



**Response by Energia to SEMC
Consultation**

SEM-22-068:

***Firm Access Methodology in Ireland “EirGrid –
proposed methodology”***

22 November 2022

1 Introduction

Energia welcomes the opportunity to respond to this consultation. A review of the current Firm Access policy is timely in the context of achieving Ireland’s 2030 Climate Action Targets. In Energia’s opinion the current policy for allocating firm access is undermining investor confidence and increasing the risk premium on the infrastructure necessary to deliver Ireland’s 2030 targets. Consumers are ultimately paying for this uncertainty by virtue of higher bid prices in future technology auctions (RESS, CRM and DS3).

The next 3 years of RESS and O-RESS auctions in particular, will lock in the majority of the cost of meeting Ireland’s 2030 Climate Action Plan targets. A Firm Access policy that allocates risk proportionally and improves certainty, will go a long way towards reducing technology bid prices to the benefit of current and future customers. The Executive Summary captures our high level response to the key issues under consultation. Section 3, contains Energia’s response to the consultation questions posed. As ever Energia, would welcome the opportunity to discuss any aspect of our response further with the Regulatory Authorities.

2 Exec Summary

Element	RAs assessment	Energia Comments
Time bound Firm Access date	Proposed approach provides more certainty for investors in generators but may increase the constraints costs risks for end consumers.	<p>Energia welcome this proposal. This will improve certainty for project developers markedly, compared to the status quo.</p> <p>Energia would be keen to see the same policy applied to existing sites awaiting Firm Access. Our suggestion is that the prevailing expected delivery timeframe for an existing ATR, as per the 1st of October 2022, would set the new timeline for the granting of firm access irrespective of whether the ATR is delivered on time.</p> <p>In circumstances where an ATR is delivered earlier, it would also be appropriate to award firm access to generators earlier than the time bound firm access date that was forecast.</p> <p>To underpin this policy and protect consumers from the costs of further delays to ATRs, Eirgrid should be incentivised to reduce constraints by incurring penalties on their allowed returns in case where deemed firm access had to be applied. Likewise, incentives should exist where firm access is achieved earlier than planned.</p>
Partial Firm Access quantities	Partial FAQ approach may add more complexity to the allocation programme versus the original proposal. However larger discrete blocks	Energia have no objections to this proposal. However smaller FAQ improvements are still helpful to projects, so some flexibility to provide this where a 20MW block cannot be achieved should not be ruled out.

	(e.g., 20MW blocks) than previous ITC granularity of 0.5MW. The RAs note that this is also positive for locational signals and therefore competition.	
Stage of development	The stage of development at which a project becomes eligible for Firm Access represents a trade-off between investor confidence pre-connection and efficient allocation. Proposed approach by EirGrid has the effect of reducing uncertainty for generators and investors before connection.	<p>If developers receive greater certainty in relation to their FAQs prior to entering RESS auctions, the expectation would be that RESS clearing prices would be lower – to the ultimate benefit of final consumers.</p> <p>Energia acknowledge the pitfalls associated with allocating Firm Access too early in the development process. A Firm Access policy needs to prevent as far as possible the circumstance arising where firm access is allocated to projects that are not viable (or subject to considerable delay) – resulting in the hoarding of FAQ for a period of time.</p> <p>A balance therefore needs to be struck between providing certainty at a relatively early stage in the development process so as to better inform auction participants, while at the same time allocating firm access to the projects that are most credible. The optimal balance in Energia’s opinion is to provide an indicative FAQ to participants prior to RESS/O-RESS, but confirm the allocation of Firm Access only at the point at which a project achieves the Consents Issue Date (CID) milestone.</p> <p>For existing and post acceptance projects Energia would support the proposal to allocate Firm Access once CID is achieved.</p>
Batteries and other service providers	The RAs note the level of uncertainty in this area but also the trend of increased storage in recent years. RAs recognise the increasing importance of battery storage and need to facilitate the increased inclusion of this technology.	Granting firm access to battery and other storage providers, is key to delivering the capacity of storage needed to achieve Ireland’s 2030 targets. We acknowledge that this issue was essentially outside of the scope of this review and thus look forward to the development of a policy that would grant firm access for batteries and other storage providers, currently without it.

