



Response to Consultation by the Department of Environment, Climate and Communications on

Microgeneration Support Scheme in Ireland

Electricity Association of Ireland

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Electricity Association of Ireland

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The Electricity Association of Ireland (EAI) is the representative body for the electricity industry and gas retail sector operating within the Single Electricity Market (SEM) on the Island of Ireland.

Our membership comprises utilities that represent 90% of generation and retail business activities and 100% of distribution within the market. Our members range in size from single plant operators and independent suppliers to international power utilities. We represent the interest of the all-island market in all relevant jurisdictions, including the EU via our membership of the European electricity representative body Eurelectric.

Electricity has a fundamental role in providing energy services in a decarbonised, sustainable future, in particular through the progressive electrification of transport and heating. We believe that this can be achieved, in the overall interest of society, through competitive markets that foster investment and innovation.

We promote this vision through constructive engagement with key policy, regulatory, technology and academic stakeholders both at domestic and EU levels.

Our ambition is to contribute to the realisation of a net-zero GHG emissions economy by 2050 or sooner, in order to limit the impact of rising temperatures.

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Introduction

EAI welcomes the opportunity to respond to the consultation on a Microgeneration Support Scheme (MSS) for Ireland. The Citizens' Assembly on Climate Change stressed the importance of ensuring citizens are at the centre of the energy transition and microgeneration allows citizens to actively participate in this transition to a low carbon economy. European legislation establishes a right for consumers to generate renewable electricity for their consumption and sell any excess generated. This will have benefits not just for customers but for the whole electricity system as we seek to balance weather dependant wind generation with consumer demand.

Our members collectively supply over 90% of the electricity that is consumed by households and businesses across the Republic of Ireland (ROI) and as an all-island body we also represent electricity suppliers in Northern Ireland and the generators and distributors of this electricity who operate in the single wholesale market (SEM).

A principled approach (Simplicity, Equity and Fairness)

Our members are keen to play a constructive role in the development of solutions to achieving compliance with the 2019 Clean Energy Package (CEP). EAI supports a principled approach to implementation of this legislation. In particular, simplicity and equity for both customers and suppliers and encompassing the objective that suppliers will be kept whole for any costs incurred. As we transform our energy system over the coming years it is imperative that we do not waste investments – in terms of financial, capital and human resources – and that we maximise any value creation.

Empowering Customers The Role of Electricity Suppliers

A key objective of the 2019 Clean Energy Package is to place customers at the heart of the energy transition by providing some of the key enablers and removing some of the barriers. In 2020, European electricity suppliers, including EAI and many of its members published the 15 Pledges initiative, in which Electricity suppliers commit to playing its role in ensuring that everyone can benefit from carbon-neutral electric solutions and in particular from energy efficiency, renewable and e-mobility services.

Suppliers can empower customers, acting as individual households/businesses or in larger groupings as communities etc, to take part in the energy transition, by offering products and services, including

information and expertise, that can enable customers to both reduce consumption and also to generate, consume, store and export any excess electricity to the grid. Suppliers can also act as trusted intermediaries, acting as a point of contact and referral between customers and other more specialised service providers.

Timeline for implementation of CEG

Article 21 of the RES Directive requires that by June of this year, Member States shall ensure that renewable self-consumers, either as individuals or via aggregators, are entitled to “receive remuneration, including, where applicable, through support schemes, for the self-generated renewable electricity that they feed into the grid, which reflects the market value of that electricity and which may take into account its long-term value to the grid, the environment and society.”. This legislative timeline has put significant pressure on DECC, and the relevant stakeholders (CRU, ESBN and suppliers) to finalise and implement an MSS in the limited time that now remains. Meeting the compliance objective is further complicated by the absence of the infrastructure (metering solutions and market systems) required to realise the full market value of any electricity produced by microgenerators and has necessitated an interim approach to be developed pending availability of the necessary infrastructure in 2024. The final MSS design, and the potential benefits to all electricity customers, will need to be capable of clear articulation and communication in advance of any formal introduction or implementation. Whilst the compliance imperative is important, the overall objective of empowering customers should not be lost or jeopardised by the premature introduction of a scheme before it has undergone adequate and appropriate consideration.

ASK: A well-functioning scheme is in the interests of all stakeholders. EAI would prefer the introduction of a Clean Export Guarantee (CEG) in tandem with appropriate systems and smart meter capability, as part of an enduring scheme, we understand the necessity of meeting the requirements of the EU Renewable Energy Directive on an interim basis in the first instance. The interim approach proposed by the Department, however, requires refinement to ensure near cost neutrality for suppliers. Therefore, EAI advocates for further engagement and consideration in order to develop a well-functioning interim MSS in the limited time remaining.

Cost neutrality for electricity suppliers

EAI members welcome DECC’s commitment to the principle of cost neutrality as referenced in the proposals. Our interpretation is that this principle extends to both the costs of procuring electricity at

a minimum price for the CEG and also to any costs incurred in the administration of both the CEG and the CEP.

