

Mainstream Renewable Power Limited's response to Consultation Paper SEM-12-028 "Treatment of Curtailment in Tie-Break Situations" issued 26 April 2012 ("Paper")

Introduction

Since the publication of the SEMC Decision paper on 21 December 2011, a significant reduction in funder confidence has occurred in relation to the Irish wind industry. The subsequent withdrawal of part of that paper by the SEMC has not helped matters - lenders are no longer active in the market until the outcome of the current consultation is known. The current consultation paper sets out four options. Each of them fails to restore the market confidence required for developers and financiers to continue investing in the Irish wind industry. It is the responsibility of the SEMC to restore market confidence in a timely fashion to ensure further investment is not lost in this sector and Ireland meets its 2020 obligations. Mainstream sets out its position on each option in this response paper.

In general, Mainstream considers that the SEMC's underlying rationale is biased against wind generation.

Option 1 – Grandfathering

The "grandfathering" option as outlined in SEM 11-105, links compensation for curtailment to the firm access date of a generator. This is illogical and inequitable as firm access pertains to network upgrades which a developer has no control over. It penalises developers for the Transmission System Operator's ongoing failure to build a network capable of accommodating the projected build out of renewable projects.

In particular, it penalises non-firm generators; and furthermore is likely to cause Ireland to miss its 2020 targets as there are not enough firm access connections available over the next eight years. The practice of grandfathering as outlined by the SEMC is anti-competitive, favours existing generators over new market entrants, and favours existing conventional generation over wind. This contradicts the principle of conferring priority dispatch on wind generation.

Mainstream does not support this option.

Option 2 – Pro Rata

An un-managed, un-capped, laissez-faire restoration of pro rata will not work in this instance, as the majority of financiers will now no longer support an uncapped pro rata system of curtailment allocation. Funder and developer communities now factor in such issues to their commercial decision making. An un-capped pro rata approach ends up operating as a de facto grandfathering approach in the long term. It is the SEMC's responsibility to manage this process in such a way that does not stunt growth any further than it already has in the wind industry in the short term but does not expose the consumer to long term compensation for curtailment! Returning the market to a capped pro rata application of curtailment will restore market confidence and allow construction of wind projects to continue, while protecting the consumer in the long term from uncapped compensation. However, investor confidence can only be restored if the SEMC decouples curtailment compensation from the firm access date of a particular generator.

Mainstream does not support this option.

Option 3 – Temporary Pro-Rata

Option 3: (A) This is not a realistic option as Ireland will not meet its 2020 targets by 2018. From 2002 to 2011, Ireland has added an average of 160 MW per annum. The current installed capacity in Ireland is 2040 MW, therefore to reach the 2020 target by 2018, Ireland would need to install 333 MW per annum for the next 6 years, which is more than double the average wind generation installed onto the system annually over the previous decade. This is wholly unrealistic.

Option 3: (B) This prescribes a return to pro rata for all generators up to our 2020 target. However, in its current structure as advocated by the SEMC, it is also unworkable as it would allow for non firm projects to be built out today on the basis of pro rata application of curtailment, and once the 2020 targets were met, if the underlying deep reinforcements were not built out by Eirgrid, then these projects would be subject to curtailment rates of up to 30% for an unknown period.

Take for example a gate 3 project with full planning permission in 2012: all the necessary shallow works for connection of the wind farm are already in place, and thus the developer proceeds with construction and enjoys seven years of generation with limited curtailment levels under pro rata. However, once the 2020 targets are met and if all underlying deep reinforcements have not been completed by Eirgrid, then this wind farm will revert to grandfathering and lose up to 30% of its annual revenues overnight.

This is completely unacceptable from a financing perspective and lenders simply will not take the risk on such projects, and thus projects will not be built. 90% of all gate 3 wind farms have a 400kV upgrade attached to their deep reinforcements, which are likely not due before 2025. Therefore 90% of gate 3 will face this shortfall in revenues beyond 2020 discussed above. It is completely unacceptable for the SEMC to ignore this glaring omission. The only feasible solution would be to guarantee 'pro rata' to any generator on the system prior to the meeting of Ireland's 2020 target; then reverting to grandfathering for all generators added to the system after meeting the 2020 targets. This provides for those generators with planning permission and a gate 3 connection to join the system without the risk of future regulatory uncertainty around compensation, and would hence give funders the confidence to begin lending to the renewable sector again.

Unless the SEMC adopts this approach, then option 3 (B) as per the consultation paper would also be un-bankable and therefore Mainstream does not support this option.

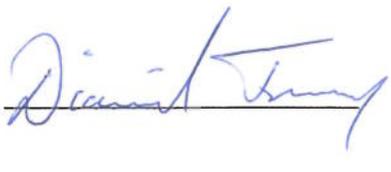
Option 4 – Pro-rata with generators taking the risk

Pro rata with generators taking the risk: This is unworkable & illogical as financial institutions will not cover this undisclosed loss of revenues. Adopting this approach will devastate the build out of gate 3 as it will be largely un-bankable, will undoubtedly lead to Ireland missing its 2020 targets.

Mainstream does not support this option.

In conclusion, grandfathering of curtailment for new generators is a complete retrospective change in market regulations, which contradicts the previous expectations set by the CER which clearly indicated that pro rata was the preferred approach for curtailment. Since the publication of SEMC 11-105, the wind industry has seen a significant decrease in activity due to the regulatory uncertainty created by this decision paper. It is imperative that the CER and the SEMC resolve the issues around curtailment and restore confidence to the Irish wind industry.

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25/05/12