

Resolving the project support 'cliff' in 2015

Grattan Healy, 23rd January 2013

Given Ireland's abundant and competitive resource, wind energy is the renewable energy form that will make up the vast bulk of green energy production over the coming decade or two. While the sector has serious obstacles in all areas, a new and current issue is the additional uncertainty caused by the unavailability of the price support for projects not operating by the end of 2015; what has become known as the 'REFIT cliff'.

To obtain finance, wind energy projects generally require three main things: planning permission, grid access and some form of price support. There are increasing difficulties in all three aspects, despite Directives that require a reduction in barriers.

Price support is required for two primary reasons. Firstly, renewables have a natural structural disadvantage in financing, as up to half of the life-cycle cost is required up-front. Secondly non-renewable projects continue to be heavily subsidized¹ and still do not pay their external costs, despite carbon taxes and emissions trading. Indeed, it is argued that the flawed emissions trading system actually favours fossil fuel generation.

In Ireland, price support is offered in a scheme called the Renewable Energy Feed-In Tariff, or REFIT. The current scheme for wind projects, REFIT 2², was applied for in June 2011, approved by the European Commission under state aids rules in Jan 2012, and was launched in March 2012.

The scheme was similar in most respects to the previous REFIT 1, with some extra restrictions, and of course different deadlines. The Terms and Conditions of REFIT 2 imposed a deadline of 31st December 2015 for projects to be in operation, a term that still has to be fully defined.

However, projects depend on other organs of state to deliver the grid to enable projects to start operation by that deadline. This they have singularly failed to do, and that failure continues. A process of selecting projects for what is known as Gate 3 (the current batch of projects to be allowed to connect) began in 2007, and will not be completed for another year at least. It is naively assumed by the grid authorities that projects will wait for the full details of their offer later this year, before accepting their grid connection offers. But if they do so, they have almost no chance of meeting the 2015 deadline. Even those that have already accepted their offers without waiting are going through a nightmarish process to get the authorities to deliver the grid in time.

The main problem is that most projects require neighbouring projects to decide what they are doing, and put up their finance for the connection. Then ESB Networks and Eirgrid generally have to seek planning for the connection assets and complete construction by 2015. An assurance to projects that this will all occur on time is not available and therefore project financing has become almost impossible.

¹ \$523bn in 2011 according to the International Energy Agency (World Energy Outlook 2012)

² <http://www.dcenr.gov.ie/Energy/Sustainable+and+Renewable+Energy+Division/REFIT.htm>

Thus two arms of the State have created a vice, telescoping the timeline to the point where no-one could possibly deliver. One half of the vice is grid delay, the other is the REFIT cliff.

The industry has been repeatedly told that the 2015 date is immutable, as it has been fixed at the behest of the European Commission, who allegedly don't want to see support schemes going beyond that date into the emerging new single electricity market.

However, an examination of the state aids approval document from the European Commission³ reveals a very different story. The key timing differences are set out in this Table.

| | State aid approval | REFIT 2 T & Cs |
|-----------------------------|---------------------------|---------------------------|
| Application deadline | 31 Dec 2015 | 31 Dec 2015 |
| Operation deadline | '2020' | End 2015 |
| End date of support | 31 Dec 2034 | 31 Dec 2030 |

It is highly unlikely that the Commission approved a scheme and extended the timings in doing so. In other words, DCENR applied for a scheme with the dates shown in the approval, as set out in the first column. The Dept. subsequently decided to issue tighter deadlines than necessary, as shown in the second column. It may be the Dept. wished to limit Gate 3 project delivery, so as not to overshoot the 2020 target, since the 3,900 MW in Gate 3 are more than sufficient to meet the target due to the drop in demand⁴. One benefit of that tightening has been to motivate the grid and regulatory authorities to get a move on, so that Government does in fact meet its targets by the 2020 deadline.

However, the current approach is now backfiring. Projects that can't make the 2015 deadline, through no fault of their own, will fail trying or may now simply give up and lose their place in the grid queue. They will then lose what is very valuable and hard-won planning permission, much of which may not be got a second time. Most projects beyond Gate 3 do not have any planning in place, since it would expire too early if they did. Furthermore, given that Gate 3 has already taken 6 years, with at least two more to go, any confidence that a Gate 4 will rescue the situation by 2020 is misplaced. Thus, the squeeze that is currently on the Gate 3 projects has the potential to eliminate most of the viable projects in Ireland required for 2020.

So it is now evident that this approach will not meet the Minister's objectives, and is instead working against achievement of the 2020 targets. It behoves him to immediately review the deadline, and to move it out at least two years, since this is permitted by the state aids approval. That should permit sufficient projects to be built to meet the target. A longer period would lessen the pressure on grid delivery. Should any specific project demonstrate further unreasonable delay, then a further two to three years is available to assist such projects where appropriate and enable the Government to meet its targets.

³ http://ec.europa.eu/competition/elojade/iseef/case_details.cfm?proc_code=3_SA_31236

⁴ however, it should be noted that around 800MW of Gate 3 is offshore wind, which has no REFIT, and is likely to be developed for export; furthermore, there are enough difficulties with planning, constraint and curtailment, grid delivery and finance for projects in Gate 3 that, even without the REFIT time limit, the targets are in some doubt; finally, inadequate progress in renewables for heating, cooling and transport means that more will be required of the electricity sector to meet the binding 16% national primary energy target.