



ELECTRICITY
ASSOCIATION
OF IRELAND

**SUBMISSION TO THE DEPARTMENT OF THE
ENVIRONMENT, CLIMATE AND COMMUNICATIONS**

**TERMS AND CONDITIONS FOR THE SECOND
COMPETITION UNDER THE RENEWABLE ELECTRICITY
SUPPORT SCHEME**

ELECTRICITY ASSOCIATION OF IRELAND



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A decarbonised future powered by electricity

Electricity Association of Ireland 127 Baggot St Lower, Dublin 2, Ireland D02 F634

T +353 1 524 1046 | E info@eaireland.com | [@ElectricityAI](https://twitter.com/ElectricityAI) | www.eaireland.com



Contents

Electricity Association of Ireland	3
Introduction	4
Issues for Consultation	4
Market Reference Price	4
Evaluation Correction Factors	5
Eligible Technologies	6
Hybrid Storage Projects	7
New Project Criteria	7
Indexation	8
Financial Questionnaire	8
Locational Considerations	9
Bid Bond and Performance Security Levels	10
Community Category and Community Benefit Fund	10
Citizen Investment Scheme	11





Electricity Association of Ireland

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. Our members have a significant presence in Ireland, Northern Ireland and Great Britain across the sector value chain. We represent the interests of the all-island market in all relevant jurisdictions, including the EU via our membership of the European electricity representative body [Eurelectric](#).

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. We believe that electricity has a fundamental role in providing energy services in a decarbonised, sustainable future, in particular through the progressive electrification of transport and heating. Electricity offers opportunities to decarbonise the Irish economy in a cost-effective manner. 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.





Introduction

EAI welcomes the opportunity to respond to the consultation on RESS 2 terms and conditions. Overall, EAI is supportive of the proposals put forward and have made specific comments in the sections below.

However, EAI is concerned about the timelines for the overall RESS scheme. Based on the original scheme decision, the first three auctions would have been held by the end of 2021 whereas under these proposals only one auction will have been held by then. The reasons for these delays are not clear to us or to the wider public and there is a risk that confidence in the scheme is diminished or that investor capital goes elsewhere. To address the delays in auctions timelines, EAI suggests that RESS 2 volumes should be significantly increased from the original scheme decision. This can be done prudently in conjunction with the competition assessment metrics which the CRU monitors ahead of each auction.

Issues for Consultation

Market Reference Price

EAI supports the proposal to retain the Market Reference Price structure from RESS 1 for the following reasons.

- Competition for new generation is driven by many factors but stability in the underlying regime is important. Changing the reference price structure would





significantly complicate the framework compared to what is there now and it is not clear that the results would be better than with the current structure.

- There are more appropriate ways to account for different capture prices of different technology attributes than using the reference price.
- EAI does not believe that the reference price structure is materially impacting the technology neutrality of RESS, not least due to the nature of the LCOE curve for renewable technologies.
- The approach proposed in the consultation is used elsewhere and known to investors. The consultation paper refers to projects' ability to take on further risk and whether the reference price might be used to affect this. Project developers in RESS take significant risk already in terms of supply chain management, grid delivery and balancing risk and other issues, such as Article 12 and 13 of the Electricity Regulation are not fully addressed yet. EAI does not see any case to place further risk on project developers at this time and this would likely be counterproductive.

Evaluation Correction Factors

EAI understands that DECC would want to minimise the overall cost to the consumer when deciding the winners of the RESS auction.

- If some technologies can objectively demonstrate that they will holistically cost the consumer less, then there may be a case to take it into account. However, to maintain confidence in the overall auction structure, any accounting must be objectively verifiable.





- EAI does not see a strong case to take CRM revenues into account in RESS 2. In the first instance, this is because the technology's LCOE curves and winning technologies from RESS 1 suggest it is unlikely to be relevant in the near term and so might create unwarranted complexity for bidders. Moreover, where a renewable technology does not participate in the CRM, their capacity contribution is deducted from the capacity requirement meaning that minimising the PSO is not as relevant.
- To maintain confidence in RESS, EAI is strongly opposed to importing more subjective considerations into the evaluation correction factor calculation. We believe that most comparative advantages at local level (higher capacity factor, lower curtailment), should they exist, can be adequately incorporated in a developer bid price. There is a lengthy list of comparative advantages of different technologies but many of these are subjective and likely cancel each other out between technologies.

Eligible Technologies

EAI is supportive of the listing of eligible technologies for RESS 2 but we would ask whether a hybrid category of wind, solar and battery together should be included. We would also ask whether evaluation correction factors, if used will be adjusted to reflect the hybrid categories.





Hybrid Storage Projects

EAI welcomes the specific reference to hybrid storage projects in the upcoming RESS. Energy storage will be a key element of the energy transition. The 2021 Interim Climate Action Plan removed mention of the hybrids workstream and this has created uncertainty for those developing such projects. We would welcome the reinstating of hybrid actions in the upcoming CAP.

New Project Criteria

The RESS eligibility criteria for new projects require an additional 50% of site capacity whereas the State Aid decision from the European Commission stated that a 50% increase in output is required. This should be amended for RESS 2.

