

Submission by Bord na Móna PowerGen

on

Treatment of Curtailment in Tie-Break situations

Response to Consultation Paper

(SEM-12-028)

May 2012

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Introduction

Bord na Móna welcomes the opportunity to make a submission on the “*Treatment of Curtailment in Tie Break situations*”. Bord na Móna has previously furnished submissions to the SEM Committee (SEMC) which have outlined the organisation’s stance on this matter, most notably in responses to SEM-09-073 (at pp 11), SEM-10-060 (at pp 10) and SEM-11-063 (at pp 4). In each of the cited submissions, Bord na Móna’s response has been consistent, succinct and based on the equitable principle that in tie break events de-loading should occur on a pro-rata basis.

It is obvious, therefore, that Bord na Móna welcomes the acknowledgement that the decision reached in Section 3.5 of SEM-11-105, was deficient. Furthermore, the structure of the current ‘re-issued’ consultation transparently outlines what the SEMC believes are the high level principles which must underpin the ‘tie break decision’ and form the base of analysis of the proposed Options regarding these criteria. Bord na Móna believes that our previously stated position, i.e. the principle and philosophy of pro rata, is further affirmed when examined through the prism of the said same criteria.

This paper concentrates on comparing and contrasting Option 1, affectionately known as grandfathering, with Option 2, pro-rata; using the same SEMC criteria.

Discussion

1 Impact on the consumer and Dispatch Balancing Cost (DBC)

One of the strongest arguments made in the consultation paper in favour of Option 1 is that “*all other things being equal, it is **likely** [emphasis added] that grandfathering of curtailment will be cheaper for the all-island customer*”¹. However, Bord na Mona believe there are equally credible scenarios where this conjecture does not hold true, when *all* the costs to which the consumer have been examined in the round.

It is instructive to consider the impact from a consumer perspective of the two main options, using the following simplified example. Consider a simple system composed of two wind farms with the same export capacity, one fully firm, one non-firm. Over the course of a tariff period, system operation requirements result in a certain volume of curtailment occurring. Under the pro-rata option, (Option 2), each wind farm would have an equal share of this curtailment, whereas for the grandfathered option (Option 1), the non-firm wind farm will take the majority, (potentially all) of the curtailment. If the wind farms have equivalent capacity factors, this means that under Option 1, we would expect that the firm wind farm would have a greater physical dispatch quantity than the non-firm, whereas under Option 2, they should be approx equal, (ignoring transmission constraints).

Under the ROI REFIT support scheme for wind, a participating wind farm will earn the greater of either the wholesale market revenue for its fully available output or the REFIT tariff price for its metered generation, (i.e. physical dispatch). Where market revenues are less than the minimum revenues guaranteed by REFIT, the consumer is cost neutral to any difference in approach to the treatment of curtailment. In our simplified example, regardless of which curtailment option is applied, the total amount of physical dispatch will be the same, (as the options only affects how the

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curtailment is allocated to each generator, not how much curtailment is required). By extension, the total guaranteed revenues under REFIT is invariant, as this is proportional to the total physical dispatch of participating generators. The implications of one curtailment option over another, from a consumer perspective, largely boils down to how much of the windfarm revenues they cover through the market, and how much they cover through the PSO levy.

The only scenario where the consumer impact of the grandfathering v's pro-rata curtailment is differentiated is where the total SEM revenue exceeds the REFIT minimum guaranteed revenues, (i.e the PSO support reduces to nil). Ultimately, however, one of the key purposes of incentivising the levels of low marginal cost renewable generation is to exert downward pressure on market prices.

The impact of a curtailment decision which will act as an impediment to investment in new renewable generation therefore perversely would result in lower downward pressure on market prices, and impact negatively on consumers. It is clear from the level of industry comment that arose following the publication of the initial decision in December, and which ultimately led to this decision being re-opened, that a grandfathering approach to curtailment will impact very negatively on the investment rates for new generation capacity, and therefore will result in higher market prices to consumers in the medium term.

Bord na Mona believe that the analysis that Option 1 as proposed is *likely* to benefit the consumer is not convincing, and that it is more likely that a pro-rata curtailment policy would bring positive benefits to the consumer, particularly when considered in the round with the more favourable impact on investment in new renewable generation, and the consequent positive influence in keeping downward pressure on market prices.

