

ISEA response to the Consultation on Arrangements for Calculation of the PSO Levy: Renewable Electricity Support Scheme and Clean Energy Package (CRU/21/04)

February 2021

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PUBLIC CONSULTATION ON THE ARRANGEMENTS FOR THE CALCULATION OF THE PSO LEVY: RENEWABLE ELECTRICITY SUPPORT SCHEME AND CLEAN ENERGY PACKAGE (CRU/20/04)

Commission for Regulation of Utilities

Irish Solar Energy Association response

INTRODUCTION

The Irish Solar Energy Association (ISEA) appreciates the opportunity to respond to the Commission for Regulation of Utilities (CRU) consultation on “*Arrangements for Calculation of the PSO Levy: Renewable Electricity Support Scheme and Clean Energy Package*” (CRU/21/04, “the Consultation”).

ISEA is the leading voice for the Irish solar industry. The association works to advance a policy and regulatory landscape promoting solar PV as a leading technology that can assist in the decarbonisation of Ireland’s electricity system and contribute to a successful and resilient clean economy. ISEA is committed to delivering 5 gigawatts (GW) of solar PV in the next ten years. ISEA has a membership of 119 businesses currently active in the Irish solar market.

ISEA POSITION ON THE IMPLEMENTATION OF THE CLEAN ENERGY PACKAGE

To give our response context, it is important for ISEA to briefly summarise its position on certain relevant Clean Energy Package requirements. The position can be summarised as follows:

- The Clean Energy Package Regulation 2019/943 came into force in Ireland on 1st January 2020. It required no transposition into Irish law to become legally binding. One of the requirements of the Regulation is that renewable generators are to be provided compensation up the level of financial support, i.e. the RESS Strike Price, for any non-market downwards redispatch. It is ISEA’s position that both constraint and curtailment are non-market downwards redispatch.
- If market procedures, rules, settlement systems and industry contracts are not in place by the 1st January 2020, this does not limit the rights and obligations of regulators, system operators, market operators and market participants under the Regulation.
- It is ISEA’s position, therefore, that if any generator (or trader of that generator’s power) is not compensated financially for its traded energy under the requirements of the Regulation above due to local implementation issues, it must be retrospectively resettled and kept whole to what revenue it would have received were the market rules implemented in time, and the generator had the opportunity to trade in the manner required to receive those revenues.

In summary, while the details of the Clean Energy Package implementation remain outstanding over one year since the coming into force of that Regulation, any power produced by a renewable generator in Ireland that is dispatched down for non-market redispatch is due compensation at the level of financial support. For RESS-1 generators, this means that they should get paid for Constraint and Curtailment at their RESS Strike Price from any power produced after January 1st, 2020.

RETAINING MARKET COMPENSATION FOR CONSTRAINT AND CURTAILMENT UNDER RESS

At the highest level, ISEA strongly welcomes the general direction of the CRU's Consultation. The RESS Terms and Conditions noted that any DS3 system services revenues and constraint revenues earned through the market should not be taken into account in the calculation of RESS Support Payments and Difference Payments (RESS T&Cs Section 5.2.5). In layman's terms, this means that traders of RESS supported power can retain any constraint compensation received from other sources.

Implicit in the equations¹ presented in the Consultation (Section 3.3.1), the CRU have extended this principle to curtailment as well. ISEA strongly supports this position taken by the CRU. If the Clean Energy Package results in a trader receiving net revenues for either Constraint or Curtailment from the wholesale markets² or another source, the traders of RESS supported power may retain these net revenues. The generator subsequently may negotiate a share of these Constraint and Curtailment revenues from their nominated RESS Power Purchase Agreement (PPA) provider³. For the avoidance of doubt we do, however, request that the extension of this principle to curtailment be explicitly confirmed by the CRU in its eventual decision paper.

