



23rd December 2004

Mr Noel Dempsey, TD
Minister for Communications,
Marine and Natural Resources
Adelaide Road
Dublin 2

Our Ref: 19709

RE: Interim Renewable Support Mechanism to achieve 2010 target

Dear Minister,

Prior to the taking of a final decision by you on the matter of the proposal for an interim renewable support mechanism to achieve the RES-E Directive target of 13.2% of consumption from renewables by 2010, I wish to take the opportunity to re-iterate the Commission's views as expressed in previous discussions with your Department and the Renewable Energy Development Group (REDG).

First of all let me emphasise that we are committed to working towards the RES-E Directive target for renewables and we firmly believe that the target will be achieved prior to 2010. However, in line with our duty under the Electricity Regulation Act, 1999 to minimise the cost to consumers and to promote competition the target should be achieved in a manner that delivers best value to the final customer.

Having concluded that the implementation of a renewable obligation and tradable certificate scheme is not practicable in the short-term, the options remaining are i) build on a merchant basis, ii) a competitive tender system or iii) a fixed feed-in tariff.

The Commission is strongly in favour of option i) and remains unconvinced of the need for additional support at this time. We are aware of significant appetite in the market for merchant plant in particular for the more mature renewable technologies i.e. onshore wind. Of the 233MW of wind currently on the system 83MW (36%) has been built on a merchant basis and at least a further 82MW is under construction. There is, therefore, a track record to show

that plant can be built on a merchant basis. In addition the large number of projects (2,494MW) in the applications process for connections from the network operators illustrates clearly that there is no need to further stimulate the sector at this time.

Recent representations to us by an independent supplier in the market should also be noted here. This supplier had reached agreement with a number of developers and their bankers on long-term contracts only for the developers to avail of an opt-out clause in the contracts when it became clear last week that they would be offered AER contracts with preferential terms under the Reserve List. Independent suppliers cannot hope to compete with AER contracts as evidenced above. However, bilateral contracts with no Government support element (and as such no impact on the PSO) represent better value for the customer and help to promote competition.

Bearing in mind the Commission's position as outlined above, should you take the decision to implement an interim support mechanism we believe that:

- the mechanism should be implemented in a manner that does not act to deter merchant build;
- a competitive tender support system would deliver the target at a relatively lower cost to the consumer than a fixed feed-in-tariff due to the inherent competitive bidding process;
- the mechanism should be accessible to independent suppliers in the market not just to PES;
- less mature technologies should be supported through secondary support mechanisms, for example, capital grants, and as such not funded through the PSO;
- a fixed-feed-in-tariff system should not be pursued unless the level of the support is set at a considerable discount on the existing AER VI reserve price.

Finally, the Commission notes that support funded through the PSO is costly for the consumer (for example, adding €20million to the PSO will mean a 1% increase in the retail tariff on average). In addition, increases in the PSO have a negative impact on competition as they erode the margin for independent suppliers to compete on. It also needs to be taken into account that the Best New Entrant (BNE) price (above which costs are passed through the PSO) is at an all-time high. It is uncertain whether this figure will remain at its present level. In addition, with the commencement of a new trading system in 2007 the average market price will be used as the benchmark figure and this is likely to be lower than the present BNE thus further increasing the PSO.

I trust that you will take account of the Commission's views when reaching a decision on this matter. The benefits of wind as a fuel saver are well known but the impact and cost of large amounts of wind on the system are not. Clarity on this is required and we look forward to the re-commencement of the REDG in 2005 and the examination of the full costs and benefits of increased penetration of wind generation on the system. We see this work as a priority so as to inform policy regarding renewables and the setting of targets post 2010.

Yours sincerely,

A handwritten signature in black ink that reads "Tom Reeves". The signature is written in a cursive, slightly slanted style.

Tom Reeves
Chairman