CEG

In order to ensure cost neutrality for suppliers (and compliance), it is imperative that the market value of any exported electricity is realisable by suppliers. While, we support the concept of the Clean Export Guarantee, there are aspects that the Department needs to consider further. In the case of the proposed CEG, the proposal from the department is that individual suppliers will be responsible for settling each individual customer via the payment of a prevailing CEG tariff rate. Inevitably aside from the cost of settlement there is also a cost to settle a customer/generator. From a review of the paper it would appear that there is an expectation that suppliers will bear these costs, despite us having no control over the rates. Adjustments to the Department's proposal are therefore required to ensure suppliers achieve a near cost neutral position as we outline below.

The Day Ahead Market (DAM) in the I-SEM is a liquid market, whereby all market participants buy and sell based on day-ahead market projections. The Department's proposal is that Microgen's "value" is based on benchmarking the tariff price of the CEG against the DAM average over a yearly basis. In our view the proposal to base the CEG on the average DAM requires further consideration in order to fully reflect the true value that such exports would play in the wholesale market. We outline our reasoning for this below.

Firstly, microgen is distribution connected, and Suppliers will have no real-time or close to real-time visibility over any microgen exports, regardless of technology types. In addition, microgen is not dispatchable for Suppliers meaning that Suppliers have no control over the flexibility of the microgen source.

The proposal as currently outlined in the paper to base the CEP on the average DAM needs to be reconsidered as it fails to fully take into account the fact that a Supplier will be required to settle at a given DAM price at a point in time but required to pay microgen customers at a DAM price which may reward the microgen at a higher rate. In addition, the proposal in the Consultation Paper intends to apply a single yearly average DAM. As seen below, however, the DAM price can vary based on seasonal or supply factors including wind availability, generator availability and overall wholesale gas prices.

ASK: An alternative approach that could be considered is to apply a Monthly or Quarterly average as a benchmark.

In our view, the current proposal based on average DAM does not accurately reflect the inflexible and invisible nature of Microgen. Therefore, we propose that a discount should be applied, which would more accurately reflect the actual market value of these sources of generation. As the CRU will be responsible for determining the appropriate value of the DAM we believe that they are best placed to review the DAM price across differing technology types to determine an equitable, market-value reflective CEG for microgen customers.

Volume Settlement

EAI welcomes the ongoing efforts at the Industry Governance Group (IGG), under a dedicated Working Group, to agree a methodology that would enable exported volumes (MWhs) to be counted in the settlement of total volumes for the electricity system, thus reducing any volume imbalance created by electricity spilling onto the grid. It is imperative that a methodology be agreed and implemented in advance of any finalisation of the MMS proposals and the detail of this be included in the final design of the scheme. We acknowledge that there are a number of alternative approaches to this issue, including but not exclusively the existing approaches to De-Minimis Volumes and the precedent in Northern Ireland.

Our members look forward to intensive engagement with the working the group over the coming weeks in order to arrive at a preferred approach.

Timeline for implementation of an enduring support scheme

Consumers, the solar market and Suppliers need stability and the opportunity to plan for the implementation of any new support scheme. We would caution against any abrupt change in subsidy or grant arrangements to ensure certainty for the market and consumers. We propose a transition period be incorporate into the Department's proposals so facilitate a glide path from the current arrangements to a more enduring solution.

With this in mind, we believe option 2 (investment subsidies) is the most appropriate option for the market at this time. This would allow for the current system of grants operated by SEAI to be adjusted as required. Overtime, Ireland could transition to a premium tariff (if a viability gap still existed and it is efficient to do so) as part of an enduring scheme and dynamic CEG arrangement.

Ricardo's report scores the Clean Export Premium "high" on "complexity for implementation and administration costs" which suggests additional time and resources would be required to implement this proposal. We believe the focus should be on delivering an interim CEG arrangement to ensure consumers are paid for their export to meet EU requirements. There is considerable consumer

appetite for export payments and we believe this should be the focus for July delivery. Following this, the focus should be on evolving this price link to fully reflect the value of this export to the grid in tandem with the national smart meter roll out.

Option 2 proposes a combination of an investment subsidy and a CEG payment. Over time, the investment subsidy can be adjusted as the market matures. Adjusting and adapting the current system of grants would provide stability for the solar market and consumers with the SEAI continuing as the central hub for grant allocation. It would also ensure the efforts of the Government, Regulator and DSO could be focused on delivering the CEG – the minimum required to ensure compliance with the Renewable Energy Directive – and evolving it to a more real-time and cost reflective payment.

Conclusion

The EAI welcomes the opportunity to respond to this consultation on the microgeneration support scheme for Ireland. The EAI sees microgeneration as having a key role in the transition to a low carbon energy system. EAI advocates for further engagement and consideration in order to develop a well-functioning interim MSS in the limited time remaining.

EAI members welcome DECC's commitment to the principle of cost neutrality as referenced in the proposals. We believe the interim approach proposed by the Department requires refinement to ensure near cost neutrality for suppliers. There are a number of alternative approaches to this issue, including but not exclusively the existing approaches to De-Minimis Volumes and the precedent in Northern Ireland. The IGG Working Group needs to agree an approach to volume settlement as soon as possible. An alternative approach that could be considered is to apply a Monthly or Quarterly average as a benchmark.

We also propose a transition period be incorporate into the Department's proposals so facilitate a glide path from the current arrangements to a more enduring solution.

Electricity Association of Ireland, 18th of February 2021

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