EFFECTIVE DATE OF COMMENCEMENT OF CONSTRAINT AND CURTAILMENT COMPENSATION

While the CRU are allowing Constraint and Curtailment compensation to be retained by the off-takers to PPAs with RESS supported generation, they are not proposing to utilise PSO funding to adjust that compensation to the level of financial support under RESS.

This means that the implementation of the Clean Energy Package will occur outside of the RESS framework. While it may be technically convenient for the PSO to have taken on this role, it is in ISEA's opinion legally correct that the requirements of the Clean Energy Package should be implemented through market arrangements, rather than through a State aid approved subsidy mechanism.

This introduces the question as to from where the Constraint and Curtailment compensation should originate. Whatever the source, it is ISEA's strong position that this compensation should be retrospective to 1st January 2020 (and therefore for all power produced by RESS-1 projects), at the level of financial support under RESS, and be paid to both participant (>10MW MEC) and de minimis (<10MW MEC) generators. If certain mechanisms like the Trading & Settlement Code cannot accommodate that retrospectivity, or de minimis generators at all, a further mechanism outside of the Balancing Market should be considered⁴.

DETAILED COMMENTS

ISEA also has detailed comments in relation to:

- **Bonding for RESS Projects for Difference Payments.** Given that the RESS-1 Auction has completed, using bids that were calculated against a known cost base, ISEA does not support any further actions to reduce the level of bad debt, given the low risk it entails. If additional

¹ And explicit in the commentary around REFIT support in the consultation in Section 4.1

² That is, the ex ante Day Ahead Market and Intraday Market, and the ex post Balancing Market

³ Assuming that the compensation for constraint and curtailment flows through the market to the PPA provider, and not directly to the generator through an alternative mechanism.

⁴ Such a mechanism could make payments directly to generators. It would not necessarily have to flow through the PPA off-taker. We note that the architecture used by EirGrid to make DS3 payments may serve as a template for the structure that is required.

costs are placed on RESS-1 projects, these should be recoverable as supplier administration costs through the PSO;

- **Treatment of De Minimis Generation in the Consultation.** ISEA notes that there are two prejudicial positions taken against de minimis generation, affecting their rights for RESS Curtailment Compensation and also foreshadowing CRU's belief that they may not be eligible for compensation for redispatch. We believe these positions are incorrect;
- **Further Algebraic Issues in the Consultation:** The treatment of negative Day-Ahead Market prices and RESS Curtailment Compensation are contrary to the RESS Terms and Conditions, and need to be corrected.

These points, along with further detail and suggestions are provided in the answer to the questions below. If further clarification for any item is required, please email info@irishsolarenergy.org.

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CONSULTATION QUESTION RESPONSES

Set out below are ISEA's responses to the specific questions within the consultation document.

Q1 Do you agree with the proposals for the calculation of RESS 1 Support and Curtailment Compensation for RESS 1 projects?

ISEA agrees with the formulation of the forecast RESS calculations for suppliers.

As all RESS-1 projects will only be submitting forecasts into this upcoming PSO submission window, this means that there is some time post 1st May to resolve any identified issues with the ex-post calculations. That said, it is ISEA's strong preference to reach a decision as quickly as possible in relation to all RESS-PSO interactions, to allow efficient operation of RESS PPAs from July 2021 onwards.

In relation to the reconciliation calculations, there is an error which we believe to be an oversight in the calculation of the RESS-1 Support Payments. Support Payments in equation (3.3) only apply when the Day-Ahead Price is greater than zero. According to Section 5.2.5 of the RESS T&Cs, Support Payments are made when the Day-Ahead Price is greater than or equal to zero.

ISEA also disagrees with the calculation of the RESS Curtailment Compensation.

While we have no issue with the reformulation of the RESS Curtailment Compensation from a price-based adjustment (in the RESS T&Cs) to a total revenue-based adjustment (in the Consultation) we are concerned around the definition of the Curtailment volumes themselves (equation (3.10)). We believe they are not aligned with Curtailment as defined in SEM-13-010 which is the definition used in RESS T&Cs (being curtailed energy from available power) and instead are defined against the volume against which curtailment charges apply (which is the curtailed energy from the lesser of (i) the traded power and (ii) available power). This should be corrected.

