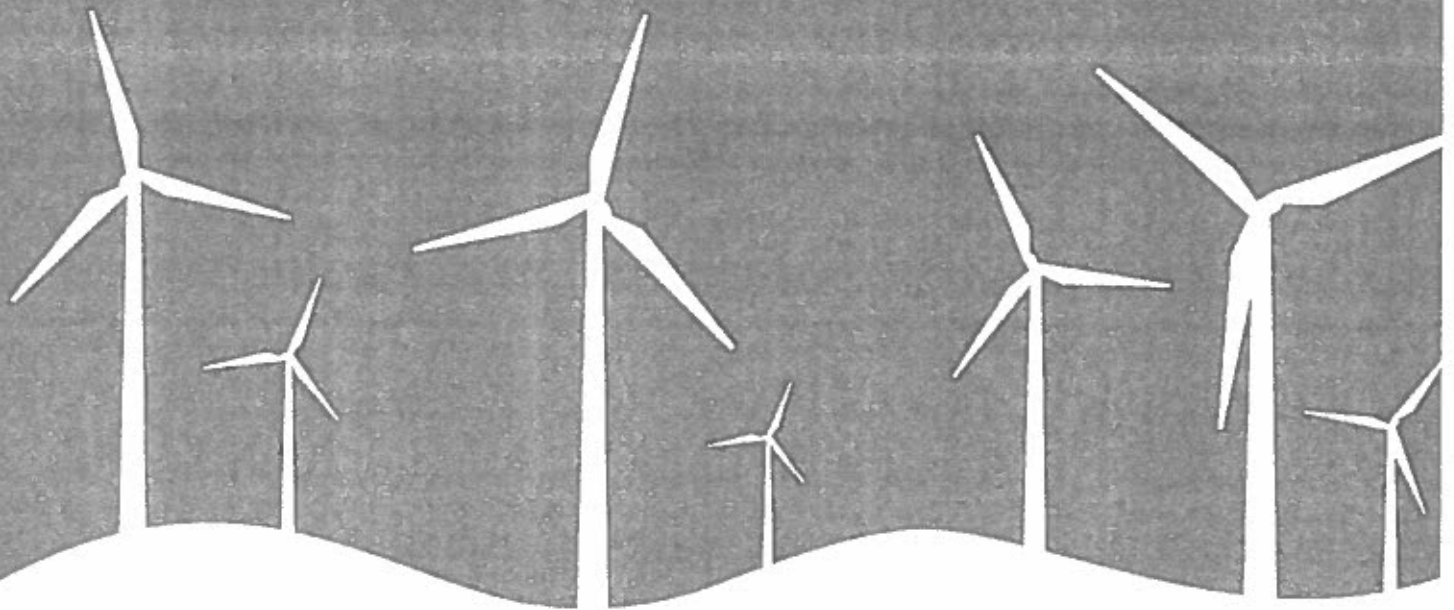


Brookfield Renewable

Response to DCCAE Consultation “Electricity Support Schemes: Transitioning to I-SEM Arrangements Proposed Decision Paper”

Submission Date: 11 January 2018



Brookfield

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

Dear Sirs,

Brookfield Renewable welcomes the opportunity to provide feedback on the Electricity Support Schemes: Transitioning to I-SEM Arrangements Proposed Decision Paper published by the Department of Communications, Climate Action and Environment (DCCAE).

Brookfield Renewable is part of Brookfield Renewable Partners L.P., one of the largest publicly-traded renewable power platforms, operating across Europe, North America and South America, with over 10,000 MW of hydroelectric and wind capacity across 15 power markets. Brookfield Renewable's Irish portfolio consists of 368 MW of operating wind capacity across 20 wind projects in 9 counties and a 200 MW wind development pipeline. Our power operating platform employs over 2,200 people globally, including full operating, development, construction oversight, and wholesale power marketing capabilities. In addition to operating a wind portfolio in the Single Electricity Market, Brookfield Renewable also actively trade power across the interconnectors between SEM and BETTA.

1 Background

One of the fundamental aspects of REFIT is that it removes variable price risk from renewable energy investments by providing a guaranteed price over a 15-year period. This stable price commitment provided by REFIT has been essential in attracting investors and lenders to the renewable energy sector in Ireland.

In the transition to I-SEM it is critical that commitments given to investors under the REFIT schemes are maintained, in a manner that is reasonable and practical, so as to maintain investors' confidence in the policy and regulatory stability of Ireland. Price certainty is one of the core elements of REFIT that underpins existing investment cases, therefore it is essential that the DCCAE endeavours to maintain this commitment in I-SEM.

