



Response to:

Treatment of Curtailment in Tie-Break situations: Proposed Decision Paper
(SEM-12-090)

19th November 2012

Introduction

ESB Wind Development (ESBWD) welcomes the opportunity to respond to the proposed decision on the Treatment of Curtailment in Tie-Break situations. ESBWD has a large portfolio of operational wind farms in SEM, and a pipeline of development projects which we intend to construct over the next number of years. As such we have an interest in protecting the economic viability of our existing assets, while also allowing the construction of our development projects to proceed. With these two factors in mind, how curtailment is allocated in tie-break situations, and how it is treated in the SEM market is of critical importance to our business, as this will have a profound effect on both our operational assets and our ability to continue to develop our portfolio.

Mitigation of Curtailment

While with increasing wind penetration levels some curtailment of wind generation is inevitable, the level of curtailment can be substantially influenced by the various mitigation measures that are available. Without going into an exhaustive list measures include higher permitted instantaneous wind penetration levels, lower minimum generation limits for thermal plant, and export of power via the interconnectors. ESBWD feel that it is important to reiterate the point that it is crucial that the SEMC promote and incentivise these mitigation measures to endeavour to minimise the impact of curtailment on renewable generation, in line with the RES-E Directive (Directive 2009/28/EC).

ESBWD Position on the Proposed Decision

Allocation of Curtailment

ESBWD are very strongly in favour of a pro-rata allocation of curtailment, and welcome the proposed decision to allocate curtailment on a pro-rata basis. ESBWD is definitively of the belief that for the many reasons outlined in our response to SEM-12-028 the only appropriate way to allocate curtailment is on a pro-rata basis.

Compensation for Curtailment

ESBWD accept that compensation for curtailment cannot be paid irrespective of the amount of wind on the system and accordingly accept that compensation for curtailment should not be paid indefinitely for wind generation that the system does

not require to meet targets. The phasing out of payment for curtailment should however take cognisance of investment decisions already taken to date (a fact acknowledged by SEMC on page 49 of their proposed decision paper), where decisions have been made to commit significant amounts of capital to SEM. Accordingly we propose that projects that are both OPERATIONAL and FIRM on the 31st of December 2013 should receive compensation from the market for their curtailed generation in the normal fashion in line with current market rules for 20 years (the typical investment horizon) from their own individual commercial operation dates. This date has been chosen on the basis that if a wind farm is to be operational by the 31st of December 2013 it must have already committed capital and have commenced construction at this point in time.

This protection of existing projects maintains a reasonable level of investment certainty in SEM and promotes a stable investment environment. It is the view of many in the industry, in particular lenders to wind projects, that changing the market rules for existing operational projects arbitrarily undermines their business cases, and sends an extremely negative investment signal to investors and participants in SEM. Given that the total savings in DBC costs in 2020 estimated in the Eirgrid document accompanying the proposed decision is €13M, it can be expected that maintaining payment for curtailment just for existing projects for 20 years beyond their commercial operation dates would have a significantly lower impact on the cost to consumers than this figure.

Financial Cap on Curtailment Levels

The second principal concern of ESBWD is regarding the uncertainty as to how high levels of curtailment could potentially rise given the number of variables affecting it. Given how difficult curtailment is to forecast this is likely to make securing financing for projects quite difficult, taking into account the impact that high levels of curtailment would have on wind farm revenues. This viewpoint has been reached in consultation with some of the active lenders in the industry. The principal causes/remedies for curtailment are as follows:

- The level of interconnector imports to SEM
- The success of the DS3 programme
- Overall wind penetration levels in SEM

It is important to note that these three variables are completely outside the control of individual wind generators and investors in SEM, but have a very significant impact on the outturned level of curtailment. This makes it extremely difficult for investors to predict curtailment levels and revenues, and hence to raise finance for wind projects. This being said, we do recognise the importance of also protecting the consumer against unlimited exposure to paying for curtailment of wind, in particular if 2020 renewable targets have already been met.

With this in mind we would propose a “financial cap” on curtailment levels seen by generators, i.e. if curtailment (on an average basis for a given time period for each individual generator) was to increase beyond a certain percentage of its available generation, then generators would receive payment from the market for any curtailed generation above this level. The cap should be set at some reasonable level that will allow wind project business cases to proceed. This would provide stability and certainty to investors that curtailment could not be totally unlimited in the form of an effective cap, while still providing the customer with a strong degree of protection, depending on what level the cap is set at, which would be at the discretion of the SEMC.

To provide a further degree of protection to consumers this financial cap should only apply to the first projects required to meet the 40% 2020 renewable electricity target, subsequent projects should not receive any payment for curtailment in line with the proposed decision. This would provide reassurance to the SEMC that there is not an open ended consumer exposure to curtailment levels, and will maintain a signal that once targets are met (one of the criteria against which the proposed decision is based) there should not be unlimited unnecessary wind build.

Curtailment Mitigation Measures & Reduction in Compensation

It is important that the TSOs are incentivised to minimise curtailment levels since it is through mitigation measures, such as the DS3 Programme, which they can control, that will help reduce curtailment levels. It is therefore appropriate that any reduction in compensation for curtailment be linked to delivery of mitigation measures by the TSOs. This will also give investors certainty since compensation will only be removed when the appropriate measures have been taken to lessen the risk.

Method proposed by the SO to differentiate between constraint and curtailment

ESBWD is satisfied that the method for distinguishing between constraint and curtailment outlined in the annex is reasonable.

If you have any questions or would like to discuss any of the matters raised further please contact:

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