RESS 2 terms and conditions require that the new investment is made after the signing of the Implementation Agreement. This appears sensible but we would recommend consideration of a relevant date of the announcement of auction results. This would facilitate fast build at existing sites which might be able to mobilise quickly.

DECC should also be aware that the draft Wind Energy Guidelines which are yet to be finalised include a mandatory 4 times tip height setback requirement from turbines to residential dwellings. In the absence of flexibility and meaningful exceptions, this will greatly reduce the available lands for new projects and repowering. The increased setback distance alone will reduce the amount of land available for wind farm development by 40%. This will put large tracts of land out of scope for development and





make it more challenging to reach our climate targets. Within the context of RESS, the number of projects looking to repower who can reasonably reach the increased energy output required under State Aid may be very few. It is important that the Department keep under evaluation requirements which could potentially stymie Ireland's ability to repower its wind generation capacity.

Indexation

EAI notes the strong minded-to decision on indexation for RESS 2. EAI remains of the view that there is a case to be made for indexation not least since costs such as use of system charges and operation and maintenance costs are generally subject to inflation. These costs are not insignificant as evidenced by the SEM Committee's Generator Financial Performance Report¹.

EAI agrees that there must be an appropriate balance of risk between the customer and developers and believes there is a case to revisit the indexation decision.

Financial Questionnaire

We note the requirement for completion of the Financial Questionnaire at the time of offer submission and the link to the State Aid notification and approval. Having reviewed the State Aid Guidelines and the specific approval for RESS, we do not believe that all of

¹ [WP-05: Institutional Arrangements \(semcommittee.com\)](http://semcommittee.com)





the information being sought by DECC is required for fulfilment of the evaluation requirements of the State Aid decision.

Some of the information being sought is highly commercially sensitive. EAI suggests that as a basic principle, data requests should be proportionate to the underlying need for data and data that is not strictly required should not be sought. This is a prudent approach that protects against outcomes such as unintentional loss of data etc.

On this basis, EAI believes that the Financial Questionnaire should be structured such that only data required to meet the State Aid decision is requested and that data on internal rates of return, capital costs and operating costs should not be requested.

Locational Considerations

EAI supports the consultation proposal to retain the RESS 1 position of not incorporating explicit locational considerations with respect to eligibility or evaluation and to rely on the existing implicit signals. Given the size of the electricity system and the number of projects EAI believes that it would be difficult to construct criteria in a robust and objective manner to decide on applicants or winners based on locational and future development of the grid. If this approach was to be taken forward, we believe it warrants a dedicated consultation outside of the regular terms and conditions consultation.

This section of the consultation paper references the implicit signal regarding the potential to commence support early or the prospect of erosion of support for late development. In relation to their grid connection (or elements of same outside their control), EAI does not believe that the connecting RESS generator should bear all the risk





since they are not in a position to influence the process. Therefore, EAI proposes that late grid delivery should be considered in the RESS support term and that it should not result in an erosion of support at the end of the term.

Bid Bond and Performance Security Levels

EAI notes the change in format of bid bonds and performance security from capacity to commodity and the significant increase in security posting required, especially for higher load factor technologies.

Posting of capital and tying it up is onerous for business and pushes up costs, something which is bad for the consumer unless justified. As such, posting requirements should be proportionate to the risks posed by projects not proceeding. On this basis, we would urge DECC to review its bond posting requirements to ensure they are satisfied that the significant increase is proportionate and in the interest of consumers.

Community Category and Community Benefit Fund

EAI notes the proposals in the Consultation Paper regarding the 100% ownership requirements for community projects. EAI suggests that initiatives to increase the number of community projects could be pursued through SEAI's sustainable energy communities.

Regarding the community benefit fund, the EAI recognises the policy imperative behind community benefit funds and their ability to put money into the communities around





renewable developments. We would welcome greater awareness of these community funds, especially as part of the communications around the PSO pot since it will be a substantial sum of money which goes to communities and not the project developers each year.

Citizen Investment Scheme

EAI agrees that citizen engagement is key to the transition to a low carbon society. To this end, we support initiatives that can deliver low carbon electricity projects at an acceptable price for the electricity customer.

The timelines for citizen investment for RESS 2 are extremely tight and if a rushed scheme is introduced it could undermine citizen investment in the future. Projects preparing for RESS 2 need to have a lot of things coordinated before making the offer in the auctions not least because of the bid bonds. Given that no proposals have yet been published on a scheme for RESS 2, it is likely that such a scheme wouldn't be finalised until early 2022 and only months ahead of the auction. This creates significant uncertainty for the project developers and potentially loses local citizen confidence and trust if developers are discussing draft proposals with them in 2021 which might later change.

EAI believes that DECC should publish proposals on citizen investment without delay and carry out wide engagement with representative groups etc. and finalise well fleshed out and understood positions. This will help developers and citizens at early project





institution stage. EAI does not believe that this process can be completed to the required standard for RESS 2 however.

The Electricity Association of Ireland, August 2021



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Registered Office: 127 Baggot St Lower, Dublin 2, Ireland D02 F634

Registered No. 443598 | VAT No. IE9682114C

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www.eaireland.com