



**Response by Energia to Commission for
Energy Regulation Proposed Decision
Paper CER/14/125**

Public Service Obligation Levy 2014/15

04 July 2014

Energia welcomes the opportunity to respond to the Commission for Energy Regulation (CER) proposed decision paper on the Public Service Obligation (PSO) Levy 2014/15. At the outset it is acknowledged that the CER's function in regard to the PSO is merely one of calculation and this response therefore focusses on a single point pertaining to the appropriate calculation of support for onshore wind under AER, REFIT 1 and REFIT 2.

While there are a number of policy matters with respect to the PSO we would like to see addressed, it is accepted that the CER has no remit under the PSO framework to act on such matters. Notwithstanding this, we continue to question the apparent contradiction between supporting peat-fired generation, as an indigenous fuel, on a security of supply basis and affording such generation priority dispatch. Furthermore, in the context of the I-SEM project, the Capacity 2005 process should serve as a pertinent reminder of the need to ensure sufficient remuneration of generation investments, through both energy and capacity, to avoid a repeat of this costly experience.

With regard to the proposed decision paper, the role of the CER is clearly outlined therein with the proposed levy amount driven by three factors; the capacity supported (MW); the reference price under the support scheme; and the benchmark price, as calculated by CER. In the context of the foregoing, only the benchmark price is considered to be within the scope of this proposed decision paper. According to the CER, this benchmark price is, "an annual, average time weighted price calculated using a PLEXOS model". As a time weighted average System Marginal Price (SMP), the benchmark price is expected to be representative of the energy market revenues earned by a baseload generator. Such an approach is appropriate for conventional (non-intermittent) generation that is afforded priority dispatch (e.g. peat) and in previous years will have likely mirrored the running profiles of the Capacity 2005 plant. However, for onshore wind it would appear as though there is an inherent problem with adopting such an approach, one that undermines the support provided by the PSO.

As a zero short-run marginal cost form of generation, the more wind capacity in the market, the lower one can expect the SMP to be for any particular half-hour. The support under the PSO paid to wind, similar to the capacity payment to such units, is paid only when they generate. Furthermore, as an intermittent form of generation, there will be periods over the year where there is negligible or no generation from onshore wind but the higher expected SMP price for such periods has been included in the benchmark price for the PSO through which onshore wind is to be supported. The intuitive result of the approach applied by CER to the calculation of supports for schemes AER, REFIT 1 and REFIT 2, which are predominantly supporting onshore wind, is to overstate the benchmark price for such units, underestimate the amount

required to be collected in the current year and transfer the “error” to the R-Factor to be collected two years hence.

In light of this issue, Energia is calling for the CER to introduce an annual, average wind-weighted price using PLEXOS, to calculate the benchmark price for capacity supported under AER, REFIT 1 and REFIT 2. This change is considered to be important for a number of reasons. First, an annual, average time weighted price is not the best estimate approach in respect of the annual, average revenues earned from the market by onshore wind. Secondly, the continuation of the current approach does not fulfil the CER’s stated role of ensuring that the scheme is administered appropriately and efficiently. Thirdly, while this proposed change would not alter the overall amount of support paid to onshore wind as determined by the current approach, it would seek to better align the payments to generators. This is an important point as increased reliance on revenues to be received two years after the event may present significant cash-flow problems for generators in the market today but will also increase the risk profile of such investments, thus undermining the fundamental basis for the support scheme(s). Fourthly, applying an annual, average wind-weighted benchmark price for the schemes outlined would improve transparency of policy costs that are supporting onshore wind investments and reduce reliance on R-Factor adjustments. Finally, with the expected expiration of the current peat and capacity elements of the PSO in the coming years, and the expected, significant increases in level of supported onshore wind capacity (REFIT 2), the CER’s approach to calculating the PSO amount will require review and amendment to ensure the efficient and appropriate administration of the schemes.

In light of the foregoing we are recommending that now is an appropriate time to make this change in respect of the benchmark price calculated by CER for AER, REFIT 1 and REFIT 2. As already noted, this change has no impact on the overall amount of monies to be paid to generators under the respective support schemes but merely looks to align revenues and mitigate potential cash-flow risk associated with a true-up mechanism paid two years hence. The continuation of the current approach is seen to undermine the basis for the support schemes in the first instance and also would appear to conflict with the CER’s role of ensuring the scheme(s) are administered appropriately and efficiently. The change proposed herein is also considered to improve transparency of policy costs. Furthermore, to the extent that a problem has been identified today, the continued investment in onshore wind supported by REFIT 2 will serve to increase the problem in two distinct ways; first, it will affect more generators; and secondly, the impact of wind generation on the market will increase, thus increasing the expected differential between the annual, average time weighted price and the revenues earned by wind generators in the market.