



IWEA response to the Consultation Paper on GTUoS Tariff Methodology and rates for the Tariff Year 2012/13

16 July 2012

The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to the Joint Regulatory Authority All-Island Generator TUoS Tariffs Methodology and rates for the tariff year 2012/13. IWEA welcomes the publication of the indicative tariffs, along with the consultation paper, so that market participants can determine the impact of the different methodologies on projects. In previous consultations on this issue IWEA raised our concern that a decision paper was published with the required detail on tariffs not provided.

We would also like to stress that locational signals are dealt with partly through TLAFs and partly through TUoS and that it is very hard to get a fair, clear signal with the current setup.

IWEA notes that it is vital that one change is not made in a particular area such as TUoS charges without consideration of the cumulative impact on particular generator types. This consultation, along with recent regulatory consultations relating to TLAFs, the Capacity Payment Mechanism (CPM) and the Dispatch and Scheduling consultation all combine to have a significant impact on wind farm revenues directly. It should also be noted that all proposed changes introduce volatility in the business case which causes debt and equity providers to require higher margins.

IWEA is concerned at the significant impact the new methodology has on the tariffs for wind farms, with most wind farms seeing a significant increase in tariffs. IWEA notes that the real impact of the decision was not known when the consultation took place in 2011 as the tariffs were not available.

Specific comments on the consultation documents

- IWEA requests that a breakdown of the assets associated with each location be provided to generators so it can be seen what is being covered by these charges and if they are appropriate.
- The use of 80% capacity factor for wind in some of the modelling scenarios appears to be quite high. The NI Tariffs are based on the "Summer Minimum High Wind" scenario. However in this scenario wind is generating at levels in excess of what would actually be permitted. It seems then that "use of system" tariff is being calculated based on scenarios that will not happen in reality.
- IWEA is concerned that the locational element cannot go negative for wind generators. We consider this to be discriminatory against wind generators.

- Consideration needs to be given to the fact that non-firm generators are not compensated when constrained, therefore charging non-firm and firm generators on a like for like basis for TUoS is not appropriate. IWEA requests that the RAs reconsider their decision to charge non-firm generators a fixed TUoS charge as a per MWh charge reflects the lower service during the periods in which non-firm generators are constrained down.

The TUoS charge for all generators should be levied on a per MWh exported basis as it aligns generator income with these payments, ensuring that all generators will be treated equally.

- The RAs have stated that “Under the dynamic plus postage stamp methodology all Generators are charged based on the anticipated future usage of the transmission network.” Why would generators not be charged on the actual usage of the network?
- IWEA notes that the proposed changes to how the locational element is calculated based on the indicative tariffs has significant impact on many windfarms. Based on Option 2b, compared to last year tariffs, windfarms in Donegal have an increase of approx 40-70%, North Mayo/West Sligo 50%, the South West have an increase of approx 20-30% and windfarms in West of NI have tariffs reduced by approx 20%. Other areas generally have increases of less than 10%. For option 2a the changes are generally higher.
- It should be noted that there have been substantial changes in the last number of years so the percentage change over a number of years can be over 100% for some of these areas. For example for Letterkenny, the charge in 2006 was €0/MW/month, €246/MW/month in 2009 and €862/MW/month in 2012/13 (Option 2b). For a 20MW windfarm (allowing for not paying for first 5MW), the 2012/13 charge could be 3.6% of the windfarm revenue which is hugely significant. Coupled with changes in TLAf and increased constraints and curtailment, the changes will have a substantial impact on, for example, Co. Donegal windfarm revenues.
- The biggest driver of the shift in GTUoS charges from one year to the next is the inclusion of assets from previous years in the ‘cost’ input. This would seem to go against the objectives of the methodology agreed last year by the SEMC, i.e. to allocate costs based on usage of the future grid. This does not infer that there will be a free-rider problem as people will still contribute to the cost of previous assets through the postalised element of the calculation (i.e. 70% of the cost).
- With respect to the costs experienced by wind generators, we would refer you to DIRECTIVE 2009/28/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC which states:

“Electricity producers who want to exploit the potential of energy from renewable sources in the peripheral regions of the Community, in particular in island regions and regions of low population density, should, whenever feasible, benefit from reasonable connection costs in order to ensure that they are not unfairly disadvantaged in comparison with producers situated in more central, more industrialised and more densely populated areas.” This is further expanded on in Article 16, paragraphs 3-8.