<p>Maximum Export Capacity (MEC) floor of 1MW</p>	<p>MEC floor of 1 MW currently aligns with the controllable limit.</p>	<p>Energia support this proposal</p>
<p>Allocation frequency</p>	<p>The result of this approach is that generators that are non-firm in one year may end up receiving Firm Access in a subsequent year. Generators connecting in later years have a transparent route to Firm Access.</p>	<p>Energia are in favour of annual reviews. It's important however that these reviews occur consistently at the same time each year and are consistent with any forward looking reviews from prior years.</p>
<p>Firm Threshold</p>	<p>Precise method for calculating the Firm Threshold for a given year or how different Firm Thresholds for different locations might work in practice, will require more detail from EirGrid.</p>	<p>Energia look forward to Eirgrid providing more detail in relation to what options are available to apply firm access thresholds. Operationally a case can be made for applying a single minimum level of acceptable constraint threshold for projects in all areas to be made firm. However, the imposition of a single threshold, should not lead to a circumstance by which certain areas of the grid are essentially ignored or de-prioritised for reinforcement.</p>
<p>Transmission Development Plan basis</p>	<p>The information in these reports can strengthen the locational signals from the Methodology to potential connections. The information may also increase investor confidence more generally as uncertainty about the future likelihood of Firm Access is reduced.</p>	<p>In line with our comments above, it would not be in the interests of the future development of the grid, if a new Firm Access Methodology, effectively removed any impetus on Eirgrid to deliver reinforcements in certain parts of the grid. Failing to reinforce particular areas of the grid, such as Donegal, not only jeopardises Ireland's overall ability to decarbonise, but unjustifiably robs communities within these areas of the potential for future inward investment.</p> <p>Greater transparency is therefore needed as to the reasons EirGrid are not looking to deliver reinforcement in certain locations within TDP reports. The TDP does not currently highlight areas or projects coming through earlier GDF steps (1-3), information that is essential to informing where developers should seek to locate future projects. Likewise, the inclusion of SOEF related reinforcements would also be a welcome inclusion in the TDP. Energia note also that both the TDP & SOEF only extend to 2030. 8 years is</p>

		no longer outside the development timeline of many projects and thus extended the forward looking aspect of network reinforcements would be a welcome development.
Order of allocation	Transparent and practical approach. The transparency of this approach in turn promotes fairness.	<p>Energia support the proposal to allocate FAQs post CID, but provide an indicative FAQ at a development stage prior to RESS/O-RESS auctions. We believe this approach incentivises projects to reach CID (which as we've stated is a key milestone when determining overall deliverability). While at the same time, allowing developers to price in their expectation of FAQ more accurately in their auction bids.</p> <p>Rewarding faster delivery is of particular benefit to the achievement of Ireland's Climate Budgets and should therefore be encouraged. We also believe this proposal reduces the potential for grid hoarding and thus represents the optimum balance between efficient allocation and investor certainty.</p>
Look back and look forward approach	In the look back step an annual review is carried out, generators in areas with capacity will be granted Firm Access. The look forward step provides a locational signal for future new capacity.	<p>Energia would not be in favour of any aspect of the proposed Firm Access Policy creating a disparity between new and existing units. As such Annual reviews, need to be conducted from the initial basis of allocating any available firm access to existing sites in the correct location. Only after this process is complete should remaining firm access be made available to projects in development.</p> <p>In addition, the look forward approach needs to commit to specific timelines, specifying the exact quantity of firm capacity that will be delivered by x date on the basis of the known timelines for the relevant ATR's completion. If the look forward approach is merely aspirational, it is not providing a concrete locational signal that an investor can respond to.</p>

3 Consultation Questions

3.1 1. Comments are invited from interested parties on EirGrid's proposed approach of having a time bound Firm Access date. Comment are also invites on alternative options (i.e., ATRs etc). Should scheduled FAQ date be linked with ATRs, with more targeted delivery incentives? Please provide reasons and rationale for any views provided.

The key objective of firm access is to provide investor confidence while minimising the costs to consumers. This is best achieved if developers have certainty on firm access that they can use to inform their bids and deliver the lowest RESS/CPPA prices. Firm access becomes much less meaningful in terms of RESS/CPPAs if a time bound date cannot be guaranteed and thus the current situation whereby projects can wait considerable periods of time before being granted firm access, due to delays in ATRs has to change.

The present policy entails that renewable developers in RESS auctions need to bid in their expectation of the risk of grid delivery. This expectation is unlikely to be optimistic, given the recent performance of Eirgrid in relation to delivery ATRs. A risk therefore emerges that a risk premium is locked in via RESS auctions, that ultimately customers are funding in the long term. As the Cornwall RESS 2 review outlines¹, a key principles of an auction design should be to de-risk all factors to the extent where the "saving" to the consumer from lower bids is higher than the costs to the consumer of the specific risk mitigation. Increasing the certainty associated with Firm Access by providing time bound dates, insulates auction bidders from this risk at a cost that is less to the consumer than not mitigating this risk. Project developers will now be capable of more accurately forecasting their expected future output and by virtue of this additional certainty will reflect this greater certain in their bid prices.

