

Public Consultation on Electricity Support Schemes: Transitioning to I-SEM Arrangements

Electricity Policy Division

Department of Communications, Climate Action and Environment

29-31 Adelaide Road

Dublin D02 X285

11th January 2018

Submission to "Electricity Support Schemes: Transitioning to I-SEM Arrangements Proposed Decision Paper"

Dear Sir or Madam

ART Generation 'ART' welcomes the opportunity to respond formally to the Department of Communications, Climate Action, and Environment's (DCCAE) consultation "Electricity Support Schemes: Transitioning to I-SEM Arrangements Proposed Decision Paper".

In general, irrespective of the intentions of why the DCCAE have chosen to propose their preferred decision, ART believes that any change to remove the principle of guaranteed revenue under the REFIT scheme for a project represents a retrospective change to the scheme. As this is a REFIT change, contractually most REFIT suppliers may pass any and all incremental costs through to the generator. Financed generation projects now face – under all options – potential exposure to ISEM Balancing Costs. The DCCAE have implicitly assumed that a) such costs can be managed if a REFIT generator is exposed to them, and b) the level of managed costs will be acceptable to the financing of windfarms. The DCCAE has presented no evidence that the resulting costs can be absorbed by windfarms.

Furthermore, the DCCAE has not performed any analysis as to the tools available to the Irish electricity generators to manage these risks. By means of simple example, the SEM Committee has permitted the implementation of an Intraday Market design which falls far short of the liquidity available in pan-European Markets. Not only have the DCCAE not examined or assessed whether the balancing risk can be managed, the REFIT scheme itself makes it exceptionally difficult to select the best possible trader for a windfarm's power.

So while the DCCAE's proposed position may be couched in terms of incentivising balance responsibility, the net result of the proposed changes are an arbitrarily allocated tax on existing REFIT revenues while administrative barrier to seeking a better supplier are not addressed (changing REFIT supplier remains a difficult, lengthy, process which will be look on unfavourably by

banks). If a competent trader has been selected, there is no certainty that the balancing costs can be managed to acceptable levels.

In general, the proposed decision has made three mistakes:

- 1. It has made a change to REFIT which was unnecessary from a market performance point of view, and has undermined the principle of the guarantee of revenue under the REFIT scheme a principle on which billions of euro of capital investment has relied:
- 2. It has made no assessment as to the viability of the intraday market to allow people to manage that resulting cost risk, and are apparently unaware that the traders which manage the risk can maintain their own margins while passing all costs down to the generator. The generator who bears the cost might contractually be powerless to incentivise the supplier to manage it; and
- 3. The department's unwillingness to make modifications and change the nature of how generators can choose their traders (i.e. change REFIT supplier) shows that while the DCCAE has lofty pronouncements about incentivising appropriate behaviour of generators, it cannot be bothered to support the industry with some administration so that a generator can choose a trader that will best reduce these costs and meet the DCCAE's ambitions. If the DCCAE and CRU genuinely believed that REFIT will cause particular inefficiency in the ISEM, they could at least come up with a workable way for generators to choose the best trader.

It is difficult to assess these facts and come to any other conclusion that the DCCAE want to break its promises to the investment and developer community, and simply claw back on their financial commitments.

Ideally, ART wants:

- 1. No change or erosion to the REFIT guarantee. Wind generators are willing to adhere to a REFIT trading code of practice to ensure that sensible traded positions are taken; and
- 2. Failing that, some creativity and consideration to be given to implementing a process to allow generators to change REFIT supplier more readily.

I trust that you will consider the points raised in this letter.

