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## Projects, Energy & Natural Resources

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### RESS 1 – A Recap

This article provides an overview of the Terms and Conditions of the first auction under Ireland's new Renewable Energy Support Scheme (**RESS**), which will be a key milestone in meeting Ireland's target to produce 70% of the country's electricity from renewable sources by 2030.

#### Background:

Ireland's new Renewable Energy Support Scheme (RESS) has been developed by the Department of Communications, Climate Action & Environment (the Department) to commission new renewable electricity generation in order to meet the country's commitments to reduce CO<sub>2</sub> emissions.

The scheme has its basis in the Renewable Energy Directive 2018/2001/EU (RED II), which set a binding renewable energy target of 32% renewable energy for the EU by 2030, and the Government's Climate Action Plan 2019.

In terms of electricity, Ireland has set itself a 70% renewable energy target by 2030 and EirGrid anticipates significant growth in the share of electricity in final energy consumption over this period. The upshot of these targets, and the increasing importance of electricity in meeting the energy demands of citizens and businesses, is that Ireland needs to significantly increase the proliferation of renewable electricity generation on the island in order to position itself as a "competitive, low carbon, climate resilient and environmentally sustainable economy going forward".

#### Aims:

RESS was designed to promote several different but complementary objectives, including: procuring sufficient quantities of renewable electricity generation capacity to meet Ireland's 70% renewable electricity target; increasing the technology diversity in Ireland's energy mix; increasing community involvement in the energy transition; and bolstering Ireland's energy security.

### RESS 1

#### What is it:

RESS 1 is the first auction to be run under the auspices of RESS. The Terms and Conditions for RESS 1, published on 27 February 2020, set out that the first RESS auction would be "a simple, sealed bid auction" awarding contracts on the basis of pay-as-bid (not pay as cleared).

The bid price is not inflation linked or otherwise indexed, a detail that has proven somewhat controversial with industry advocates who have argued that this will result in higher up-front

prices for new renewable electricity. This could be a significant financial risk in light of current macroeconomic conditions.

### Qualifying Technologies:

The Terms and Conditions for RESS 1 set out seven categories of renewable energy generation technology eligible to bid into the RESS 1 Auction:

- i. Onshore Wind;
- ii. Offshore Wind;
- iii. Solar (PV or thermal);
- iv. Hydro;
- v. Biomass high efficiency combined heat and power (HECHP);
- vi. Biogas HECHP; and
- vii. Waste to Energy HECHP.

RESS 1 Projects must also, *inter alia*:

- be at a contiguous or near-contiguous site;
- be a “New Project” or a repowered project;
- have full and final grant of planning permission for the construction of the generating plant at the Site (excluding grid connection assets);
- have either a Grid Connection Offer or be listed as an ECP-1 Project;
- possess and demonstrate control of the relevant site (and necessary rights of way); and
- be “financeable”.

### Preference Categories

The Terms and Conditions for RESS 1 provide that certain categories of projects are given preference for designated amounts (noted below) of renewable energy annually. RESS 1 Support will be awarded first to projects in the Community Preference Category, then to projects in the Solar Preference Category, and finally to qualifying projects in All Projects Preference Category. The minimum offer quantity in each category is 0.5MW.

On 17 July 2020, CRU published the RESS 1 Final Competition Ratios for each of the preference categories. This ratio dictates the proportion of qualifying offers that will be awarded RESS 1 Support.

#### 1. Community Preference Category

These are community schemes, typically of smaller scale to the majority of projects to be backed by RESS 1 and the maximum offer quantity per project is 5MW. The Terms and Conditions anticipate that up to **30 GWh** will be procured under this category.

- Final Competition Ratio: 1.3

## 2. Solar Preference Category

To increase the diversity of the electricity network, technology specific auctions are required. Currently solar has a negligible impact on Irish electricity generation and, as of Q1 2020, there is only 0.05MW of solar capacity connected to the grid. It is anticipated that solar may attract a higher cost, but it is also anticipated that this is likely to be offset, at least partially, by lower grid upgrade costs.

There is no upper limit on the proportion of solar generation which can be procured under the overall scheme, however the Terms and Conditions specify that up to **300 GWh** of electricity will be procured under the specific preference category (equating to roughly 311 MW of headline capacity). It further sets out that the maximum offer quantity under this category will be 125MW per project.

- Final Competition Ratio: 2

## 3. All Projects Preference Category

The Department has set out a minimum procurement target of **1,000 GWh** and a maximum of **3,000 GWh** annually across all categories. The maximum offer quantity for this category is 600 GWh/year and the Terms and Conditions set out the relevant capacity factors for the various eligible technologies.

- Final Competition Ratio: 1.3

### Key RESS 1 Dates:

#### The Auction Dates and COVID-19

Following initial delays necessitated by the disruptions caused by the covid-19 pandemic, applications for qualification for the RESS 1 Auction are open and on 24 April, EirGrid and the Minister have provided a revised timetable for the RESS 1 Auction which can be accessed here: [http://www.eirgridgroup.com/site-files/library/EirGrid/RESS-1-Auction-Timetable-\(R1AT\).pdf](http://www.eirgridgroup.com/site-files/library/EirGrid/RESS-1-Auction-Timetable-(R1AT).pdf).

