



**Response to SEMC Proposed Decision Paper
SEM-12-090**

Treatment of Curtailment in Tie-Break situations

19th of November 2012

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1 INTRODUCTION

Mainstream Renewable Power welcomes the opportunity to respond to the Single Electricity Market Committee's (SEMC) "Proposed Decision Paper", SEM-12-090, regarding the treatment of curtailment in tie-break situations. This consultation is of significant importance to the wind industry given the serious implications it has on the viability of the sector.

Mainstream welcomes the SEMC's acknowledgement of the deficiency in the original consultation process that led to the withdrawal of section 3.5 of the decision paper SEM-11-105. Mainstream is also pleased with the SEMC's acknowledgement in SEM-12-090, that grandfathering of curtailment will not allow sufficient build out of wind projects to ensure delivery of Ireland's 2020 renewable targets.

1.1 Mainstream Position

There are two specific elements to the proposed decision contained within the paper:-

1. The manner in which curtailment is allocated = pro rata
2. The manner in which curtailment compensation is paid = abolishment of compensation

Mainstream agrees that pro rata is the clear, fair and equitable choice in terms of curtailment allocation in order to deliver on the five assessment criteria as set out by the SEMC. Mainstream welcome and commend the SEMC's decision in this regard.

However, Mainstream strongly opposes the proposed abolishment of curtailment compensation.

Mainstream strongly supports the position put forward by IWEA, and view 'pro rata' application of curtailment with compensation as the only means of ensuring Ireland meets its 2020 targets.

1.2 SEMC Criteria

In the Consultation Paper SEM-12-028, the SEMC set out a number of criteria for decision making, against which the SEMC considered the viability of the options for the treatment of curtailment, as outlined below.

- Impact on the consumer and Dispatch Balancing Costs (DBC)
- Facilitation of Ireland and Northern Ireland 2020 Renewable Targets
- Efficiency of Entry Signal
- Stable Investment Environment
- Consistency of treatment for constraints and curtailment

Mainstream believe that the abolishment of curtailment compensation as outlined in SEM-12-090 will result in the **failure to deliver** against all of the SEMC criteria.

1.3 Opposition to the Abolishment of Curtailment Compensation

Mainstream supports the implementation of the proposed pro rata approach to curtailment and believes that pro rata is the only fair and equitable option to provide a stable policy framework to allow the wind industry move forward. However, Mainstream strongly opposes the proposed abolishment of curtailment compensation for the following reasons:-

- Curtailment is a system operation issue. The wind industry should not carry a risk over which it has no control, therefore compensation is appropriate.
- It is unacceptable to impose such a fundamental retrospective change to the market, which in turn impacts on investments already made and also future investor confidence.
- Abolishment of curtailment compensation will create regulatory and investment instability.
- Abolishment of curtailment compensation is discriminatory, in that it removes compensation from one type of generation only – wind.
- DBC alone is not an appropriate means for judging the level of economic impact on electricity customers.
- The indicative savings are based on an assessment with broad sweeping assumptions made and therefore are not valid.
- The abolishment of curtailment compensation will do little to reduce the burden on consumers.
- The abolishment of curtailment compensation will disincentivise those in control of the curtailment mitigation measures.

Mainstream believe that curtailment compensation should at least be paid to all generators contributing towards the renewable targets for their operational lifetime. Mainstream support the IWEA's position on the proposed decision.

The impact of the proposed abolishment of curtailment compensation is assessed below against each of the SEMC criteria.

2 PROPOSED DECISION VS SEMC CRITERIA

2.1 Impact on the Consumer and Dispatch Balancing Costs

Mainstream supports the implementation of the proposed pro rata approach to curtailment and believes that pro rata is the only fair and equitable option to provide a stable policy framework to allow the wind industry move forward. However, the form in which it takes is essential to ensure the achievement of all five of the SEMC assessment criteria. Contrary to the naming convention of the proposed decision, there is not a defined curtailment limit but a defined compensation limit.

Generators and consumers alike would benefit from a system that provided a defined limit to the amount of curtailment risk borne by the generator.

Mainstream respect the SEMC's primary duty to protect the electricity customers in Ireland and Northern Ireland. However DBC alone is not an appropriate means for judging the level of economic impact on the electricity consumers. Focusing on DBC alone obscures the actual level of consumer benefit associated with increased levels of wind penetration.

The three scenarios assessed in SEM-12-90a, if implemented will not result in the same build out rate, assuming this skews the estimated savings. Clearly an approach of pro rata with compensation will produce the highest build out rate and grandfathering the lowest build out rate. The implementation of the proposed decision will result in a lower cost of compensation but it will also produce a lower build out rate and therefore will not benefit from the reduction in SMP and costs associated with increased wind on the system that would offset the cost of compensation. The scenarios are assessed based on the current market structure, this is not appropriate given the future market developments. Furthermore, not all generation will be firm by 2020 which is not taken into account and further skews the results, making the savings noted as an extreme and very unlikely. On this basis, SEM-12-90a notes that these savings are not overly significant in the context of the predicted DBC budget and are expected to represent less than 10% of total DBC in 2020.

