ART

GENERATION LTD

Mr Jamie Burke
CER
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24

13th August 2010

Dear Sirs

With reference to the current TLAF consultation and the subsequent presentation in Dundalk on Monday 26th July 2010, we would like to comment as follows:

1. The consultation process should determine the right outcome for the system and this should be based on equitable principals. The outcome should be for the common good, a principal that is underwritten in law with a full impact assessment undertaken for each option and not just reward 'he who shouts loudest'. The integrity of the process is essential.
2. It is also worth pointing out that it is not acceptable for the System Operator (SO) to mention the extensive number of consultations and the corresponding number of respondents and present as a reasonable justification for a conclusion. It is incumbent on the SO to present a quantifiable argument on the merits and demerits of one option over the other and the reasons why. The SO have completed a vast a mount of studies but the conclusion are lost in the technical analysis.
3. It is clear that there was a divergence of views from different stakeholders which can be classified as the South West group, Dublin group and others (IWEA). The South West group was supportive of the uniform approach, while the Dublin group argued that further sensitivity analysis needed to be undertaken to assess the uniform approach and not have the intermediate step of splitting the TLAF from the market schedule. The IWEA argued that the uniform loss level should be set at 1 instead of 0.98.
4. The general consensus was that the current system is flawed and not supportive of financing. There is an ongoing inherent weakness in the SO and Regulatory Authorities' intransigence and reluctance to take on board and accept the impact of any major decision on project financing. Furthermore, despite this being pointed out on numerous occasions, no effort has been made to retain senior banking/finance expertise to evaluate any proposed decisions and undertake sensitivity analysis/stress test on the impacts. In fact, decisions seem to be made in a financial vacuum. There is a perception that an authoritarian culture is developing where the SO knows best. Now more than ever considering the economic crisis that the country finds itself in that the financial impact of any decision on project financing needs be properly evaluated by the Regulatory Authorities.

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5. After considering the matter, we believe that there were valid issues raised by all parties and that a modified solution needs to be considered. The original purpose of TLAF was to send a signal to the market to locate in a particular area in line with demand and reward accordingly with a positive TLAF. The inverse was also true. This signal was valuable and should not be completely disregarded.
6. There was a general consensus by all stakeholders that there is a problem with the current TLAF system. Therefore, the solution is to identify the problem and find a solution. It is important not to offer the wrong solution for the wrong problem. Potential solutions could be to fix the period for TLAFs for ten years or longer or to adopt the uniform/compression approach. However, this raises a further problem that applicants with significantly positive TLAFs are cross subsidising applicants with negative TLAFs, which is now the proposed solution. That being the case, it affects and penalises the applicants with positive TLAFs much more than those with negative ones. The locational TLAF signals were there for a reason and a welcome signal to the market to locate plant.
7. There are additional changes on the horizon that will affect the economic feasibility of wind farm projects as follows:
    1. Proposed REFIT decrease by 15%?
    2. Curtailment proposed by Eirgrid of 6%
    3. Constraints of 2-3%
    4. TUOS charges
    5. Scheduling and dispatch impacts.
    6. Firm access quantities.

    All of these factors add up to significant negative impact on the bottom line for renewable projects and will render most wind projects in the Republic unfinanceable. This is particularly true for small projects. These changes will negatively impact on the two Governments' renewable targets. In particular, the impact will be felt more severely by projects in the Republics as they don't have the benefit of ROCS as is available in Northern Ireland. Therefore, any solution must be considered carefully and take into account all these issues. The parties at the table have a direct influence on TLAFs, constraints and curtailment and have a responsibility to ensure that they support renewables and not overburden any particular sector especially small windfarm projects. Small windfarms do not have the economies of scale to carry this burden. The burden is disproportionate to their scale and the impact is much more severe. With a considered strategic overview as opposed to this piecemeal independent approach that has been policy to-date, it is now time to evaluate the combined effects of all these Directions. The solutions needs to be integrated with joined up thinking on all factors that affect the bottom line.

Therefore, we propose the following:

- Apply a uniform TLAF of 1 or the compression approach is implemented as it is more reasonable and equitable to all stakeholders concerned.
- Small windfarms under 15MW should be exempt as they do not have the economies of scale to carry all these costs.
- Pro rate per the TLAF / Compression figure above the threshold only.
- TLAF for ancillary services should be excluded.

In conclusion, no applicant segment should be unduly burdened to such an extent that it would have serious negative impact on the economic viability of a project. It should be should be able to absorb reasonable and proportionate TLAFs relative to their scale.

I trust you will take cognisance of the points raised in this letter.

Richard Walshe

Yours sincerely

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