

Coillte Response to SEM-09-107

Preferred Options to be considered for the Implementation of Locational Signals - Consultation Paper

Introduction

Coillte welcomes the opportunity to respond to the System Operators (SOs) paper on the Preferred Options to be considered for the Implementation of Locational Signals on the Island of Ireland.

To-date Coillte has provided the land for circa 25% of current installed wind farm capacity in Ireland. Coillte have become more directly involved in the wind industry with circa 400 MW of joint venture and 100% owned projects at various stages of development in Gate 2 & 3 and is actively developing additional renewable assets.

General Comments

Coillte consider the review of the Losses and Tariff Locational Signals as one of the most important regulatory consultations for 2009 and 2010. The volatility and unpredictability of these signals has become a major concern for the wind industry and will require major reform from its current format if Ireland is to achieve the 2020 renewable targets.

As an example of the level of volatility, a Coillte development project that applied for connection in 2005 will have reduced revenue of 6.5% due to changes in losses and tariff factors in the period 2005-2010. This is only a typical example of the impact of locational signals, there are many examples of windfarms and conventional projects that have reduced revenue in excess of 10% over the same period. It should also be noted that these changes occurred following the connection of 1000 MW of wind generation, even greater volatility can be expected over the next 10 years as the level of wind generation approaches the target of 5500 MW.

This level of volatility will inevitably lead to an increased cost of capital for windfarm projects and may deem some projects non financeable. It is noted in the SOs paper that volatility, predictability and transparency are listed as non-economic factors. As these factors will increase future generation costs and therefore the cost to the consumer, Coillte request that these factors should be deemed as economic factors and given a greater weighting in the final analysis.

At this stage in the review more serious consideration should be given to the need, if any, for locational signals. There is little evidence that the existing locational signals

that have been in place for almost ten years have influenced developer's decisions on the location of new generation. For wind generation, factors such as the local wind regime, planning constraints and shallow grid connection have been the dominant decision factors. This point is further reinforced by the CER's decision to exclude locational signals in any of the criteria used for Gates 1-3.

The level of complexity in the methodology for both locational signals must also be queried. As well as using up valuable resources in the SOs, substantial industry resources will also be tied up in the analysis of future TLAFs and TUoS charges.

At this stage in the process a cost benefit analysis is required to compare the volatility and administration costs of the scheme against the benefits of efficiency and cost reflectivity.

Coillte would request that the SOs and the Regulatory Authorities review the need for locational signals on the grounds that they have not been effective in influencing developers decisions over the past ten years, the Irish system and market is too small for this level of complexity and the cost of the increased volatility and administration of the scheme outweigh any benefits.

Transmission Loss Adjustment Factors

Coillte agree with the need to reduce losses on the transmission system. The location of generators is only one element that contributes to total system losses. Other factors include the choice of conductor material and size, the route length and the voltage level. Managing losses on the electricity system could be compared to how losses are managed in the internal network of a windfarm. In the design of the internal network losses are optimised by comparing the capitalised cost of losses over the lifetime of the windfarm against the increased capital cost of larger conductors, different conductor material or operating the network at a higher voltage level. The option of moving turbine locations to accommodate losses would not be considered as these locations have already been fixed as part of the planning consent and the optimisation of the wind yield. Coillte suggest that greater focus should apply to the design of the system rather than the location of generators in the management of system losses.

The proposed three step approach as outlined in the SOs consultation paper lacks detail for Coillte to firmly comment on its suitability. Although the medium term and long term steps have proposals for a flat losses factor applied in the market it is commented in the paper:

“..this does not rule out charging locationally for losses through another means outside of the market e.g. incorporated through an additional component in the TUoS charge.”

No information is provided in the consultation paper on this new locational mechanism except a statement that extensive analysis is required to devise the alternative charge.

The timelines provided by SOs for the implementation of the new mechanism are 2-5 years for the medium term option and 5 years+ for the long term option. Coillte are concerned that the SOs proposals include substantial uncertainties in the charging mechanism and have a long implementation timeframe. This only serves to increase the volatility, predictability and lack of transparency in the losses factors.

TUoS Tariff

A key principal in the electricity industry is the shallow connection policy. Charging directly for deep reinforcements would be a major barrier to new entrants. This is particularly important as we move towards a renewables and low carbon industry. Having large variations in TUoS capacity charges will be equivalent to the reintroduction of deep charging for some generators. It is important that the new tariff mechanism respects the shallow connection policy and does not become a barrier to new entrants.

The analysis provided on the SOs preferred option again lacks the necessary detail for Coillte to firmly comment on its suitability. The analysis is based on 2008/09 resulting in very few of the new transmission lines required as part of Grid25 being included in the dynamic analysis. It is possible that the dynamic charge could increase substantially for wind farms when the transmission reinforcements required for 2025 are considered. Coillte are concerned that this could become a barrier to new entrants. Coillte suggest that further analysis is complete on the dynamic option considering the available information on Grid25.

Coillte are available to meet the System Operators or Regulator Authorities to further discuss our comments on changes to the losses and tariff locational signals.