Energia are conscious of the RAs concerns in relation to the potential burden this policy may place on final consumers. While we have stated that our analysis suggests that the saving in RESS bid prices, outweighs the cost of providing additional certainty via time bound dates, key to realising the benefits of this new policy will be the incentives on EirGrid to deliver the necessary ATRs on time.

It should likewise not be the case for example, that by virtue of this policy, the typical timespan for an ATR to be delivered is padded out, to insulate final customers from delays to delivering infrastructure that are within EirGrid's control. This policy should therefore be formulated on the basis of an expectation that EirGrid will deliver everything it has committed to in a timely manner.

Existing ATRs

All to often in the SEM, new capacity is prioritised over existing capacity on the grounds that investments already made are essentially sunk costs. It needs to be stressed however that:

- a) Investments already made, shape the market risk profile of those to come, thus the more completed projects encounter difficulty, the greater will be perception of market risk and the higher will be the cost of obtaining financial backing

1

- b) Ireland is competing for scarce resources, such as turbines and cables, if the perception is that projects are harder to deliver here than in neighbouring jurisdictions, supply chain companies will simply not engage with Irish developers, and
- c) The majority of prospective new developers are previous investors in the market. If existing projects encounter difficulty, it will harm these companies future ability to deliver projects efficiently.

For these reasons a new Firm Access policy, needs to prioritise awarding firm access to projects who have already been forced to wait a considerable timeframe for delivery of their ATRs. Energia's suggestion is that a snapshot date is taken, such as the 1st of October, for the remaining timeframes for existing ATRs to be completed. These dates would then be used to inform the time bound firm access date for existing projects and thus any delays beyond the firm access date would not impact on an existing projects Firm status.

Failure to adopt this approach is likely to diminish the incentives for repowering and co-location. Solutions which maximise the use of existing network infrastructure and reduce the need for reinforcements. As the majority of projects awaiting firm access are typically located in similar areas, the effect of not implementing this approach would also be to harm regional investment which is essential to the long term achievement of Ireland's decarbonisation goals.

3.2 2. Comments are invited from respondents regarding EirGrid's historical performance on delivering ATRs. How can EirGrid's performance be improved? Please provide reasons and rationale for any views provided.

While Energia would not profess to be an expert on the main reasons why each individual ATR was delayed in the past, it's clear that in the vast majority of cases, simply increasing the incentive for EirGrid to deliver future projects on time is not likely to materially alter their performance. While it would be no guarantee of improving ATR delivery, a more transparent and collaborative industry engagement process would at least enhance investor confidence/awareness of issues, while also increasing the scrutiny on how individual projects are progressing. Periodic RAG status reports for specific ATRs, that are published at set intervals (irrespective of the pace of progress) would also be welcome.

3.3 3. Comments are invited on whether stakeholders agree with the proposed approach of allocating partial Firm Access Quantities. Please provide reasons and rationale for any views provided.

Energia have no objections to this proposal, we did consider whether providing access via set quantities might inhibit more incremental increases in Firm Access quantities, but ultimately felt 20MW represented the correct balance.

3.4 4. Comments are invited from respondents on the proposed approach of allocating Firm Access to generators once they reach committed project phase (progress beyond Consents Issue Date). Please provide reasons and rationale for any views provided.

As we have stated elsewhere in this response, Firm Access is a scarce resource and needs to be allocated optimally if Ireland is to succeed in meeting it's 2030 decarbonisation targets.

As the SEMC have outlined, determining when and how to allocate Firm Access represents a balancing act between improving investor certainty and reducing the potential for Firm Access to be hoarded by unviable projects.

Energia note in particular that if project developers receive greater certainty around the timelines for receiving Firm Access in the future, it should – all other things being equal – mitigate future output level uncertainty. Lowering the risk profile of developing renewables, reduces the overall cost and most importantly the amount of revenue support developments require via the PSO. An appropriately designed Firm Access allocation policy should therefore deliver long term benefits to customers in the form of lower bid prices in capacity auctions (RESS in particular).

To that end, Energia do not believe that the proposal to only allocate Firm Access at the point after a project progresses beyond Consents Issue Date, will succeed in materially altering bidding behaviour in capacity auctions. In the case of RESS and O-RESS auctions, the CID stage comes after a project has participated in an auction. As such participants will have no choice but to reflect the lack of certainty in relation to their future FAQ by virtue of higher bid prices. This is an especially bad outcome for customers if projects are subsequently awarded FAQ after an auction has taken place, as essentially the higher bid price is locked in at this point, resulting in excess returns for the wind farm developer.

