value for each service (valued in 2013 recommendations)



Source: DS3: System Services Review TSO Recommendations



## 3. Initial Regulated Tariffs

### Create Initial Regulated Tariffs

- Using appropriate weighting for Scarcity and Value create % distribution for each service
- Distribute the full €235 million across the 14 services
- Create tariffs based on the required volumes and service allocation
- These tariffs will act as a cap for the auction for each service
- Each of these service allocations will also establish a monetary relationship of importance between services



## 4. Auction bids

### **Auctions for Long Term Contracts where significant investment**

- Participants bid into the auction
- The regulated tariff acts as a ceiling for the bid for any individual service
- Participants will submit bids up to the regulated tariff.



## 5. Auction Process

### Bid ranking

- Bids would be ranked based on a weighted average of their savings per unit of shortfall
- Those bids with the highest average saving would be successful first, up to a point that a volume requirement for a specific service is satisfied
- Selection then weighted on 13 services etc.
- Successful participants will be paid at the clearing price for each service for the term of the contract



## 6. Subsequent Years

### Repeat the process

- Establish the value / scarcity for each service
- Amend the budget for year 2 to take account of existing contracted volumes
- New annual regulated tariff for non contracted providers based on updated value – within a band of possibly + /- 20%
- Budget still set at €235 million
- Potential for TSO to increase long term volumes



# Elements - Summary

- Annual changing regulated tariffs
- Scarcity Driven Regulated Annual Tariffs
- No annual auctions
- Auction based on weighted average saving
- Full budget used to drive investment



# Conclusion

## **Solution meets original procurement criteria**

- Likely glide path in return for Consumer Interest in this proposal, and will see a reduction in national compliance costs
- This solution is relatively simple, has price discovery and largely stays within the decision
- Can be implemented by Q1 2017