



An Coimisiún
um Rialáil Fóntais
**Commission for
Regulation of Utilities**

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ESB Networks Flexible Demand Product Proposal – Second Consultation

Cover Note

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Second Consultation on ESB Networks' Flexible Demand Product Document

The Commission for Regulation of Utilities (CRU) published the Decision Paper on the ESB Networks DAC (ESBN) Demand Flexibility Product Procurement on 12th July 2024 ([CRU202469](#)). In this decision, the CRU approved the Distribution System Operator's (DSO) procurement proposal to procure up to 500 MW of medium-term flexibility products with the primary objective of congestion management on the distribution network. The decision also required ESBN to conduct a second consultation on specific details of the demand flexibility product arrangements including day in the life examples, the sharing factor, early energisation incentives, contract off-ramp clauses, and the terms of the incentive regimes. The CRU is publishing the ESBN Flexible Demand Product Proposal Second Consultation to gather stakeholder's views on the arrangements of the procured products. This procurement is intended to form a component of the overarching National Energy Demand Strategy (NEDS) with an aim to achieve the government's flexibility target whilst providing the foundations for the development of long-term, competitive flexibility markets in Ireland.

1 Background

In December 2022, the Irish government set decarbonisation and sustainability ambition in the Climate Action Plan 2023 (CAP23), assigning actions on flexible electricity demand to the CRU, system operators, and industry. As detailed in CAP23, the CRU will collaborate with system operators and industry to implement the strategy and to drive progress towards the targets of 15-20% flexible system demand by 2025 and 20-30% by 2030. To fulfil CAP23 targets, the CRU issued a Direction in Q4 of 2022 to ESBN to accelerate and expand the scope of a number of initiatives under the ESBN National Network, Local Connections (NNLC) programme with the goal of facilitating greater demand flexibility on the electricity system. ESBN then developed the Demand Flexibility Product Proposal to perform congestion management and contribute to CAP23 targets.

The CRU published the initial DSO consultation on the Demand Flexibility Product Proposal on 20 December 2023 on the CRU website in tandem with a CRU cover note. This consultation was open for eight weeks, closing 14 February 2024 following a public webinar with stakeholders on 8 February 2024. Consultation responses were shared across both the CRU and ESBN. ESBN then submitted its Recommendation Paper to the CRU on 5 June 2024. The CRU reviewed the consultation responses, the DSO's recommendations, and recommendations from consultant support to publish the DSO Demand Flexibility Product Procurement Decision Paper (CRU202469) on 12 July 2024. The CRU approved ESBN's recommendation to procure up to 500 MW of medium-term flexibility products with the objective of congestion management on the distribution network. This decision marked a pivotal action by ESBN in contributing to strategic targets in the CAP and represented some of the earliest delivery of objectives in the NEDS.

The CRU published the NEDS Decision Paper on 24 July 2024 ([CRU202467](#)) which sets out the next steps for the implementation of actions to address the forecasted growth in Ireland's

energy demand in the next decade. The NEDS outlines a set of actions across multiple stakeholders in Ireland to increase demand flexibility to reach government and international emission targets. Aligned to CAP23 targets and the NEDS, the ESN Flexible Demand Product Proposal initiates a programme for the procurement of a specific product for medium duration congestion management in addition to other flexibility programmes to deliver flexible demand by 2027.

The CRU aims to facilitate an enduring regime that provides demand management through explicit flexibility procurement, implicit price signals and flexibility incentives, and mandatory requirements which will incentivise greater demand flexibility across all cohorts of demand. To fulfil the strategy outlined in the NEDS, along with the direction in the CRU202469 Decision, the CRU is supporting ESN by publishing the Second Consultation on Arrangements for the Flexible Demand Product Procurement for public consultation as part of the DSO's Distribution Management and System Operations (DMSO) Programme. In early 2025, following a review of the responses to this second consultation, the CRU intends to publish a Decision on the product arrangements outlined in it, enabling ESN to progress to the procurement's tender stage.

2 Procurement Decision Overview

The CRU approved the DSO's demand flexibility product procurement proposal in Decision CRU202469 on 12 July 2024. The summary of the Decision is as follows:

1. The DSO should undertake a procurement of medium-term flexibility products with the objective of congestion management on the distribution network. The procurement must fulfil the following conditions:
 - Procure products that have the ability to deliver demand reduction, demand shifting and inject power at or near the asset(s)' full contracted capacity for a minimum of 4 hours each day over specified hours, on the majority of business days over a minimum of 3-6 months of the year;
 - Setting all technologies capable of delivering the technical and operational requirements of a specific locational network congestion need as eligible to tender;
 - Support multi-market participation of assets across flexibility, capacity, wholesale and system services markets (so-called 'revenue-stacking'); and,
 - Award tenders based on a 'most economically advantageous' multi-criteria assessment process which includes the criteria of Value for Money, Operability, and Deliverability.
2. Contracts for flexibility shall award availability payments structured to a 'floor and share' approach, with an incentives regime to prevent deviations from agreed schedules. Payments shall be indexed for inflation. The sharing factor will be included in the second consultation.
3. An incentives regime will apply for successful tenderers to deliver in line with agreed energisation dates. A separate incentives regime will apply to incentivise the operational delivery of contracted flexibility in line with agreed schedules.

