



ELECTRICITY
ASSOCIATION
OF IRELAND



ELECTRICITY
ASSOCIATION
OF IRELAND

Response to DfE Consultation

Design Consideration for Renewable Energy Supports Scheme in Northern Ireland

Electricity Association of Ireland

Status: Consultation Response

Date: 27th April 2023

A decarbonised future powered by electricity.

Electricity Association of Ireland

Registered Office: 6 Merrion Square North, Dublin 2, D02 FF95

Registered No.443598 VAT No. IE9682114C

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

www.eaireland.com

Directors; Bryan Hennessy, TJ Hunter, Ian Luney, Jill Murray, John Newman,
John Reilly, Marian Troy, Peter O'Shea, Liam Walsh.



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.

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. 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. Electricity offers opportunities to decarbonise in a cost-effective manner.



Introduction:

EAI welcomes the opportunity to respond to this consultation on a new renewable electricity support scheme for Northern Ireland. The rapid build of renewable generation in Northern Ireland is critical to accelerate the low carbon transition, to protect customers against very high fossil fuel prices, to improve security of supply and ultimately improve the Northern Ireland investment climate.

EAI sees positives in the proposals put forward and believes that a scheme can be up and running very soon. To this end, we suggest that the initial focus is on early auctions for wind and solar generation and addressing the current inability to bring hybrid connection to the market. Issues, such as zero carbon dispatchable generation are very important and must be addressed but do not need to hold up getting the first auctions away.

Response to Consultation Questions

Question 1: Do you agree with the proposed principles?

EAI broadly agrees with the principles put forward. We believe that the rapid build of renewable generation in Northern Ireland is critical to accelerate the low carbon transition, to protect customers against very high fossil fuel prices, to improve security of supply and ultimately improve the Northern Ireland investment climate.

Investing in wind and solar generation is a low regrets option for policy makers and so we would urge a rapid progression from scheme principles and design to having a new scheme up and running since delays are ultimately costing Northern Ireland customers money.

Question 2: Do you agree that a Contracts for Difference (CfD) scheme should be the preferred approach to supporting renewable electricity generation in Northern Ireland?

Contracts for difference are the generally preferred scheme for new electricity generation and once designed appropriately should be positive for Northern Ireland. As discussed below, contracts for difference may not be suitable for very small installations which may need a different approach.

Question 3: Do you think that participation in a renewable electricity support scheme should be mandatory for all generators to ensure a longer-term fair and stable price for NI consumers?

While there may be a case to allow voluntary participation of existing renewables in support schemes, EAI is very much against requiring mandatory participation. EAI is unaware of any market that has required mandatory participation though some jurisdictions have considered it only to discount it. The European Commission recently ruled out mandatory participation of existing generation in two-way CfDs stating decisions *“to impose two-way CfDs retroactively on existing generation capacity intervening in producers’ market revenues could be highly detrimental for the investment climate due to the uncertainty it causes for ongoing and future market-based investment decisions.”*

A move to impose mandatory participation for existing generators would represent a change to already agreed terms and conditions and would greatly undermine future investment in the area thereby slowing down the rollout of zero carbon generation. There would be significant uncertainty in the interim around the design of any mandatory participation scheme and adding this aspect to what should be a straight-forward scheme for new generation would be counterproductive. This is not to say that a voluntary support scheme for existing generation should not be considered in the future, but it is a sufficiently different issue to divorce it from this current process.

Question 4: What should be the minimum capacity for new sites to be eligible for a renewable electricity support scheme for Northern Ireland?

Question 4b: Do you think the minimum capacity for eligibility should be technology specific?

The answer to this depends on what supports are in place for very small generation. Ireland recently excluded very small generation from the RESS scheme since it found that small generators struggled with the terms and conditions of the scheme designed for large scale generation. If there isn't a scheme for small generation in Northern Ireland then the minimum size will need to be small but if there is a scheme for micro and mini generation, it could support a higher minimum size.

Question 5: Do you agree that incentivising small-scale and microgeneration would not make a substantial contribution to reaching the Energy Strategy targets?