- A key question is how will tariffs continue to change as the large Grid25 and RIDP assets are added into the model? IWEA would believe that these are likely to further increase the average TUoS for windfarms and so would provide a lot of concern to the sector.
- This consultation has seen a substantial change-around in TUoS for windfarms vs. conventional generation. Prior to the consultation most windfarms paid less than the average TUoS, now most windfarms are probably paying more the average with conventional seeing reductions. For example in the 2009 tariff Moneypoint paid €748/MW/month, Huntstown €521 and Aghada CCGT €441. In the 2012/13 tariffs (2b) the charges are Moneypoint €480, Huntstown €393 and Aghada €561. Conventional generation seems to have benefited in general with the exception of generation in Cork.
- From our analysis it is now clear that the results of this decision to have 30% locational will have a negative impact on windfarms. IWEA again reiterates its concern that the real impact of the decision (option 2a or 2b) was not known when the key decision was being consulted on last year. The methodology is still extremely complex and will probably still be volatile over the lifetime of a windfarm and IWEA believes this needs to be addressed.

IWEA also has outstanding queries raised in our previous response on this matter that remain unanswered

- IWEA notes that in SEM-11-078 it was stated that it remains the SEMC's policy that the fixing of G-TUoS tariffs would provide certainty to Generators and that this proposal will be revisited when setting the tariffs for the 2012/2013 tariff period but this does not seem apparent. Previously IWEA has welcomed proposals surrounding the fixing of the tariffs for a period of 5 years in principle, but we also noted it was critical to have an indication of what the tariffs will be in coming years if it is to provide a locational signal. Fixing the tariffs may mean that there will be a sudden change at the end of the 5 years, and in order for generators to anticipate what these changes may be, it would be useful to have indicative tariffs a number of years in advance. It is important that this issue is addressed prior to any decision.
- It is unclear how new projects connecting to the system will be treated, for example if the tariffs have been fixed either absolutely or relatively for 5 years, how will new generation impact on this?
- It is unclear how potential delays on grid delivery and the build-out rate of generation will be managed.
- Clarity is required as to how the transition from non-firm to firm charging would be managed in this scenario.
- IWEA notes that the indicative TUoS charges under the new methodology have decreased for conventional generators and increased significantly for wind generation on an all-island basis.

While the change in methodology is likely to contribute to this increase, at the workshop in June 2011 it was noted that the inclusion of the North South Interconnector is driving the tariffs in Northern Ireland. As stated previously it is very unlikely that this will be built in the timeframe associated with these tariffs and IWEA would reiterate our concerns that this is being included for these calculations.

SEM-11-078 decision commitments

IWEA notes that the SEM-11-078 decision stated that a number of elements of the methodology should be examined, but we note that they were not included in this consultation paper, including:

- Expansion of or refinement of the four scenarios in discussion with and consistent with transmission planning, including consideration of the use of plant not dispatched setting tariffs.
- Complete report of advantages of average participation versus marginal participation.
- Fixing of G-TUoS tariffs for 5 years or longer.
- In the absence of fixing G-TUoS tariffs, the appropriateness and rationale of including future network costs (either approved or unapproved) in the computation of present charges.
- Further consideration of the transmission planning criteria/methodology in use within both jurisdictions to ensure consistency in the G-TUoS model in the development of the all-island network cost file.

IWEA strongly believes it is critical that these issues are addressed prior to a final decision.

Conclusion

It is clear from our analysis that the implementation of the proposed methodology will have a significant negative impact on windfarms. IWEA questions the locational signal that is being given to wind developers with these proposed tariffs. Should all wind now be located in Northern Ireland? Should developers stop investing in the NorthWest of Ireland where the greatest wind resources can be found? This proposed decision raises significant regulatory uncertainty for wind developers and can be seen as a barrier to future investment.

IWEA again reiterates our concern that the real impact of the decision (Option 2a or 2b) was not known when the key decision was being consulted on last year. The methodology is still extremely complex and remains volatile over the lifetime of a windfarm. The RAs committed to reviewing a number of elements of the methodology prior to setting the 2012/13 tariffs and we request that these issues are addressed prior to a final decision.