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Submission to SEM Committee in response to:

**Treatment of Price Taking Generation in Tie Breaks in Dispatch in the Single Electricity Market and Associated Issues
Consultation Paper, 26th August 2011, SEM – 11 – 063**

Pro-rata vs grandfathering

It is the firmly held view of Meitheal na Gaoithe that the SEM Committee's tie-break consultation asks the wind sector the wrong question. It puts the industry in an invidious position, leading to understandable, strongly held, differences of view on the various options, none of which are in any way acceptable.

As things stand, wind projects are not to be held whole as regards their support under the REFIT scheme when either constrained or curtailed, since the support is paid on metered output only, based on a rule set put in place some time ago by the CER and DCENR. In these circumstances, which threaten the whole future of the sector, industry participants are being asked for their views on which way we would prefer to share out potentially fatal losses.

To put the issue in its simplest terms, pro-rata of either constraint or curtailment at significant levels will demolish the funding model of projects that are already built, and will probably lead to bank defaults, project terminations and ultimately legal action. Furthermore, pro-rata means that projects financed today, if that proves possible, would face unknown levels of increased losses in the future, and may therefore not be financeable at all.

On the other hand, grandfathering seems the obvious and legally correct approach for existing projects, so that at least what has been built to date, however inadequate as regards targets, is not lost. But such an approach is likely to lead to roughly a doubling of the losses on any new projects. Given that pro-rata curtailment is foreseen at up to 10% or more, it is highly unlikely that any new projects will be financed under this approach.

The proposed approach of grandfathering constraint and pro-rata of curtailment (where these two can really be correctly separated, which is in

doubt) will not solve these issues, and may prove the worst of both worlds, whereby both existing and future projects are compromised.

The effective decision not to compensate for lost output up to the REFIT price is the source of the problem, and no amount of juggling of losses is going to correct that wrong policy.

Trying to work with the wrong policy

Indeed, because the current policy and regulation on compensation is wholly inappropriate, the process has become incredibly tortuous, as the TSOs struggle to implement it through carrying out endless studies to provide projects with large amounts of increasingly useless information. The unfortunate TSOs have been forced to run and now re-run the ITC, then model and now remodel the levels of constraints and curtailment, then to try to deal with the interaction of these two, and now also define constraint groups and curtailment categories, the likely impact of these groups and categories on projects, while also proposing to redefine them later, with absolutely unforeseeable consequences, etc etc. This has to stop.

Grid development

MnaG's first priority is grid development in the widest sense, as required by the RES Directive, which obliges Ireland to reduce curtailment and to guarantee the transmission of renewable electricity. This is now more urgent than ever. Such development has to include the early implementation of operating measures of the type proposed by Eirgrid in the PGOR reports, to increase the live generation cap on wind from 50% to 75%. Development must also include early restarting of Turlough Hill and the development of further storage. Crucially, it must also include optimal use of interconnection to support our system and minimize curtailment, for example by increasing the spinning reserve functionality of the Moyle from 80MW, making sure the East West interconnector will also assist spinning reserve, and that neither will be ahead of renewables in the dispatch order (contrary to what seems indicated in the SEM Committee's proposal).

Compensation

Where the Regulatory Authorities don't fully meet these legal obligations, then renewable projects need to be fully compensated up to the REFIT price for their full available output, especially as they face the risk of negative prices if they only receive market compensation.

REFIT adjustment

If renewable projects are not compensated for their full available output up to the REFIT price, so that they are bankable at the current REFIT price, then they will require a sizeable increase in the REFIT price to more than compensate for the uncertain losses. To be effective, that increase will have to be large enough to cover off maximum possible losses, even if these don't subsequently materialize. Thus the final cost to the consumer of achieving the legally binding renewable energy targets (and also contributing to GHG emission targets) would be much higher in the end. Any idea that, somehow, Ireland is going to escape these targets is naive. If anything both sets of targets are set too be increased and maintained as legally binding obligations. Therefore, the most efficient way to achieve these targets is to maximize certainty for renewable projects (thus minimizing financing costs), which in turn means ensuring that they receive the REFIT price for their full available output. As already stated, the preference is to fully develop the grid to allow projects generate their full available output, thus avoiding compensation, but where that doesn't happen to compensate as if it were so.

Location signals

The only exception to full compensation that could possibly be considered relates to non-firm constraint, where this loss could provide a signal to projects not to locate in areas of weak grid. However Meitheal na Gaoithe would not agree with this approach, since this would not be very effective, because most wind, and especially offshore projects, will be in such locations unavoidably. This sort of locational signal is not very useful as regards location specific renewable energies.

Connection charging

A much better way to provide a signal to minimize grid connections for renewable projects in weak grid areas is to cover grid connection costs (under Article 16.4 of the RES Directive), except for that part of the dedicated connection beyond a distance related to project capacity. For example, limit the length of line paid for by the network using a formula like 1km/MW (ie: a 10MW project would have to pay beyond the first 10km of its dedicated line, and would therefore be discouraged from locating any further from a node).

Projects between 5 and 10MW

Projects between 5 and 10MW need the choice to access the market for market compensation. On this issue we agree with the submission of the Irish Wind Energy Association.



Thomas Cooke, Chairman