



23 April 2007

Mr J PIHLATIE
Head of Unit
Competition DG
EUROPEAN COMMISSION
Brussels B1049
Belgium

Subject: State aid No. 571/2006-Ireland RES-E support programme.

Dear Mr Pihlatie,

1 Introductions

I refer to your request for additional information on the proposed REFIT support programme. My authorities have asked me to comment on the previous notification in the first instance and thereafter to notify the additional data requested by the Commission.

2. Background to the original notification.

2.1 My authorities concluded that the previous support programme was not capable of delivering the target addressed to Ireland in Directive 2001/77/EC by 2010.

2.2 My authorities therefore examined the options in the Community guidelines on State aid for environmental protection (2001/C 378/03) and concluded that “option 1” is the efficient option in the circumstances in Ireland at this time.

2.3 My authorities then examined its proposal against the state aids decisions in files N553/01 and N826/01 wherein the Commission concluded that proportionate compensation to the supplier is not state aid. The Commission also concluded (par 12 in N553/01) that the scheme could distort competition between categories of producers and could affect trade between member states. There is an explicit provision in REFIT to accept new generating plant anywhere within the EU. The issue remaining was the distortion from the different category prices. Hence the emphasis on the “technology balancing cost” as the distorting effect in the data previously notified.

3 Additional clarification now requested.

3.1 My authorities note the Commission, in its letter requesting additional clarifications, states –

“.....Under points 59 and 60 of the guidelines operating aid for renewable energy sources, with the exception of biomass, (emphasis added) may not exceed the investment amount.....”

3.2 My authorities are currently exploring options for the deployment of wave and tidal technologies in the coming decade. These related technologies will operate from operating costs possibly higher than biomass, for a period at least. My authorities note the cost base of biomass is acknowledged in the above quotation but the text is silent on technologies operating from potentially higher operating cost centres. My authorities have asked me to signal a potential concern in this matter. Fortunately in the current case no such impediment arises.

3.3 The data requested by the Commission is set out in the following tables and text.

Table A calculation of annualised volumes of electricity.

Category	Wind Large	Wind Small	LFG	Biomass/ hydro
Annual full load hours(% <u>.8760</u> hours) per MW installed	34%= 2978 hrs	34%= 2978 hrs	60%= 5256hrs	50%= 4380

Table B calculation of annualised resources as requested.

Category→	Wind Large €/MWh	Wind Small €/MWh	LFG €/MWh	Biomass/ hydro €/MWh
1. State resource (€8.5 MWh) x annual output.	€8.5 <u>2978 hrs</u> €25313	€8.5 <u>2978 hrs</u> €25313	€8.5 <u>5256 hrs</u> €44676	€8.5 <u>4380</u> €37230
2. State resource paid per MWh for “technology balancing” x annual output.	€0	€2.0 <u>2978hrs</u> €5956	€13 <u>.5256 hrs</u> €68328	€15 .4380 hrs €65700
3. Annualised state resources paid (rows 1+2),	€25313	€31269	€113004	€102930
4. 15 year state resources paid. (row 3 x 15 years)	€0.4 m	€0.5m	€1.7 m	€1.5 m
5 Capital cost/MW	€1.2m- €1.3m.	€1.2m-€1.5 m	€2.7m	€3m
6. “Unallocated” capital cost (row 5– row 4)	€0.8m	€0.7m	€1.0m	€1.5m
7 Unallocated capital cost “allocation” per MWh for 15 years (row 6 divided by annual output)	€268	€235	€190	€342
8 Unallocated capital value per MWh annualised (row 7 divided by 15 years)	€17	€15	€12	€22

Notes to Table B

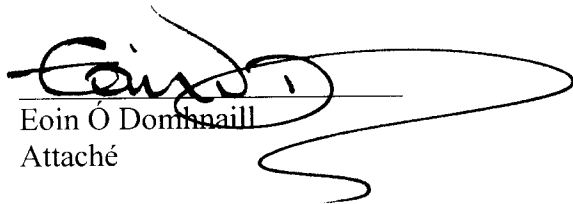
- Row 1. €8.5 is the “cost of balancing”. The output is calculated in Table A *i.e.* 365 days = 8760 hours which is multiplied by the load factor or “full load hours” delivered.
- Row 2. This is calculated as the “technology balancing cost” multiplied by the annualised output.
- Row 3. This is the combined costs calculated in rows 1 & 2.
- Row 4. This is row 3 values multiplied by 15 (years).
- Row 5. This is the investment cost /MW
- Row 6. This is the investment cost *less* the value offset against the state resource quantified in row 4 (*i.e.*, row 5 – row 4).

- Row 7 This is the row 6 value (row 5 – row 4) allocated by category per MWh (Row 6/MWh in table A) to quantify the total additional aid which could be paid without exceeding the investment cost. the amount of additional state aid which could paid per megawatt hour, by category, without exceeding the investment cost.
- Row 8 This is the total value per MWh in row 7 divided by 15 (15 years is the maximum duration of the support) to quantify the “unallocated” value distributed per annum per MWh in each category.

3.4 The preceding Table B demonstrates that the total state resources allocated are less than the investment costs. Moreover if the remaining unallocated investment cost is allocated to output in each category the “allocation” is higher than the benchmark cost of €5.7 per MW. Thus even if electricity prices fell to zero the cumulative state resources would not exceed the investment costs.

4. My authorities have asked me to say they are available and would welcome a meeting to clarify in the shortest period possible any additional issues arising.

Yours sincerely,


Eoin Ó Domhnaill
Attaché