Wind Energy Ireland,
Sycamore House,
Millennium Park,
Osberstown, Naas,
Co. Kildare.
W91 D627

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Emailed to: pso@cru.ie

RE: Proposed Decision Paper, Public Service Obligation Levy 2022/23

Wind Energy Ireland (WEI) welcomes the opportunity to engage with the Commission for Regulation of Utilities (CRU) and provide feedback on the proposed decision paper for the PSO Levy 2022/23.

WEI is the largest representative body for the Irish wind industry, working to promote wind energy as an essential, economical, and environmentally friendly part of the country's low-carbon energy future. We are Ireland's largest renewable energy organisation with more than 150 members who have come together to plan, build, operate and support the development of the country's chief renewable energy resource.

PSO Benefits

As WEI highlighted in our submission to a similar consultation last year, a key missing element in the proposed decision paper, and in messaging in relation to the PSO in general, is discussion of the numerous benefits to Ireland that the PSO delivers. The PSO levy is an essential policy tool to promote the development of renewable, indigenous electricity generation and to ensure security of supply for Ireland. Its support enabled wind energy to provide 26 per cent of Ireland's electricity in 2021.[1] This has delivered significant emissions reductions and cost savings for Irish consumers from the displacement of fossil fuel generation and should be recognised. In February of 2022, wind energy provided 53% of Ireland's wind energy.[2] This is the highest share of demand ever achieved by wind in Ireland.

While the proposed decision notes that the PSO levy is key in enabling Ireland to meet its national policy objectives in terms of achieving at least 80% renewable generation by 2030, there is not enough detail on what exactly is being delivered and the specific benefits that Irish consumers are

[1] Based on figures from SEAI and EirGrid
[2] https://windenergyireland.com/latest-news/6344-wind-energy-supplied-record-high-of-53-of-electricity-demand-in-february

receiving in return for their PSO contribution. WEI believes that including information such as this will greatly improve transparency and allow consumers to better understand how the PSO levy is contributing towards our climate action targets while reducing costs to consumers in other areas.

Further, for the first time in many years, the proposed PSO levy for the upcoming PSO Year 2022/23 is minus -€408.52 million. It is also noted that in the interim period, the CRU is proposing setting the PSO to zero. In light of this being quite a different scenario to recent years, WEI emphasizes that communicating the impact of the PSO levy to customers is of renewed importance this year. WEI would like the CRU to clearly explain how a negative levy will be shown and explained on customer bills, and how this will be communicated to customers generally.

We recommend that such information be included in the CRU's final PSO decision and in all future publications in relation to the PSO.

Counterfactual Analysis

The PSO levy is set relative to the benchmark price which is an average of the forecast wholesale market price of electricity over the relevant PSO year. We note that for the purpose of calculating the PSO levy contained in this paper, a forecast benchmark price of €218.65/MWh has been used, with the main determinant of the benchmark price being the forward fuel prices. The fact that wind generation, for which the production cost is close to zero, drives down wholesale electricity prices is not in doubt at this stage, however the cost savings from having renewable generation are not made clear in the paper. Furthermore, wind and other renewable generation has the effect of reducing price volatility in the SEM. In addition, the high wind weighted prices forecast for the coming PSO year implies that suppliers will be obliged to make considerable payments averaging €147/MWh for RESS 1 (€217 - €70/MWh) and €120/MWh for RESS 2 (€217 - €97/MWh), each month of the coming year, prior to being reconciled. This may pose a significant cashflow risk for suppliers and in turn have a knock-on effect on the bankability of RESS.

PSO Management

We note the CRU's statement in the paper that its primary role is the calculation of the PSO levy, in accordance with Government policy, and that Government policy determines the level of subsidy provided to PSO supported generators.

It is important to note that, going forward, this context will be very different as CRU policy will have a direct role in the level of subsidy provided to renewable generation, particularly in relation to how renewable dispatch down via constraints and curtailment is managed, which will be reflected in RESS auction bids.

For instance, under REFIT the support rates are set by Government and the constraint and curtailment risk is with developers who have to absorb this cost within the available REFIT tariffs. However, under RESS auctions it is wind farm developers that will be determining the price of renewable development, and therefore the PSO support rates, via their auction bids. Developers will have to take a 25-30 year view of future constraint and curtailment levels to factor into their financial models and come up with a price under which they can build. Future constraint and curtailment levels are extremely difficult to project, and wind farms must factor in a certain amount of additional risk in their calculations to account for this. These costs will then be locked in for the term of the RESS support.