Brookfield Renewable is supportive of the market integration of wind generators and the introduction of balance responsibility for all market participants, including renewable generators. Nevertheless, we believe that there is nothing in EU law that obliges DCCAE to adopt an approach to the REFIT schemes which does not properly reflect the additional balancing costs to REFIT suppliers of participation in the balancing market.

Although the direction of travel in the EU is towards balance responsibility, this is specifically targeted at future support schemes as evidenced in Article 4(2)(c) of the proposed new Internal Market in Electricity Regulation provides that:

"Member States may provide for derogation from balance responsibility in respect of...installations benefiting from support approved by the EU Commission under Union State aid rules"

and

"Member States may, subject to Union State aid rules, incentivize market participants which are fully or partly exempted from balancing responsibility to accept full balancing responsibility against appropriate compensation."

It is clear that EU direction is specifically to allow Member States to incentivise market participants benefitting from State Aid support to accept balance responsibility through appropriate compensation. It is not the case that REFIT generators must bear any or all of the costs associated with balancing.

2 Brookfield Renewable's Position

Brookfield Renewable wish to highlight that all three options presented in the Proposed Decision paper undermine the basis under which REFIT investments were made, as they no longer maintain the REFIT price guarantee.

Brookfield Renewable's position in the transition of REFIT to I-SEM is that there should be no retrospective change i.e. the transition to I-SEM should 'grandfather' the existing arrangements of REFIT generators and that the REFIT price guarantee should be maintained. Notwithstanding this position, the Proposed Decision Paper presents three options for the transition of REFIT into I-SEM and explicitly requests views from industry on each option. In response to this specific request, Brookfield Renewable offers its views in the following sections and can be summarised by saying that the Dutch Option is less onerous than the Blended Approach because it better reflects the balancing costs of wind generators and is less incompatible with the original REFIT commitment while providing strong transparent market incentives that we believe will help the ISEM market to function efficiently and minimise impacts on the PSO paid by consumers.

3 Option A, the Day-Ahead Market Approach, represents a significant erosion of REFIT

Brookfield Renewable believes that the Day-Ahead Market Approach is the most onerous option for I-SEM market participants as it offers no recognition that balancing costs will be borne by REFIT generators. It represents a deliberate erosion of the REFIT guarantee and a damaging retrospective change that subjects wind generators to

balancing costs that cannot be recovered. Therefore, Brookfield Renewable recommends that the DCCA does not consider this as a viable option in their decision making process.

4 Option B, the Blended Approach, does not maintain the original REFIT commitment to provide price stability to renewable generators

Brookfield Renewable has concerns about the Blended Approach because it does not relate to balancing costs. The rationale set out in the Proposed Decision Paper for moving from the Emerging Approach to the Blended Approach, is to 'recognise the inevitable forecast error of wind generation'. However, it is important to note that any recognition of the forecast error of wind generation must also account for the consequences of the error, which in I-SEM will be an exposure to balancing costs. The Blended Approach relates only to the prices in the Day Ahead Market (DAM) and Balancing Market (BM) in any given trading period but does not account for the volumes of wind trading in each period and subsequently it does not directly relate to balancing costs.

For example, take the scenario of a trading period where REFIT generators forecast accurately and successfully trade their all of their volume into the DAM and have no balancing cost. The reference price for the purposes of calculating REFIT should be 100% of the DAM price. However, under the Blended Approach the reference price would be 80% DAM / 20% BM price and as a result REFIT generators could possibly be over-compensated during that trading period should the BM price outturn lower than the DAM price.

Take another example of a trading period where, due to forecast error, wind on the system is short and REFIT generators have to buy back energy in the BM to balance their traded volumes. In this case, BM prices will rise and wind generators will have to buy at a price higher than the DAM price. Under the Blended Approach, REFIT generators will be topped up by reference to the DAM price only which will not compensate them for their true balancing costs.

These scenarios illustrate that under the Blended Approach, there is no direct link between the reference price and balancing costs.

Many factors other than wind imbalance can affect the BM such as plant bidding strategies, system operator reserve planning, generator and interconnector outages and demand response. As a result, under the Blended Approach, these market factors may impact on the REFIT top-up irrespective of wind imbalance costs. This exposes REFIT generators to an additional risk where balancing costs may be high due to system events outside of the control of REFIT generators, but the REFIT top-up is inadequate to cover such costs. This effectively results in REFIT generators being exposed to variable market prices which is incompatible with one of the fundamental aspects of REFIT which is to provide price stability.