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Submission

on the DCCAE proposed decision  
to integrate REFIT (& AER) with I-SEM

**“Electricity Support Schemes:  
Transitioning to I-SEM Arrangements Consultation<sup>1</sup>”**

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The issue of integration of renewable support schemes with the electricity market that would replace the SEM (under the EU Target Model) has been with us for quite a few years. It is only now being addressed, a delay which has in itself created uncertainty for the whole renewables sector. Not knowing how the integration would be implemented has in particular put PPA providers in a difficult position, and that has had a spill-over effect to promoters, who found it difficult to secure long-term Power Purchase Agreements (PPAs), and it therefore also affected financiers.

Now that a process is finally underway to clarify and decide on the integration, that position has dramatically worsened. The Government through DCCAE proposes to effectively make serious negative and unnecessary changes to the implementation of the existing support schemes.

Ireland's current 'REFIT' support scheme, which was open to applications up to the end of 2015, is a fixed feed-in-tariff, and that was preceded by the AER, which also involved a guaranteed tariff over 15 years (though based on prices bid by applicants in a tender). In the Dept's own 2017 proposal for a new support scheme (RESS), the following useful clarification was provided:

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<sup>1</sup> <https://www.dccae.gov.ie/en-ie/energy/consultations/Pages/Electricity-Support-Schemes-Transitioning-to-I-SEM-Arrangements-Consultation1130-5055.aspx>

*"Feed-in-Tariff (FIT): A price-based support mechanism, designed to provide full remuneration by guaranteeing RES-E projects a €/MWh fixed payment for each unit of electricity produced during a pre-determined/fixed support period. Previous support schemes in Ireland were FIT mechanisms." [emphasis added]*<sup>2</sup>

That 'guarantee' is now to be removed, because the main change that DCCAE propose (and CRU would implement) is to **move away from paying the REFIT/AER top-ups against actual market revenue received, and pay instead against a 'deemed reference price'**. Initially it was proposed to use the Day-Ahead price (Option A), but that has now shifted to a blended price (Option B), which would be based on 80% Day Ahead and 20% Imbalance price (likely to be lower, thus normally paying a slightly higher top-up). As a precaution against the blended price being higher, the top-up would be paid against the Day Ahead price should it be lower than the blended price. It is also proposed to use a 70/30% blend for small projects (<5MW, with the same proviso).

If the Day Ahead price was used as the reference price for the top-up, essentially renewables would be paying the balancing costs, which they do not pay today under either AER or REFIT within SEM. A blended reference price should mean that renewables pay an unknown proportion of the balancing costs.

This is the core of the negative and unnecessary change.

The Dept. claims this is being done to implement the EU Target Model, which requires 'balance responsibility' in the electricity market. But that concept is being implemented in any case by virtue of the design of the new Integrated Single Electricity Market (I-SEM), due to go live on 23rd May 2018. The EU Target Model has nothing to say on how support schemes are operated; indeed we are repeatedly told that such supports are outside the market and cannot be implemented within it to avoid distorting it. Instead supports to renewables are organised through specific schemes (like REFIT), which are in turn governed instead by a separate set of rules under the state aid aspect of EU Competition law - the EU state aid guidelines on energy & environment. The Dept. is choosing to ignore the fact that the 2014 state aid guidelines provide a full exemption from paying balancing costs for existing support schemes (pre 1/1/2016). Their proposals are thus a matter of national policy and have nothing to do with EU law or the Target Model, so that argument is disingenuous.

However, the Dept. and in particular the regulators on the island (SEMC) have a serious worry that supported projects would avoid the ex-ante markets (Day Ahead Market or DAM and Intra Day Market or IDM), to save hassle & cost, and thereby cause their new I-SEM market to malfunction (and drive up PSO costs). There is some truth in this because, if supported renewables avoided the ex-ante markets, the inter-connectors would probably not operate correctly, so that curtailment could, and probably would, rise (which renewables don't want either). IWEA and IWFA are well aware of this potentially negative effect, which is why the two organisations proposed an alternative model (called Guarantee with Annual Performance Requirement, or GAPR).