It is CRU policy that directly impacts constraint and curtailment levels and can minimise these costs. Developers have almost no ability to manage these constraint and curtailment risks post RESS auction bid, whereas those who are ideally placed to reduce and even remove dispatch down are the CRU and System Operators by incentivising and developing system and network solutions.

It is important that a whole of system approach is adopted that facilitates the achievement of our climate action ambitions at lowest cost to the consumer. This means that policies in relation to the network (e.g., PR5, DS3) and the market (e.g., RESS, PSO, Clean Energy Package implementation) cannot be made in isolation as decisions in one area have the potential to significantly impact costs in other areas.

In addition, as has been demonstrated recently, the two-way CfD aspect of RESS support provides a valuable hedge for both customers and suppliers against high electricity prices. It should be taken into account however that collateral requirements for suppliers are significant during periods of sustained high prices. Funding the PSO on behalf of contracted RESS generators requires a further draw on supplier working capital at a time when suppliers are likely to be cautious about any additional activities that expose them to uncapped cash flows. It should not be the case that a

Sycamore House, Millennium Park, Osberstown, Naas, Co. Kildare, Ireland, W91 D627
T: +353 (0) 45 899 341 · E: info@windenergyireland.com
windenergyireland.com

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Directors · P. Baillie, E. Cassidy, K. Doyle, P. Lynch, D. McInerney, K. Moloney, R. Mullan, E. Tinker

scheme designed to provide meaningful protection from high prices, places further stress on supplier cash flows at a time when it is most needed. There is a serious risk that this proposal is unworkable and RESS generators may be unable to access supplier PPAs, making RESS unworkable.

As mentioned above under counterfactual analysis, the high wind-weighted Benchmark Price implies that suppliers will be obliged to make considerable payments each month of the coming year, prior to being reconciled. The risk posed by this is intensified by the fact that the R-factor full reconciliation doesn't happen until PSO year 2024. We note that the CRU decided upon Option 1, which introduced the Technology-specific Benchmark prices for wind and solar generation. We note that suppliers were also given the option to submit their own estimates of Benchmark Prices to the CRU as part of their annual PSO submission. WEI would appreciate further detail and clarity as to what standard suppliers would be held to with regards to forecast accuracy.

WEI also note that the CRU showed support for a mid-year review in the consultation, along with reconciliation of some costs in Year+1. It was mentioned that this option would be kept under review, however WEI would appreciate further insight on if this is an option that could be advanced further. In light of the recent wholesale price increases, we believe consideration should be given to moving to a process that more regularly reviews the price of the PSO. More frequent reviews of the PSO forecasts are likely to lead to less volatility in the PSO rate paid by customers each year, in addition to reducing the working capital burden for suppliers contracted to PSO generators. More regular reviews of the PSO would potentially improve issues associated with the current PSO framework, and may be relatively straightforward to deliver prior to the amount of volumes supported by RESS increasing in the coming years.

Conclusion

In conclusion, we would like to thank the CRU for the opportunity to provide feedback on the Proposed Decision Paper for the Public Service Obligation Levy 2021/22. WEI believes:

1. The CRU should include consumer benefits such as CO_2 reductions and avoided fossil fuel imports due to wind generation in their PSO related publications. There is an additional need for this for the upcoming PSO year, given that the PSO has been calculated as a significant deficit and will be set to zero in the interim period. It is important that consumers fully understand what this means for them.

2. The knock-on effect that the higher benchmark price will have on suppliers should be considered. This could pose a major cashflow risk for suppliers and the bankability of RESS as a result.
3. With regards to the option for suppliers to submit their own estimates of Benchmark Prices to the CRU, as well as the mid-year review and reconciliation of some costs in Year+1, WEI would appreciate further clarity on these options.
4. The PSO should not be considered in isolation and instead should consider wider implications, particularly the cost of constraints and curtailment, and how these costs are best managed, especially in relation to compliance with the Clean Energy Package.

We are available to discuss any of the points raised in this response if you require.

Kind Regards,

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Niall Goodwin

Head of Policy, WEI