To mitigate this potential outcome, Energia believe developers should be provided with a reasonably definitive “indication” of their future FAQ at a stage prior to participating in a RESS or O-RESS auction. Otherwise, the proposed Firm Access policy, will fail to materially influence bidding behaviour, removing any potential benefit to customers by virtue of lower clearing RESS prices. Note however that Energia are not in favour of allocating Firm Access at a point earlier than CID in the development process. Our suggestion is rather, that developers receive as close as possible to a definitive indication of what their FAQ will be such that it can meaningfully inform their bids for RESS/O-RESS support.

We acknowledge that the task of even indicatively providing FAQ’s at an earlier stage in the development process is likely to present administrative challenges. The ultimate goal should however be to achieve a high level of consistency between the indicative FAQ a project receives and the FAQ the project is ultimately allocated (post CID). If this can be achieved, developers will increasingly treat indicative FAQs with a high level of confidence and adjust their bidding behaviour on that basis.

Offshore RESS Projects

Energia note that O-RESS 1 auction participants will not have received full planning permission prior to submitting their auction bids (and even after the auction results are published). There is a clear risk therefore that some projects awarded capacity may not be awarded planning permission. Allocating an FAQ to a project at a point prior to CID would in be particularly unwise in this instance given the potential for project attrition and the risk that capacity ends up being hoarded by projects unlikely to be delivered.

The fact that even after an auction has been held for O-RESS 1, a material risk of project attrition remains (as projects will not have planning permission) is a further reason why planning permission should be a requirement for projects entering O-RESS 2. As per our comments above, if these projects were provided with an indication (as definitive as possible) of their future FAQ prior to entering this auction, this information could then be reflected in their bid prices for support. Once these projects passed the CID milestone, they would then be allocated their FAQ.

Existing and post acceptance projects

The Consents Issue Date (CID) milestone is the earliest definitive indicator of whether a project is fully committed to delivering on time. Depending on the route to market, not all projects will pass earlier development milestones than CID, at the same time. A risk would therefore emerge that if an earlier stage of development is used to fully allocate Firm Access, it will lead to an adverse selection problem. Wherein the projects awarded firm access are not necessarily the ones most likely to deliver on time.

For this reason, Energia believe the CID date represents the earliest possible date Firm Access could be allocated for existing and post acceptance projects.

3.5 5. Comments are invited from respondents on the inclusion of a longstop date with awarded FAQs. Please provide reasons and rationale for any views provided.

Energia have not considered the merits of a longstop date in great detail. We acknowledge the RAs concerns and agree that the correct incentive for a scarce resource should be to “use it or lose it” within an appropriate timeframe. There are however existing longstop dates in connection offers that already fulfil this function and as Energia has pointed out, if Firm access is allocated only after the CID stage of a project’s development it reduces much of the risk associated with Firm Access being hoarded by projects unlikely to deliver.

3.6 6. Comments are invited from respondents on the proposed approach of treating batteries and other service providers as outside the scope of the Firm Access methodology. Please provide reasons and rationale for any views provided.

As per our comments in the table above, Energia agree that it is perhaps more efficient to the overall timely deliver of this Firm Access Policy that batteries and other service providers are excluded. We would however impress upon the RA’s the need to resolve the lack of firmness for batteries as a matter of urgency, as not to do so reduces not only Ireland’s ability to achieve CAP targets in the medium term, but also reduces the extent to which batteries can provide price arbitrage to the benefit of present consumers.

3.7 7. Comments are invited from respondents on the proposed approach of having a MEC “floor” of 1 MW. Please provide reasons and rationale for any views provided.

Energia support this proposal

3.8 8. Comments are invited from respondents on the Annual Review process. Please provide reasons and rationale for any views provided.

Energia are in favour of the proposed annual review process, in tandem with the look back and forward approach proposed. Introducing time bound firm access will increase generator certainty only to the extent that the process by which this is communicated is consistent and transparent. For the annual review process to be truly effective, it needs to consistently incorporate the look back and look forward review, otherwise developers are unlikely to be able to respond efficiently to what these reviews signal. Energia also believe that it’s important that these reviews occur at the same time each year.

3.9 9. Comments are invited from respondents on the Firm Threshold. Please provide reasons and rationale for any views provided.