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<sup>2</sup> page 24, "Public Consultation on the Design of a new Renewable Electricity Support Scheme in Ireland", DCCAE, September 2017

Over the last few months, IWFA along with IWEA, supported by the Electricity Association of Ireland (EAI), developed a solution to the integration issue that didn't undermine REFIT or AER, and this approach (called GAPR) was presented in considerable detail to DCCAE. That approach would keep whole (ie: top-up against actual revenue less balancing costs) projects that do trade ex-ante and keep their balancing costs down, while those that don't would pay some or all of the balancing costs; small independent projects would have to be exempted due to the high cost of trading ex-ante as against any benefit therefrom.

However, in the present consultation the Dept. has misrepresented what the sector proposed as the 'Dutch Model' or Option C (where projects are allowed the average balancing cost). The sector did not propose that model. IWFA does not agree with the so-called Dutch Model because no project maintains the price guarantee on which it was built.

In any case, in the current 'proposed decision', DCCAE seems determined to proceed on a different basis (a blended deemed reference price - Option B), which will seriously undermine REFIT & AER. This is a significant and detrimental change to the schemes on which we have built projects to date. A new RESS scheme is being developed by DCCAE to replace REFIT and should be brought forward as soon as possible, given the closure of REFIT in 2015. Projects will have to take responsibility for balancing costs under that scheme, as required by state aid rules, but they can be allowed for in the proposed tendering within RESS. However we would note with caution that if the changes to REFIT now proposed by DCCAE are implemented, that will undermine trust in the forthcoming scheme and at least raise the cost of capital to cope with this sort of policy risk.

A further contradiction arising from DCCAE's proposed decision relates to small projects. The cost of trading ex-ante is enormous, considering all of the registration fees, charges and collateral. These costs far exceed any possible benefit to *de minimis* projects, and even some larger projects, the type of projects developed by IWFA members. And yet the Government's own Energy White Paper wishes to encourage smaller and community type projects of this very type. To force such small projects to trade ex-ante is simply not sustainable. Aggregation does not solve this problem as it only shares the risks but doesn't share the costs.

The financial hole that DCCAE's proposed change will cause in REFIT & AER is coming at a time of market change to I-SEM. Most PPAs include a 'market change clause', allowing the PPA provider to adjust the terms of the PPA. That clause will be exercised by the PPA providers and will no doubt take account of the proposed changes to REFIT/AER top-ups. We expect the PPA providers to remove some or all extra benefit they pay to our members' projects, such as sharing of the 0.99 €cent 'balancing payment' (which, as a fixed revenue, has been used to assist project financing). Nevertheless, PPA providers must pay a minimum of the REFIT/AER price or the PPA becomes invalid for the support scheme. Where the PPA does not have a market change clause, the PPA provider will have to cover the increased balancing cost or cancel the PPA (if possible). In the case of 'supplier lite', the combined project/supply group will face an additional cost of some or all of the balancing costs.

This is a problem for both the PPA providers and most supported windfarms. The banks will become uncomfortable with the increased risk (caused by the unknown level of balancing costs).

DCCAE prefers the blended price approach of Option B. Option C also presented in the DCCAE paper is the so-called 'Dutch Model'; it is NOT what the electricity sector proposed. Under Option C, all projects would be paid the average balancing cost. Some in the wind sector seem to consider Option C to be the least worst option of the two presented in the DCCAE paper, since it would cope better with any large variability in balancing costs. Crucially, it removes the guarantee from all projects, but does ensure that projects that trade ex-ante and whose balancing costs are lower than average are effectively kept whole (or indeed benefit). However, this does mean that the other half of the projects lose out. Worse still, any project that cannot pay the high cost ex-ante trading (small projects, and in particular 'Supplier Lites') would suffer a major loss. Unless all *de minimis* projects are excluded and kept whole, IWFA cannot agree to this option either, and that is not foreseen.

On the basis of the above analysis, IWFA has no option but to reject the Dept's proposed Option B as well as the alternative Option C.

In trying to be constructive, IWFA supported and continues to support the GPR proposal made by the sector, as described above (including a reasonable tolerance designed to include projects that trade ex-ante). But for the reasons already outlined, that has to be subject to *de minimis* projects being excluded and kept whole the way they are today in SEM. There is simply no way that such small projects will be able to pay the cost of trading ex-ante.

A further refinement that could be considered is not to apply these new rules to operational REFIT & AER projects and to keep them whole as in SEM today. However, any new projects, excluding *de minimis* projects, to be developed under REFIT after the implementation date could decide if they wish to proceed under Option B or C, should either of those options be implemented.



Chairman