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Mr. Jamie Burke
SEM Committee,
c/o Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24

Our Ref: EN01-003125

24 May 2012

Dear Mr. Burke,

Re: RES Response to “Single Electricity Market Treatment of Curtailment in Tie-Break situations Consultation paper” (Ref: SEM-12-028)

RES has been developing wind projects on the island of Ireland since the early 1990s, having developed 14 operating wind farms and 1 single turbine in Northern Ireland and 4 operating wind farms in the Republic of Ireland, totalling over 241MW. RES currently owns or operates over 134MW of wind capacity across the island. In addition, RES has 45MW of wind capacity in development with planning consent in Northern Ireland and a further 22.5MW of new wind generation currently in the planning system. RES has been an established presence at the forefront of the wind energy industry for over three decades. Our core activity is the development, design, construction, financing and operation of wind farm projects worldwide. With a portfolio of more than 6.5GW constructed and several thousand megawatts under construction and in development, RES continues to play a leading role in what is now the world's fastest growing energy sector. RES is also involved in the offshore wind and wave and tidal sector.

RES welcomes the withdrawal of the SEM Committee decision made in their December 2011 paper (SEM-11-105) proposing to curtail generators in tie break situations according to the firmness of their connection (least firm first, fully firm last), commonly referred to as grandfathering. RES also welcomes this “Single Electricity Market Treatment of Curtailment in Tie-Break situations Consultation paper” (Ref: SEM-12-028) (“the current consultation”). A detailed account of our views on the proposals and key issues are set out below but, in summary, the key themes of our response are;

- i) Option 1 - Grandfathering must not be reinstated. To do so would not be in the best interest of the All Island consumer (for the reasons presented to the SEM Committee on the 23 February 2012) and would call a halt to new investment in renewables, effectively guaranteeing failure to hit 2020 targets.
- ii) Option 2 – Pro rata remains the strongest option on the table at the present time. It will result in a swifter build out of new renewable generation resulting in a higher probability of reaching the 2020 targets and reduced reliance on gas fired generation.

- iii) Option 3b – Temporary pro rata may be workable but not in the exact form proposed in the document. A variation of the theme, involving a pro rata pool for renewable generators necessary to meet the 40% renewables target, may be acceptable but its establishment in a workable fashion would require a lot of work in order to define the detail of the relevant definitions, the process methodology and reporting structure. “Vanilla” pro rata (Option 2) with a place holder to review and potentially reopen en route to 2020 would appear a more pragmatic approach at the present time.
- iv) Option 4 – Pro-rata with generators taking the risk would be likely to have a similar effect to grandfathering and forms part of a broader issue of compensation in general within the SEM. This is a complex and significant issue in itself and should be dealt with through a separate consultation.

A more detailed account of RES’ views on the current consultation is set out below.

Option 1 - Grandfathering

RES considers that Grandfathering of curtailment must not be adopted for the following reasons.

- Cost to the Consumer: RES notes that the current consultation includes reference to the meeting between the SEM Committee and representatives of IWEA, NIRIG, Meitheal Na Goithe and NOW Ireland which took place on 23 February 2012. Specifically, the current consultation states that *“these bodies presented their views and opinions”* in relation to grandfathering of curtailment. It is regrettable that the SEM Committee fails to acknowledge that these bodies, in addition to views and opinions, presented a significant body of evidence based analysis demonstrating that pro rata curtailment would be highly likely to be in the longer term best interest of the All Island consumer. In summary, this analysis made the case that cost of greater curtailment arising through a higher penetration of wind under pro rata relative to a slower build out under grandfathering, would be more than offset by the cost to the consumer of a larger reliance on gas fuelled electricity generation in the medium to longer term.

It is therefore disappointing that the SEM Committee have chosen to make the statement that “it is likely that the grandfathering of curtailment will be cheaper for the all-island customer” and only substantiate that statement with a high level description of the proposed curtailment and compensation arrangements for firm and non-firm generators. The SEM Committee have published nothing that deals with information and analysis provided on the 23 February 2012.

- Facilitation of Ireland and Northern Ireland Targets: RES would question the basis of the SEM Committee statement *“Grandfathering of transmission access rights on the basis of firmness may lead to a more reliable and efficient achievement of the Ireland and Northern Ireland 2020 renewable targets, than alternative approaches.”* It is RES’ view, and the view of many other industry participants, that grandfathering of curtailment would stop all investment in renewables projects that do not have fully firm connection offers. This includes many projects with planning consent and with forecast energy yields, taking into account a level of curtailment that is reasonably foreseeable on a pro-rata basis, that would otherwise permit economic build out. RES is sure that, by any reasonable and objective criteria, such projects would not normally considered to be “speculative” as the SEM Committee puts it on page 8 of the current consultation. These are projects that are essential to the meeting of 2020 targets and to the long term economic energy future for the All Island customer. RES is clearly of the view that grandfathering of curtailment will prevent completion of these consented projects and be highly likely to result in failure to meet 2020 targets.

