Corporate Reputations

The Regulatory Outlook for Renewable Energy

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Overcoming the volatility of wind energy will be the biggest challenge in meeting the Ireland's 2020 renewables target. The changes in the Irish energy landscape over the last decade have been quite dramatic. The Single Electricity market (SEM) is "working to plan", according to analysts and policy makers. However, constraints payments (reflecting the difference between the market schedule quantity and the plant's actual dispatch), low fossil fuel prices, volatility, and scheduling and dispatch would have to be reviewed.

The increase in the fuel mix for the SEM from 8 per cent in 2005 to 14 per cent in 2009 and the dramatic growth in installed capacity to 1,600 MW is an indication of very significant growth in the presence of renewables and dramatic change in the generation portfolio of Ireland.

Ireland had been required to achieve a target of 12 per cent by 2010 but exceeded that and is therefore "viewed favourably" in Europe. We've seen massive increases in the penetration of renewables both in terms of installed capacity and in the actual consumption of electricity, which was up to 15 per cent in 2010.

The new EU target of generating 40 per cent of electricity from renewables by 2020 is mandatory, and is central to formulating all policy. Because it has encouraged inward investment in renewable and conventional plants and prices are set every hour, the prices on the wholesale markets are much more transparent.

If we are to take full advantage of the resources on our doorstep, there is a need to make wind energy and its associated costs competitive, for this fossil fuel prices will have to rise. This is known as the 'fuel-cost paradox. To explain, Ireland is highly dependent on fossil fuels and also has very ambitious targets. Because onshore wind generation is competitive and pulls down the SMP (system marginal price), the capital costs associated with wind generation can be off-set; but only if fossil fuel prices are increasing.

Sustained low fossil fuel prices undermine our competitive advantage in wind. If we have low fossil fuel prices, the hedge which renewables gives us is of less value. Though there is there is a general consensus in the market that fossil fuel prices need to rise in order to reduce emissions, but some energy players "don't want them to rise just yet."

Because of this tension between short- term and long-term policy considerations, it is important to have an independent regulator in the energy sector.

Regulators are not subject to the same short-term buffeting as the political system is, therefore they have a bit more freedom to allow longer-term policy considerations to be worked through and sometimes take the pain associated with those

Volatility

Volatility in prices has increased as is seen by the recent price increase by utility provides, due to wholesale market prices. Because gas and oil are commodities which can fluctuate in price depending on weather and conflict in oil-rich countries, countries that rely on imports have to “reach into” their gas storage caverns when imports are too expensive or inaccessible.

Whilst some degree of volatility is “inherent in any wholesale market design”, as it becomes more frequent, policy-makers, market designers and regulators must find a solution.

Great work is being done by the Irish energy industry in resolving these challenges in our system.

Improving the SEM

As more and more intermittent generation comes onto the grid, the SEM will have to be reviewed to meet the challenges.

In addition, the Governments North and South are very keen that integration should take place to break away from the tyranny that a small geographic market can impose on us.

Technical issues, such as capacity payments, which reward the generator for making generation capacity available, whether or not such capacity is actually dispatched, will have to be reviewed.

Ancillary services such as generators to carry out the day-to-day and second-to- second running of wind turbines will need to be developed as more wind comes on to the system.

It must be emphasized that in Northern Ireland and the Republic, the energy sector is keen to “geographically enlarge” the scope of the SEM market.

The East West Interconnector is coming onstream next year and will provide 500MW inter-connection with the UK. That, coupled with the EU’s drive towards European integration, will provide a flexibility that will give greater scope to managing the intermission issues.