4. ESB Networks will provide indicative delivery schedules to providers up to a week in advance. ESB Networks should endeavour to provide final schedules in line with the Day-Ahead Market (DAM) timeframes. It is noted ESB Networks has committed to provide final schedules at least 24 hours in advance of the required network need, and with sufficient time to enable positioning before the day-ahead wholesale market gate closure.
5. Contracts will be awarded up to a 15-year basis from the energisation date to the termination date. The energisation date will be set 32 months after the award of contracts. Extensions to contract length will not be automatically granted due to delays in energisation dates. Any extensions to the end date of the contract will require CRU approval upon a recommendation from ESB Networks. The DSO should further explore the possible approaches for early incentivising early delivery and an off-ramp clause in the contract in the subsequent consultation.

3 Second Consultation

Following the Product Procurement Decision CRU202469, ESNB is seeking industry's view on specific arrangements of the demand flexibility product. These include a day in the life of a Flexible Service Asset, the incentives regime, details on the sharing factor, contract termination, proposal for tendering of locations, early energisation, off-ramp clause, and the procurement's phasing.

The procurement is being designed to meet distribution network needs arising presently and in the near future, while also contributing to CAP23 2025 and 2030 targets. It is proposed the cost recovery mechanism for the procurement exercise will be the DUoS (Distribution Use of System) charge. This is a fee that the distribution system operator (ESBN) charges electricity suppliers for use of the electricity distribution system, this charge is usually passed onto consumers by their suppliers through their electricity bill. The CRU must therefore consider the risk of excessive costs in this procurement process. Accordingly, the CRU has received analysis from ESNB on the value for money which the CRU will review ahead of a decision following this consultation.

ESBN has considered the value of carbon abatement, wholesale and capacity market activity, and locational needs in its analysis. The estimated costs are expected to be further refined by ESNB upon completion of this consultation, as the DSO will gain a further understanding of operational costs for procured assets and will be capable of recommending a specific sharing factor which will return revenue to the customer, thereby lowering overall procurement costs. ESNB has chosen an initial list of procurement locations based on congestion needs on the distribution system. Future procurement rounds may include locations focused on consuming excess renewable energy rather than addressing congestion. The CRU considers both understanding the technoeconomic analysis for the sharing factor and ESNB's location selection methodology key matters during this consultation period and will engage with ESNB to further understand the total value and costs of this procurement.

Alongside these costs, the CRU is currently of the view that such flexibility services will provide significant benefits for the consumer, including contributing to meeting Ireland's 2030 carbon targets and allowing the distribution network to increase demand. The CRU is also of the view

that it is necessary that the process proceeds quickly for Ireland to be able to meet these targets.

The CRU is committed to collaborating with system operators to identify the most effective pathway towards implementing flexible system demand and ensuring competitive and efficient markets. The TSO/DSO Operating Model is an important element to ensure the Demand Flexibility Providers will be capable of participating in operating across all relevant markets. It is expected the TSO/DSO Operating Model Implementation Plan will be developed and agreed by the end of 2024.¹ The CRU considers the whole system approach within the TSO/DSO Operating Model to represent a key matter in ensuring the success of flexibility services and expects the system operators to share further details on how demand flexibility products will operate in multiple markets ahead of the Request for Tender (RfT).

ESBN is expecting to commence the first batch of this procurement in Q4 2024 with publication of a qualification system questionnaire parallel to this consultation. Subject to the outcome of this consultation process and subsequent CRU Decision, ESNB will publish a RfT for the Demand Flexibility Product Procurement in Q2 2025. This RfT will contain details on the evidential requirements and procurement locations. ESNB anticipates the first procurement batch will inform subsequent procurement batches with a view to have up to 500 MW of demand flexibility products contracted across the system by 2030 and thereby contribute to flexibility targets. Furthermore, ESNB is committed to undertake the significant volume of work that will be necessary between publication of this consultation and commencing the procurement exercise. The CRU will work with ESNB to efficiently enable demand flexibility in Ireland and fulfil objectives set in the NEDS and by the government.

Next Steps

Responses to the ESNB Flexible Demand Product Procurement will be collated and taken into consideration by both ESNB and the CRU. Following the end of the consultation period on 04 December 2024, ESNB will submit a formal recommendation on the proposed flexible demand product for consideration by the CRU. The CRU aims to publish a final decision on the procurement by early Q2 2025.

to the CRU intends to share all non-confidential responses to the consultation with ESNB prior to the CRU making its decision on the proposal set out in this consultation. If you do not wish your response to be shared with ESNB, please note this clearly when submitting.

The CRU welcomes comments from all interested parties for this Consultation to be submitted via email by close of business at 17.00, 04 December 2024 to engagement@esbnetworks.ie and flexibility@cru.ie.

¹ [CRU202405k Joint DSOTSO Multi-Year Plan 2024-2028.PDF \(divio-media.com\)](#)