- Stable Investment Environment: The SEMC draws attention to the importance of being able to finance projects, however, they appear mistaken in the level of risk associated with different events as perceived by financiers. It is our firm belief that, for projects that are operational, the curtailment risk associated with operation is one consideration within a much broader energy yield uncertainty that is readily accommodated by the finance community. For projects entering into operation currently, the impact of curtailment will be specifically taken into account by the finance community who will take into consideration the advice of their technical advisors (in the same way that they accommodate energy yield risk). There will be projects in a number of years that may be unviable if high levels of curtailment materialise, however, by implementing grandfathering, the SEMC would bring that date forward.

Option 2 – Pro Rata

RES considers the treatment of curtailment on a pro rata basis to be the best option proposed within the current consultation for the following reasons. This is because it will result in a swifter build out of new renewable generation resulting in a higher probability of meeting 2020 targets and also resulting in a reduced reliance on gas fuelled generation as stated within the Redpoint analysis provided to the SEM Committee on 23 February 2012. RES understands that the SEM Committee may have concerns that unlimited pro rata would result in excessive curtailment compensation that would ultimately be borne by the consumer. RES would make two key observations in this regard. Firstly, that meeting the 2020 targets remains a significant challenge, particularly in Northern Ireland and there are likely to be many technologies, many of them in the early phases of commercial development, contributing in order for the necessary levels of renewables to be realised. Pro rata curtailment is likely to be the preferred approach for investors in projects using such new technologies. RES would propose that an appropriate compromise would be to adopt pro-rata curtailment now but establish the expectation that this methodology could be reviewed at a later date in light of progress towards hitting 2020 targets or for other significant policy matters necessary for the All Island energy future.

RES would also note that compensation for curtailment, even for projects with fully firm connections, does not keep renewable generators “whole” because they are only compensated for the brown energy that is curtailed. The revenue that would otherwise be recovered through the relevant support mechanism is lost. For this reason, higher than forecast levels of curtailment will severely undermine the economics of any wind farm project including those with firm connections. RES considers that, once renewables penetration reaches levels approaching the 40% target, in the absence of significant new interconnection to allow major energy export or other measures to permit increased penetration of renewables, curtailment for firm generators will reach levels that will deter new investment and put a natural brake on new renewables.

Option 3 – Temporary Pro-Rata

RES is open to the view that an approach to Pro Rata involving some form of cap or cut off (commonly referred to as Option 3b) may be appropriate, however, establishing a methodology, definitions and appropriate reporting arrangements would present a significant challenge. RES doesn't propose to cover the detail of all of the issues to be considered in such an approach, this will require significant contributions from across the industry, but RES would again emphasise that the needs of all technologies must be taken into consideration. In relation to the tentative proposal raised in the current consultation document, would a cut off date of 1 January 2018 be tolerable to developers of marine technology? In light of the significant challenge posed by establishing such arrangements and, in light of the points raised in relation to pro rata raised above, RES would question the value of adopting this approach relative to “vanilla” pro rata with an expectation of future review.

RES is aware that IWEA and NIRIG have developed basic principles on which an Option 3b could be developed. RES could support the development of an Option 3b solution but only if the following additional principles are included;

- Any project that is in a position to connect and operate by the pro-rata cut off date (and has a signed grid agreement) but is prevented from doing so due to delay in delivery of grid will be permitted to form part of the pro-rata tranche.
- The treatment of renewable technologies other than onshore wind (marine, biomass and offshore wind) will require further consideration.
- Once included in the pro-rata tranche, under absolutely no circumstances should a project's exposure to curtailment be linked to its Firm Access Quantity even at the point at which renewables targets are satisfied. Provision for such variation in application of curtailment could involve a sudden adjustment in the level of curtailment to which a project is exposed, introducing a new level of risk that would be likely to greatly increase the cost of financing of the project or kill it altogether.

Option 4 – Pro-Rata with Generators Taking the Risk

RES considers that the issue of compensation for curtailment of renewable generators needs to be considered but it is a significant issues that needs to be considered in the context of compensation in the SEM as a whole. It should therefore be the subject of a separate consultation in its own right. Were this approach to be adopted, RES considers that the effect would be similar to that resulting from the adoption of grandfathering, i.e. it would significantly damage the investment case for new renewables giving rise to increased medium to longer term costs to the consumer and less likely achievement of 2020 targets.

RES always seeks to be clear and constructive in consultation responses and I hope you find the above consistent with these objectives. If you wish to discuss this response or any other relevant matter, please do not hesitate to contact me.

Yours sincerely,



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