We would also like to confirm, in any event, whether the signage of QCURLF and QMLF are the same in equations (3.9) and (3.11)? QQCURLF in equation (3.10) appears to always result in an amount less than or equal to zero, and therefore the simple addition of QCURLF and QMLF in equations (3.9) and (3.11) may be an error.

Treatment of De Minimis Generation in the Consultation

ISEA has two issues with the treatment of De Minimis Generation in the paper. One is related to the RESS Curtailment Compensation. Both will be addressed here.

Many of the successful RESS projects were de minimis solar projects. There are two statements within the paper which are highly prejudicial to the rights of de minimis generation.

- Section 3.4: *"Curtailment Compensation is not calculated for out-of-market generators."*
- Section 4.1: *"With reference to Out-of-market generators, the CRU considers such units are not being subject to redispatch, and hence no amendments are necessary to comply with Article 13(7)."*

ISEA sees no justification for either of these statements.

ISEA notes that 48 solar projects, totalling 241.3MW, and 6 wind projects, totalling 22.25MW, cleared the RESS-1 auction. De minimis generation comprises a vibrant and important part of Ireland's decarbonisation efforts. This sector should be treated equitably.

In their definition and application of RESS Curtailment Compensation, the RESS Terms and Conditions make no distinction between participant ("in market") or non-participant de minimis ("out-of-market") generators, and such compensation is clearly intended to be available to both categories of generator .

Furthermore, redispatch is an instruction issued by the system operator moving the generator's energy production away from its traded (or nominated) market position. Just because a de minimis generator is traded as part of a portfolio does not mean it does not have a market position⁵. Indeed, such portfolio trading would be more common within European markets than the "unit-based" trading of the all-island Single Electricity Market⁶. The requirements of Article 13 of the Regulation impose no requirement for any generator to have a uniquely traded position in order that it be deemed to be redispatched; on the face of it, it would be paradoxical to require a generator to be a market registered participant in order to be compensated for what is described in the Regulation as "non-market based redispatch".

ISEA notes that other sources of data (other than market data) exist to settle both downwards redispatch and RESS Curtailment Compensation, namely the EirGrid and SONI Dispatch Down Reports. The equations in Section 3.4 should operate with either market quantities (without inclusion of the biased quantities) or Dispatch Down Report quantities. These quantities in Dispatch Down Reports are aggregations of data from sources that are required to be accurate to Grid Code standards, and are used elsewhere in commercial settlement by EirGrid and the market more generally.

Q2 Are there any other curtailment compensation mechanisms, within the meaning of Section 5.6.1(b) of the RESS 1 Terms and Conditions, that the CRU should have taken into account in the proposals for Curtailment Compensation?

ISEA is of the view that on correct implementation of the Clean Energy Package, the RESS Curtailment Mechanism will become moot, i.e. the market (or another source) will provide compensation for curtailment at the level of RESS-1 financial support. We await the Clean Energy Package implementation to see the detail.

For the avoidance of doubt, however, Section 5.6.1(b) of the RESS-1 Terms and Conditions should be interpreted to be an adjustment to the RESS Curtailment Compensation based on the revenue arising from curtailment compensation elsewhere. It would be perverse for the RESS Curtailment Compensation not to protect generators from large levels of curtailment above 10% per annum, if

⁵ The scenario which proves this statement is a Supplier Unit which only contains a single renewable de minimis generator that is traded in the ex ante markets.

⁶ ISEA also notes that the SEM Committee committed to some form of portfolio trading for renewable generation – this has never properly materialised with market rules requiring unit-based trading to receive compensation for constraint today. ISEA hopes within the context of the Clean Energy Package, portfolio-based trading might also be considered as part of the overall design for participant generation as well as non-participant generation.

those large volumes of curtailment were compensated elsewhere but at a price far below the RESS Strike Price.