The defined curtailment limit will be the 1st of January 2016, given that 75% of the renewable targets will not be achieved at this point. From 2002 to 2011, the island of Ireland has added circa 1800MW of operational wind to the system, which equates to an average of 200MW per year. In order to achieve 75% of the renewable targets by the end of 2015, an average of over 600MW of operational wind will need to be added per year. In order to achieve our renewable targets by the end of 2020, an average of 360MW will need to be added to the system each year. The idea that the targets will be achieved on time is wholly unrealistic. This timing aligns with the introduction of a new market on the island of Ireland which is to be compatible with the European Target Model and yet the impact assessment is carried out on the existing market structure.

There is also serious concern over the length of time that this consultation has continued. The industry is quickly arriving at a point where the time between obtaining curtailment and constraint reports and the closing of REFIT is extremely tight in order to progress projects through financial close.

Mainstream understand the SEMC's concern that indefinite curtailment compensation would place an undue and inappropriate burden on the all-island consumer. Mainstream agree that there must be an economic signal for generators not to build capacity that is not required by the consumer. However, as curtailment, which is a system operation issue, is a risk that generators have no control over, compensation is appropriate and should continue to be paid to all generators that contribute towards renewable targets for their operational life time. If the appropriate mitigation measures are in place in a timely manner and designed to match the amount of renewable generation required by our binding renewable targets, curtailment levels will be minimised to the greatest extent possible and therefore the cost will also be minimized. Furthermore customers will benefit from lower SMP due to this increased wind on the system. The abolishment of curtailment compensation will

disincentivise those in control of the curtailment mitigation measures. This curtailment risk should be allocated to those who are best placed to manage it.

Mainstream support the SEMC and the RAs in their endorsement of the TSOs DS3 programme and agrees with the IWEA proposal that an overall strategy be developed and put in place to coordinate the implementation of all mitigation measures required to reduce curtailment.

Mainstream do not agree that 2020 is the appropriate time to remove all curtailment compensation. This suggests that once targets are met the sustainability of the projects that contributed to achieving the targets is completely disregarded. Curtailment compensation should at least be paid to all generators contributing towards the renewable targets for their operational lifetime.

Mainstream do not believe that the removal of curtailment compensation is ultimately in the best interest of the consumer as it does not provide the required protection.

2.2 Facilitation of Ireland and Northern Ireland 2020 Renewable Targets

As stated by the SEMC, the financial viability of wind farm projects directly affects the attainment of the 2020 renewable targets. Many projects will be made unviable due to the removal of compensation be it either immediate or phased along with the uncertainty around curtailment levels. Further compounding the viability issue is the ongoing uncertainty surrounding Firm Access Quantity (FAQ) dates. As only firm projects receive curtailment compensation, many projects built in the short term will not be eligible for any curtailment compensation under the proposed decision but will suffer levels of curtailment due to the delayed implementation of mitigation measures. As a result the abolishment of curtailment compensation will result in a lower build out rate.

The implementation of the proposed decision will not result in enough wind being built out to reach the 2020 renewable targets.

The SEMC notes that for non firm generators no compensation for curtailment was available anyway. However, any non firm project is scheduled to become firm at some point, and therefore entitled to compensation under the current market rules. This would have been considered in the original business case for the projects over a 15 to 25 year period and the change will have a detrimental impact on the projects revenue flow.

The SEMC note, that the implementation of the proposed decision will not have a sufficiently large impact that it will prevent the building of wind farms. However, the SEMC assume that there are enough very high capacity deliverable projects that can take this level of impact in order to deliver on the 2020 renewable targets. High capacity is not sufficient to make a project deliverable – it also needs land control, valid planning permission, access to finance etc. Mainstream do not believe that there are sufficient very high capacity deliverable projects to deliver the 2020 renewable targets under this proposed decision.

Mainstream believe that the removal of curtailment compensation will prevent Ireland and Northern Ireland from reaching their 2020 renewable targets.

2.3 Efficiency of Entry Signal

The abolishment of curtailment compensation will not provide an efficient entry signal to viable generation due to uncertainty over curtailment levels combined with the lack of compensation. The SEMC believe that by notifying stakeholders now of the removal of curtailment compensation, regulatory uncertainty is reduced. This is clearly not the case, as it is currently known that curtailment compensation is paid to firm generators the level of curtailment is less of an issue. However, with the removal of compensation combines with unknown levels of curtailment creates greater regulatory uncertainty.