Question 5b: Do you think a dedicated support scheme is required to incentivise deployment of small-scale/microgeneration assets even if it may not substantially contribute to the 80% target?

Small scale generation can play an important role in decarbonising Northern Ireland. Micro scale solar PV is becoming more and more popular at domestic and commercial level globally given the drop in technology prices and installing on existing buildings saves space, reduces networks costs at the time of installations and affords citizens and businesses the opportunity to play what they see as a tangible role in the transition which can help with wider public acceptance issues.

It is therefore difficult to see why small-scale generation would not be given support to develop. Such support would need to be proportionate and not be for example, much higher than the cost of provision of zero carbon generation through large scale schemes.

Question 6: Do you think that incentivisation within the renewable electricity support scheme for Northern Ireland should be tailored by technology type?

Question 6b: If yes, what should the technology split look like and how should the budget be split across each technology type?

In the short term there is no discernible reason to spend time considering the best mix of technology since it is universally known that wind and solar generation are the right technologies to move from the current 40% renewable electricity penetration to 70-80% penetration levels. Therefore, the initial auctions should focus on these technologies. Offshore wind should be accommodated in tandem with its regulatory framework being finalised since it brings additional benefits to the system in terms of higher load factors and larger capacities.

The medium-term auctions should be guided by an electricity system wide net zero plan and targets. To this end, DfE should engage with wider stakeholders on a long-term plan for the sector including appropriate technologies such as storage, dispatchable generation and interconnection with the output of this study informing future auction designs. EAI sees potential for coordination of approaches here across Northern Ireland, Ireland and Great Britain and would urge policy coordination across energy departments in the three jurisdictions. For example, policy makers should explore whether the capacity mechanism in the SEM can evolve to promote new zero carbon dispatchable generation.

In the short term, there is a risk that the auction design gets over complicated and delayed due to consideration over technology classes and how to split budgets whereas the focus should be on delivery of renewable generation at the lowest cost.

Question 7: Do you think flexible assets should be included in a renewable electricity support scheme for Northern Ireland, or is a separate support scheme preferable?

EAI is supportive of including hybrid and flexible assets in the support scheme. For a Northern Ireland support scheme, it should be the case that a hybrid generation and storage solution can ensure that the customer gets best value out of supporting projects whereby excess generation would not be lost but could be stored for later usage/ delivery to the grid/ customer.

Hybrid connections offer savings from better utilisation of energy generation and existing infrastructure which should ultimately lower the cost of electricity to customers. EAI remains underwhelmed and concerned by the progress in developing the regulatory arrangements for hybrid units. Not having the regulatory framework in place means projects will not be brought forward, overall costs to customers are increased and less zero carbon generation is connected overall.

We strongly urge a DfE intervention in enabling hybrid regulatory framework including setting clear milestones and responsibilities for completion of the workstreams. This can be delivered through the SEM Committee with guidance and oversight from DfE in Northern Ireland and DECC in Ireland.

Question 8: Do you think community benefit should be included as an eligibility requirement for generators to qualify for a support scheme in Northern Ireland? Question 8b: If yes, what community benefit mechanism do you believe is most suitable to Northern Ireland?

Community engagement is an important part of developing renewable projects and in some places a community financial benefit arrangement is used. However, adding a community benefit obligation to projects will increase their cost of electricity production which feeds directly to all customers.

While the RESS scheme in Ireland has a community contribution, the circumstances may be different in the two jurisdictions. For example, the tax rates are different in the two jurisdictions and the higher rate in Northern Ireland is likely already providing benefits to electricity customers.

In summary, the case to incorporate a community benefit contribution should be considered in the round in conjunction with an analysis of where existing exchequer returns from windfarms are spent noting that any obligation placed will directly increase electricity costs.

Question 9: Do you think there should be qualifying criteria for projects to be eligible to apply to the renewable electricity support scheme in NI?

Projects taking part in the auction should be fully permitted and ready for construction. To this end, they should have planning permission, grid connection offers and anything else needed to enable their seamless procession to build stage post auction. There should be appropriate, but not excessive, bid bonds and milestone requirements for projects also.

Question 10: What do you think is the optimal frequency for access to a support scheme for Northern Ireland?