Q3 What are your views on the proposals for addressing the risk of bad debt in the event of the failure of a supplier to make difference payments in respect of a RESS 1 project?

ISEA believes that the risk of any bad debt where a supplier fails to pay a RESS Difference Payment is slim, given the current projections of market prices and what we understand to be the range of clearing RESS Strike Prices of progressing RESS-1 projects. ISEA therefore supports Option (4) *Take no additional measures towards reducing the risk of PSO bad debt.*

Any explicit required collateralisation (Option (1), a potential requirement of Option (3)), build-up of a reserves, withholding of cashflow, etc. comes at a financing cost for RESS projects. This would result in a prudent developer factoring that into its likely route-to-market costs, and would result in an increased RESS Offer Price in the auction. Clearly, the RESS-1 project is now closed. The introduction of a collateral requirement would be in effect an unflagged change in the RESS Terms and Conditions after the auction has concluded, and ISEA cannot support its introduction at this point in the RESS-1 process.

A superior alternative approach, however, would be to allow suppliers to recover such vouched and audited collateralisation costs as an administration cost within their PSO submissions for RESS projects. This viable long-term option for managing any risk of bad debt also has the advantage of recalculating the level of collateral on a “mark-to-market” basis annually, which is more efficient than a 15-year cost estimate made by a generator offering prices into RESS auction.

ISEA strongly rejects the possibility of Option (2) which obliges generators to enter into a new RESS 1 PPA. If a supplier has defaulted on a Difference Payment, but has honoured the terms of the PPA, this would place an obligation on the generator to change supplier when there may be only a temporary issue with its supplier’s liquidity. If the supplier has defaulted on Difference Payments and PPA payments, it is likely that the PPA will terminate anyway and that the project owner (with the consent of any senior debt partner) will manage the transfer of the PPA to a new PPA provider. Option (2) would happen by default.

ISEA has no issue with any required tightening of the PSO Order legislation or Supply Licences under Option (3) to clarify the legal obligations on supply to repay money to the PSO as and when required, as long as that does not result in the requirement for bonding or collateralisation at a cost which cannot be recovered through the PSO. It is, however, much work to manage what appears to be a very low risk, and as a result ISEA believes Regulatory and Departmental resources would be better focussed on other more pressing issues, not least of which being the overdue implementation of the Clean Energy Package.

Q4 Do you agree with the proposed equation (4.5) regarding AMRuY(Constraints)?

and

Q5 For REFIT are there any circumstances in which equation (4.5) should not apply and equation (4.3) should continue to apply, and, if so, why?"

As these queries related to the closed REFIT scheme which did not support solar generation, ISEA has no comment other to address its concern around the statement that de minimis generators are not subject to redispatch, which is addressed in our answer to Question 1 above.

Q6 As regards further reconciliations after the supplier's normal submission for the previous PSO Year, do you agree with the CRU's proposal that a threshold of:

(i) €5,000 should be used for reconciliations that would increase support payments to the supplier; and

(ii) €1,000 should be used for reconciliations that would decrease support payments to the supplier.

If you disagree with this proposal, what would you propose instead, and why?

ISEA disagrees with the proposal. The thresholds for resettlement should be symmetrical. The asymmetry is rationalised by the CRU as an incentive for suppliers to use the best data at the time of making the PSO submission. Data will change after the PSO submission, in particular metered data for RESS-1 projects, completely outside the control of suppliers, as the System Operators are the meter operators. Suppliers cannot be incentivised to use any information other than what is available to them, i.e. Initial Settlement and Resettlements, as and when available.

This threshold is too high, even if considered at an aggregate supplier level. The threshold should be no more than €1,000. To give an idea of context, €5,000 is 1.2%⁷ of gross annual revenues for a 5MW solar farm with a Strike Price of €73/MWh.

⁷ 5MW x 1,100MWh/MW per annum x €73/MWh = €401,500. €5000 / € 401,500 = 1.24%.