2 Facilitation of Ireland and Northern Ireland 2020 Renewable Targets

Again this assessment criterion can be best met by adapting a pro rata, as opposed to grandfathering of curtailment –

- The European targets for RES-E are underpinned by legislative instruments, priority access and dispatch, which are required to be implemented in a ‘*transparent and non-discriminatory*’ fashion. For a curtailment event, first principles would suggest that pro rata de-loading trumps a regime based around ‘grandfathering’ in terms of compliance with the legal requirement of transparency and non-discrimination.
- In addition, another factor which overlaps with criteria 1 above and 3 below, relates to the achievement of the 2020 targets. While the industry has made admirable progress in the delivery of circa 2,000MW of wind on the island to date, there is still a significant ‘gap to target’. Failure to achieve the jurisdictional targets may result in penalties (or costs of some type) which will ultimately be borne by the consumer.
- The 2020 RES-E target is a critical embodiment of the EU’s decarbonisation policy. At the jurisdictional level, it is becoming apparent, due to a host of factors, that the projected trajectory of ‘new’ firm access on the system will lag behind the build out rate necessary to achieve the 2020 targets. It is incumbent on decision makers who have (in)direct influence in the realisation of these targets, not to stymie the roll out of renewable generation. Penalising prospective generators by imposing a disproportionate level of curtailment (via grandfathering), will fundamentally threaten the ability of both Governments to met their respective EU targets.

3 Efficiency of Entry Signal

As discussed in section 2 above, there is increasing evidence that the provision of infrastructure necessary to provide ‘firmness’ for wind projects will lag behind the ‘build out’ trajectory necessary to achieve the 2020 targets. Adapting a regulatory regime which allocates the risks and costs of curtailment onto prospective and necessary but non-firm project will send a clear economic signal – a signal which asphyxiates the proposed investment.

It is worth noting, and perhaps the omission from the Consultation Paper is in the interest of expediency, but a reasonable and objective conclusion which can be inferred from the Consultation Paper is that ‘Option 1’ simply provides a positive ‘entry signal’ which drives the timely development of the optimal level of firm projects. There is no regard to the other factors (and risks) which contribute to the overall viability of a project including, but not limited to, regulatory consents (planning and environmental), development expenditure (land and capex) and operational returns (yields and maintenance).

Decisions to progress firm wind projects, are like all projects, evaluated in the round, ie taking cognisance of the above factors – it would be expected that grandfathering is unlikely to be the swing factor in determining their viability and ultimate construction. On the other hand, non-firm ‘shovel-ready’ proven projects are at a considerably greater relative risk of being shelved should grandfathering be now parachuted into existence.

This asymmetric negative impact of grandfathering again suggests that the Entry Signal criterion is best served by a pro rata based approach.

4 Stable Investment Environment

In terms of curtailment, Bord na Móna has consistently adapted a position advocating the principle and philosophy of pro rata burden sharing. It must also be noted that, to date, all wind farm investments in the Single Electricity Market, which are contributing towards the fulfilment of the 2020 target, have been made on the understanding that there was no express provision that such projects would benefit from the protection afforded by grandfathering when curtailment was necessary. On the contrary, revenue modelling (supporting licence applications) most likely included curtailment factors as more wind came onto the power system.

Contemplating a sea change from the defacto pro rata of curtailment to a system of grandfathering can hardly be described as meeting the criterion of a stable investment environment.

5 Consistency of treatment of constraints and curtailment

In the preceding four sections, a compelling case for a pro rata type approach to curtailment, based on solid reasoning coupled to knowledge of the industry and market, has been advanced. It is surmised that the SEMC's inclusion of this 'consistency' criterion stems from the concern that it is "*not always possible for the TSOs to unambiguously identify constraints from curtailments*". However, in the absence of a quantitative understanding of the materiality of this potential misidentification, it would be disingenuous, and not in keeping with the tone of the submission, for a market participant to objectively comment on this matter.

Conclusion

In summary, this submission has objectively examined the SEMC criteria for the treatment of curtailment. The examination has attempted to look at the criteria with a wider lens, focusing on

- consumer exposure to the total wholesale cost of generation as opposed to just dispatch balancing costs
- the facilitation of the 2020 targets in the light of the special position afforded to renewable generation in the RES Directive
- the fact that the viability of projects is not primarily determined by firmness
- the defacto assumptions on which past investment decisions were approved and developed.

The conclusion which is reached is that the philosophical and general principles underpinning a pro rata type approach to curtailment are in the best interest of consumers, generators and the Governments.

I trust that the above comments will be helpful in the consultation process. If you have any queries or comments, please do not hesitate to contact me.

For and on behalf of

Bord na Móna PowerGen,



Dr John MacNamara

Projects Manager

Bord na Móna PowerGen

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