As per our comments above, Energia look forward to Eirgrid providing more detail in relation to what options are available to apply firm access thresholds. Operationally a case can be made for applying a single minimum level of acceptable constraint threshold for projects in all areas to be made firm. However, the imposition of a single threshold, should not lead to a circumstance by which certain areas of the grid are essentially ignored or de-prioritised for reinforcement.

3.10 10. Comments are invited from interested parties on the approach of First to commit – first to be Firm. Please provide reasons and rationale for any views provided.

Firm Access is a scarce resource, implying that competition for this resource needs to result in the Firm access being allocated efficiently. As discussed in section 3.2, allocating Firm Access only after a project achieves the CID milestone, mitigates much of the risk that a project allocated firm access will fail to deliver. In this context the first to commit first to be firm approach is optimal. If the milestone for allocating firm access is moved back to an earlier milestone, Energia would have concerns that an earlier milestone doesn't represent the requisite level of commitment and thus the allocation methodology would simply be prioritising first come first service, irrespective of a project's deliverability.

3.11 11. Comments are invited from respondents on the use of the Transmission Development Plan as part of the Firm Access methodology. Please provide reasons and rationale for any views provided.

As discussed in the Executive Summary above, Energia believe there is merit in including not only the TDP but also the SOEF reinforcement dates - projects in planning but not yet at Step 4 – when considering where future Firm Access might be available. The goal would not necessarily be to use projects at such an earlier stage of development as indication of where Firm Access will someday be available, but rather to increase the long term transparency as to how Firm Access ultimately is allocated. If that proves too great a challenge, transparency on future plans should be such that industry can make informed assumptions about the likely timeline for stage 1-3 projects being delivered. Likewise, the inclusion of SOEF related reinforcements would also be a welcome inclusion in the TDP. Energia note also that both the TDP & SOEF only extend to 2030. 8 years is no longer outside the development timeline of many projects and thus extended the forward looking aspect of network reinforcements would be a welcome development.

3.12 12. Comments are invited from respondents on the proposed look-back and look forward approach, and the interaction between these steps. Please provide reasons and rationale for any views provided.

As discussed in Energia's response to question 8, section xx. We are in favour of the annual review being informed by a look back and look forward approach provided this process is consistent and transparent. If it were the case that inconsistencies emerge between a look

forward approach in year 1 and an annual review in year 2, it would undermine much of the certainty the approach seeks to achieve.

3.13 13. Comments are invited from interested parties on the interaction of delivery incentives with the proposed Firm Access methodology. Please provide rationale to support these views.

3.14 14. Comments are invited from respondents on the need for independent assurance around the Firm Access process. Please provide rationale to support these views.

3.15 15. Views are invited from interested parties on how the TSO should be incentivised to alleviate constraints. Please provide supporting rationale for these views.

In addition to the comments, we laid out in section 2 of this response, the size of the imperfections charge will provide a meaningful signal and incentive to EirGrid to expedite grid delivery.

3.16 16. General comments are invited from interested parties on whether they agree with EirGrid's proposed Firm Access methodology. Should a party disagree with EirGrid's approach, please provide reasons and rationale for this

Energia support this proposal and do not have any major disagreements with the approach

3.17 17. Suggestions and/or alternative approaches are invited from interested parties on EirGrid's proposal. Please provide rationale to support this.

Energia do not have any alternative approaches that it would favour to EirGrid's proposed approach.

3.18 18. Comments are invited from interested parties on the benefit of providing firm access to connected legacy generation in Ireland which currently have non-firm access. Should legacy non-firm generators be considered in any new firm access methodology. Please provide rationale to support this.

As per our comments in response to question 1, section 3.1 of this response. Failing to apply firm access to connected legacy generation would not only significantly increase the risk perception of the Irish market as a place to develop renewables it would negatively impact the ability of existing projects to maximise the existing connection infrastructure by re-powering or co-locating storage in the future.

3.1919. Comments are invited from respondents on the proposed methodology in relation to the equivalent approach taken in Northern Ireland. Do respondents have any views on the interactions and differences between these different approaches.

The benefits of an integrated market are that projects compete in a wider market to the benefit of final customers. If the Northern Irish market fails to adopt a similar policy for Firm Access, it will create a disconnect between the Irish and Northern Irish market, to the detriment of renewables investment in NI. Achieving decarbonisation targets in both jurisdictions is likely to be considerably more efficient if market forces are aligned. Innovative solutions, such as storage, hydrogen production and system services would also be inhibited by policies which create a disparity between markets. Restricting such innovation might also have more profound implications in relation to security of supply in both jurisdictions.