The most important action now is to get the first auction up and running. The frequency of subsequent auctions should be guided by the size of the pipeline of projects through regular monitoring of planning permission awards, connection offers issued etc. This should act as an incentive for projects to come forward as quickly as possible.

Question 11: Given the information presented above, what do you think is the most appropriate agreement length for contracts within a renewable electricity support scheme for Northern Ireland?

Initial auctions are likely to be mainly represented by onshore wind and solar generation and while a shorter term could be adopted, DfE may feel that a longer term provides a better solution for customers, depending on views of future electricity prices,. Adopting a 20-year contract provides a longer hedge for customers and greater aligns the economic and technical life of the generation asset with the support scheme length. This reduces risks for developers in terms of quantifying the costs of benefits from the merchant tail between the shorter contract length and the asset life. This should result in more sustainable investments cases where lower tail end risk reduces the overall cost of capital. For certainty in the framework and for future developments, it is important that no changes are made to terms and conditions, or length of the contracts once agreed.

There is a particularly strong case for longer term contracts for offshore wind projects once the new framework is in place and offshore auctions commence. Their costs in terms of generators

and transmission capex would support a contract term closer matching the economic life of the asset.

For assets such as CCS and nuclear, mentioned in the consultation, these are best examined after the first auction is designed and implemented. Their treatment should be done in conjunction with a long-term plan for the power system and, as evidence from GB suggests, alternative funding mechanisms such as a regulated asset base may be required. However, it is important that these complex considerations do not delay the initial auctions.

Question 12: Given the options presented above, what do you think is the most suitable price clearing process for a support scheme for Northern Ireland?

Pay as clear and pay as bid should both provide acceptable ways to clear the renewables auction efficiently and the two methods are used to good effect in different markets around the world. EAI members prefer the approach of pay as clear approach but will ultimately work with either option.

Question 13: Given the information presented above, do you think strike prices should be indexed to inflation?

EAI believes that there is a strong case to apply indexation to renewables support scheme contracts. We believe this to be the case in general but in particular in the auctions prior to 2030 which will coincide with getting the first projects established under a new scheme.

The inherent difficulties in the supply chain, which are expected to endure in the medium term given the global dash for renewables, mean that developers have significant challenges preparing projects for auction. It is incredibly difficult to get firm prices on key components ahead of auctions and more and more re-openers are being introduced by suppliers. This makes the time between auction clearance and energisation difficult. Indexation will not solve this issue, but it can help and to this end there is a strong case to index the upfront costs during construction.

There are operational costs associated with renewable generation assets that will be subject to inflation right through the lifetime of the project.

- Catapult Offshore Renewable Energy in the UK suggests that 30% of an offshore wind farm's costs are not incurred at project start but instead are incurred during the project life or at the end.
- In addition, major parts failures towards the end of the project life would need to be purchased at a cost which moved with inflation from the day the project was financed.

Given the above, the EAI is of the view that the new support scheme in Northern Ireland should make provision for indexation, at a minimum for the following.

- The complete strike price should be indexed during the construction and commissioning phase.
- 30% of the strike price should be indexed during the lifetime of the contract.

Question 14: Do you have any further comments on design considerations for a Renewable Electricity Support Scheme for Northern Ireland?

As part of the final design of the support scheme there will be other issues to address. Some of these would benefit from greater cross SEM impact through the SEM Committee and the two departments. These issues include.

- Treatment of and compensation for constraints and curtailment – EAI does not believe that current SEM Committee policy has not addressed all outstanding issues.
- Reference price – a suitable reference price will need to be established.
- Cross-jurisdiction participation – DECC and DfE should consider whether participation in future auctions should be allowed by generation in the different jurisdictions.
- Scheme cost recovery – where the operation of the scheme requires the return of monies to customers or the collection of monies from them, there will need to be a mechanism in place that achieves this in the most efficient way possible that does not have unintended consequences, for example by disincentivising the use of renewable electricity.

- Institutional Arrangements – the scheme will require credit worthy counterparties for renewable electricity contracts. A set of governance arrangements will be required to achieve this.