

IWEA response to the PSO Levy 2016/17 Proposed Decision Paper – CER/16/152

27 June 2016

IWEA welcomes the opportunity to respond to the PSO Levy 2016/17 Proposed Decision Paper (CER/16/152). IWEA notes the importance of the Public Service Obligation (PSO) levy in promoting the development of clean renewable generation, to support use of indigenous fuel and ensure security of supply as mandated by Government and approved by the European Commission.

As a country we are hugely (85%) dependent on foreign energy imports. The most recent statistics from the Sustainable Energy Authority of Ireland (SEAI)¹ confirm that Ireland is the fourth most energy dependent Member State trailing only behind Malta, Luxembourg and Cyprus, but confirms that with growing renewables our import dependency is falling from 89% in 2013 to 85.5% in 2014. It is important to note that this heavy dependence on foreign imported energy costs our economy €16m every single day.

The PSO mechanism is working to supporting the growth of indigenous Irish renewable energy. Wind energy accounted for a record 20% of electricity generated in Ireland in 2015 according to the SEAI, an increase of 28% on the previous year. Total renewable electricity share has now reached 25% putting Ireland at the forefront of EU and global efforts to integrate renewables. Irish Electricity imports fell by 69% in 2015 compared with 2014 contributing to our security of supply and cutting the cost of imports.

In particular IWEA welcomes that acknowledgement within the paper that *“While more wind generation tends to increase the PSO levy, it also tends to reduce the wholesale price of electricity in the SEM.”* The positive impact from wind energy on lowering Irish electricity prices has been clearly shown by a number of independent studies:

- The Annual Energy Market Report² from Energy Analysts Vayu for 2015 states that the average wholesale price of electricity in the Irish market was down 9.4% from the average price recorded in 2014. (This is in addition to a drop of 14% in 2014 compared with 2013.) The drop in prices is attributed by the Market Analysts in part to strong wind energy generation. The Vayu report also points out that *“wind energy is playing an ever more important role in meeting Ireland’s electricity demand, helping to drive down prices and reduce the country’s dependence on more expensive sources of energy.”*

¹ http://www.seai.ie/News_Events/Press_Releases/2015/Renewable-Energy-Use-Grew-by-10-in-2014.html#sthash.IMdPTEJr.dpufA

² <http://vayu.ie/2015-vayu-annual-energy-report-23-drop-in-irish-wholesale-gas-prices-in-q4-2015-compared-with-last-year/>

- The SEAI Study on the *Impact of Wind Generation on Wholesale Electricity Costs in 2011*³ showed that Wind generation in 2011 reduced Ireland’s wholesale market cost of electricity by around €74 million. This saving offset the other costs associated with the generation of wind energy and so was Cost Neutral to the Irish Consumer.
- The *Value of Wind Energy to Ireland*⁴ study published in March 2014 by Pöyry, a leading international consulting and engineering consultancy, and Cambridge Econometrics. The analysis shows that if Ireland deploys wind capacity to meet 2020 targets the wholesale price will fall by €2.10/MWh by 2020 and that wind energy does not place a burden on the Irish consumer due to the net economic benefits of wind energy development.
- The European Commission confirmed in its *Working Document on Energy Prices and Costs*⁵ published 17 March 2014 that “for wind electricity in Spain and Ireland the benefits for electricity consumers in terms of **reduction in whole-sale prices outweigh the costs of subsidies.**”

It is not clear from the proposed decision paper exactly how the Benchmark Price is calculated. The Benchmark Price used for the 2016/2017 PSO is significantly lower than previous prices used, and IWEA questions whether this price is appropriate for the PSO calculation. IWEA would also ask that the market assumptions on which this Benchmark Price is based be made clear to ensure greater transparency.

The PSO Proposed Levy 2016/17 assumes a reduction in the capacity payment from €5.77/MWh for 2015/16 to €5.08/MWh in 2016/17 and results in an increase in the 2016/17 PSO forecast. IWEA is concerned that the reduction in market revenues which results in additional PSO support is not appropriate in a system with increasing levels of renewables. We would also note that the market changes currently underway may result in a further reduction of capacity payment to renewable generation in particular and we have concerns that this shortfall will further impact the PSO. It is important that a holistic view is taken to any market changes to take into account the wider impact of the change.

IWEA requests that clarification is provided in relation to the interaction of the REFIT schemes with the new market design, I-SEM. It is essential that clarification is provided on this in the coming months to enable market participants to plan for the changes which are due to be in place in October 2017. While IWEA acknowledges that this is within the remit of Government and not the CER, we would urge the CER to highlight the importance of this issue.

IWEA welcomes the opportunity to respond to this consultation and looks forward to continuing to engage on this process going forward. In particular IWEA notes the comment that ESB Networks have proposed a modification to the cost allocation methodology and we would be keen to engage in this process.

³http://www.seai.ie/Publications/Energy_Modelling_Group/_Energy_Modelling_Group_Publications/Impact_of_Wind_Generation_on_Wholesale_Electricity_Costs_in_2011.pdf

⁴<http://www.iwea.com/index.cfm/page/industryreports?twfId=1467&download=true>

⁵http://ec.europa.eu/energy/doc/2030/20140122_swd_prices.pdf (Page 236)