#### Key Contract Dates

Date of first payment: RESS 1 subsidy payments are available from 1 July 2021, where a project is ready. However, the period from 1 July 2021 to 30 September 2021 will have to be claimed back in the RESS 1 reconciliation process as payments will only begin from 1 October 2021.

Duration of the contract: RESS 1 shall support projects up to 31 December 2037.

Long stop date for project delivery: December 2023 is the long-stop date for projects and there is no provision for extensions to that date, even for Force Majeure or grid delays.

#### Future RESS Auctions

The RESS High Level Design envisaged that at least four RESS auctions would occur between 2019 and 2023 in order to deliver on the Ireland's 2030 targets. As RESS 1 is taking place in 2020, we anticipate that future RESS auctions will continue annually until 2024 at least.

## Payment Mechanism:

The RESS 1 Support is being structured as a 2-way floating feed in premium contract for difference (**FIP Cfd**). Applicants will be required to bid an offer price for their respective RESS 1 Projects in the RESS 1 Auction. Where successful, this offer price will be the “**Strike Price**” for the purposes of settling that 2-way floating feed in premium contract for difference (**FIP Cfd**).

- Payments to:

For hours in which the Strike Price exceeds the market reference price, the Supplier with whom the Successful Applicant has entered into a power purchase agreement (“**PPA**”) will be entitled to a support payment, calculated as the difference between the Strike Price and the market reference price.

Note: this does not apply where the market reference price is less than zero euro per MWh, in such instances there will not be any support payment for power produced in that period.

- Payments by:

For hours in which the market reference price exceeds the Strike Price, the Supplier with whom the Successful Applicant has entered into a PPA will be obliged to make a difference payment to the Public Service Obligation (**PSO**) levy, so that revenues ultimately never exceed the Strike Price.

Additional revenues:

- Capacity market revenues: although it is not anticipated that RESS 1 Projects will participate in the capacity market and thereby receive capacity market revenues, it is worth noting that they will not be able to benefit from capacity market revenues actually received in addition to RESS payments.
- System services: DS3 and constraint revenues received by RESS 1 Projects can be retained and will not be taken into account in the calculation of RESS 1 payments.
- Payments for curtailment: the RESS 1 Terms and Conditions apply a calculation to compensate generators for curtailment where there has been in excess of 10% curtailment for two consecutive PSO Levy Years. This should provide peace of mind to applicants who are concerned about the potential impacts of curtailment on an energy grid with an increasing supply of intermittent generation.
- On a related note, Successful Applicants will not be entitled to obtain Guarantees of Origin in respect of the output of their RESS 1 Projects.

For Variable Generation Projects, the hourly Day Ahead Market Price (**DAM** Price) will act as the market reference price. For Non-Variable Generation Projects, the time weighted average DAM Price over the course of the PSO Year will act as the market reference price. As mentioned above, there is no adjustment for inflation or other indexation.

It is important to note that bid prices for the RESS 1 Auction must not exceed €120/MWh.

## **Additional Charges and Outlay:**

### Bid Bond:

In order to compete in the RESS 1 Auction, applicants (with the exception of Community Zero-Bond Project applicants) were required to post a bid bond. Bid bonds had to be posted by 30 April 2020. The Bid Bond quantum was €2,000/MW.

### Performance Bond:

Successful Applicants will be required to provide a Performance Bond in order to receive a letter of offer from the Minister. The Performance Bond quantum will be €25,000/MW.

### Community Benefit Fund:

Successful Applicants will be required to contribute €2/MWh of electricity exported to the system to a Community Benefit Fund, which fund will be administered by the generator for the benefit of the local community.

## **Key Documents** for applicants include:

- Director Declarations were required in respect of the independence of bids (setting out all persons owning or controlling more than 30% of the shares of the applicant), contingent arrangements, pricing information and ownership interests.
- Awarded projects will be offered an Implementation Agreement which must be signed before a letter of offer will be issued.
- A letter of offer which enables the Successful Applicant to execute an eligible PPA and commit the project to be developed in return for the offer of support.

## **Responsible Bodies:**

RESS will be implemented by three main bodies:

- EirGrid, as Transmission System Operator, has been tasked with implementing and operating the majority of auction processes for RESS 1;
- The Minister has responsibility for the design of RESS and the development of terms and conditions to the auctions; and
- Commission for Regulation of Utilities (**CRU**) as Regulatory Authority, which has responsibility for administering the RESS competitions.

## **COVID-19 and RESS:**

Please see our 27 March 2020 Article which provides an update on COVID-19, the RESS 1 Auction and Electricity Consumption in Ireland:

<https://www.williamfry.com/newsandinsights/news-article/2020/03/27/energy-market-update-covid-19-the-ress-1-auction-and-electricity-consumption-in-ireland>

## Contact Us

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