This approach will encourage in the first instance high capacity factor deliverable projects to connect, however it is Mainstream's belief that availability of these projects will be insufficient to deliver on the 2020 renewable targets. It is important to note that many of the projects built before 2020 will have operational lives that extend far beyond 2020 and business cases for projects extend over 15 to 25 years.

The wind industry should not have to shoulder such a significant risk as curtailment. The wind industry has no control over the level of curtailment or the time and manner in which the mitigation measures are rolled out. The SEMC itself considers a situation where DS3 is delayed, which will have a significant impact in the management of curtailment and yet compensation for this unknown is being removed over a time where mitigation measures are not yet fully in place. Compensating for curtailment provides an economic signal for the implementation of the required mitigation measures. The existence of curtailment is not a recently established issue and therefore the mitigation measures should be in place to manage a system in line with the addition of renewable capacity required to achieve the 2020 renewable targets. Curtailment compensation should at least be paid to all generators contributing towards the renewable targets for their operational lifetime.

Mainstream believe that the removal of curtailment compensation does not provide an efficient entry signal.

2.4 Stable Investment Environment

Mainstream believes that the abolishment of curtailment compensation creates an unstable environment and 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.

The SEMC has responsibility for ensuring that efficient generators are in a position to finance their activities. This proposed decision represents a fundamental change to the SEM principles and does not ensure that all efficient generators are in a position to finance their activities.

There is currently over 2000MW of operational wind generation on the island that has been receiving compensation up to FAQ. The retrospective implementation of this option, despite the phased approach, will have a significant negative impact on the current operational or in construction portfolio. This will impact the financial stability of these existing projects where investments have already been made or committed and send a negative signal for future investment. The proposal of such dramatic, discriminatory and retrospective changes at this point, bring into question the changes that could be made in the future and leads to a very unstable investment environment.

The stable and certain environment for investment to which the SEMC refer is one that will result in many un-built projects becoming unviable, thus severely and negatively impact operational projects. Furthermore, many projects that sit in the Gate 3 application queue have been in existence for nearly ten years, with some grid applications submitted as far back as 2004. A significant amount of money has been spent developing these projects on the basis of current market rules, so initial investment decisions have been made on projects that will now become unviable. Clarity may be provided for investors, clarity based on a long list of assumptions and clarity that encourage investors not to invest in the Irish market.

Regulatory stability and certainty is core for any sector, not only wind energy. This element of the market structure was discussed in detail in 2011 in “Wind in the SEM Consultation” where a decision was taken not to make any changes. Given that the SEMC are proposing a complete u-turn in such a short space of time, how can investors depend on a supposed stable environment?

The proposed decision will not provide a stable investment environment for sufficient renewable generation required to meet the Governments 2020 targets due to uncertainty over likely curtailment levels combined with the lack of compensation, either immediate or phased. As curtailment is a risk that cannot be managed by the generator, Mainstream believes that compensation is appropriate. Curtailment compensation should at least be paid to all generators contributing towards the renewable targets for their operational lifetime.

Mainstream request that sufficient resource and focus is put on this issue to come to an appropriate industry supported resolution as soon as possible. The ongoing delay is creating uncertainty in the market, delaying the progression of projects and delaying the release of curtailment and constraint reports.

Mainstream believe that the removal of curtailment compensation will not provide a stable investment environment.

2.5 Consistency of treatment for Constraints and Curtailment

Mainstream agrees with the SEMC when they state “Curtailment is not associated with network-specific issues, in that no amount of grid rollout will alleviate times when there is too much intermittent wind generation on the system. Therefore it is clear that constraints and curtailment are two different situations with differing characteristics.” Therefore there is no reason to ensure consistency in the treatment of constraints and curtailment.

Mainstream welcomes the SEMC proposed decision to treat curtailment and constraint in tie break situations in a different manner as appropriate to the issue. Mainstream welcomes the introduction of a TSO rule-set for differentiating between constraint and curtailment and agree that it is essential that they are distinguished clearly to the greatest extent possible. Further detail will be required on the rule set to ensure that the proxy is achievable and appropriate.

3 CONCLUSION

3.1 Mainstream Position

There are two specific elements to the proposed decision contained within the paper:-

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Mainstream agrees that pro rata is the clear, fair and equitable choice in terms of curtailment allocation in order to deliver on the five assessment criteria as set out by the SEMC.

However, Mainstream strongly opposes the proposed abolishment of curtailment compensation.

3.2 Opposition to the Abolishment of Curtailment Compensation

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Mainstream believe that curtailment compensation should at least be paid to all generators contributing towards the renewable targets for their operational lifetime. Mainstream support the IWEA's position on the proposed decision.

Mainstream request that sufficient resource and focus is put on this issue to come to an appropriate industry supported resolution as soon as possible as it is creating uncertainty in the market, delaying the progression of projects and delaying the release of curtailment and constraint reports.