



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Decision Paper

**Funding of Grid Upgrade Development Programme for
Renewables**

7th April 2003

CER/03/090

Introduction

On the 30th January 2003, the Commission for Energy Regulation ('the Commission') published a Consultation Paper on the Funding of the Grid Upgrade Development Programme for Renewables (CER/03/016), following a request from the Department of Communications, Marine and Natural Resources ('the Department') to investigate whether the scheme could be underwritten by ESB Networks, who in turn would be kept whole through the transmission system revenue which is collected through Transmission Use of System (TUoS) charges.

In response to this Consultation Paper, the Commission received 17 submissions, 15 of which are published in full together with this Decision. The submissions received were broadly in favour of the proposal. In their responses, ESB National Grid and ESB Networks raised some queries with regard to the operation of the scheme, which are addressed in the Commission's decision below.

Background

The Green Paper on Sustainable Energy, 1999, recognized that a key constraint to the development of renewable energy was the ability of the electricity system to accommodate it. In the Green Paper the Government undertook to establish a Renewable Energy Strategy Group ('the Strategy Group') to 'examine all aspects of, and obstacles to, the further deployment of renewable energy technologies'. In its Report "Strategy for Intensifying Wind Energy Deployment" the Strategy Group made the recommendation to use National Development Plan (NDP) funds to overcome the capacity constraints identified in both the Green Paper and its own report. A grid upgrade programme was recommended to alleviate certain impediments that could frustrate the attainment of a Government target under the Green Paper to develop 500MW of new renewable energy generation by 2005. In particular, by addressing difficulties faced by developers in funding the entire capital expenditure of any upgrade forming part of a (potentially shared) connection.

The Steering Group for the Grid Upgrade Development Programme ('the Group') was established by the Minister of State of the then Department of Public Enterprise (Joe Jacob T.D.) in November 2001 'to advise him in relation to identification and selection of grid upgrades for the purposes of implementing the associated recommendation of the Renewable Energy Strategy Group'. The Group comprised representatives from the Department of Communications, Marine and Natural Resources, the Irish Wind Energy Association, Sustainable Energy Ireland and an independent expert. The Group received technical advice from ESB Networks, ESB National Grid and independent technical consultants.

A significant body of work was undertaken to establish areas within which clusters of renewable energy projects had either obtained planning permission or such applications were in progress. The Steering Group, through Sustainable Energy Ireland, contracted with EirGrid to undertake a feasibility study to establish how each cluster could be connected to the grid. In addition, the Steering Group examined issues such as the conditions necessary for proceeding with any cluster, mechanisms

to minimize delay in the event of planning permission for the infrastructure not being granted and charging principles.

The Steering Group concluded the following:

- The grid upgrades should be planned by reference to perceived demand for shared infrastructure;
- Perceived demand should be based on clusters with two or more projects with full planning permission intending to connect to the upgrade;
- The prioritisation of clusters for investment support should operate on a first come first served principle subject to compliance with minimum requirements with a fall back selection criterion in the event of simultaneous applications exceeding the available fund;
- The first come first served principle should apply to any project compliant with the qualifying criteria, at that time;
- Project developers should be charged under reasonable assumptions for the capacity reserved as a proportion of the grid upgrade built.

The Steering Group identified five clusters that had at least two projects with full planning permission in each cluster. Overall, there are 18 projects (totaling 271.66MW) with full planning permission within the five clusters selected for inclusion in the programme. It was anticipated that the fund would be a revolving one (i.e. expenditure on the shared connection assets would be recovered from the connecting parties and be used to fund other connections) and that the Steering Group would continue its work to identify suitable sites for development as funding allowed.

Decision

The Commission, following a review of the comments received determined, in line with its duty under the Electricity Regulation Act ('the Act') to have regard to promoting the use of renewable forms of energy, to support the funding of the programme through TUoS charging. The Commission acknowledges that this proposal leads to preferential access arrangements for a number of renewable applicants. However, the Commission does not believe that this constitutes unfair discrimination.

The Commission's future role with regard to the scheme will involve monitoring expenditure under the programme and observing progress on implementation of selected clusters. The Commission will not have a function with regard to selecting individual clusters that will be progressed under the scheme. The Commission wishes to highlight that any dispute resolution mechanism for this scheme does not in anyway discount the right of any person or party to forward a dispute to the Commission under Section 34 of the Act. With this in mind, Commission oversight of the implementation process will be undertaken from within the Licensing, Consumer and Environmental Affairs Division.

Both ESB National Grid and ESB Networks have raised some queries in their submissions with respect to the operation of the scheme outlined in the Commission's consultation paper. The following addresses the queries raised by both operators with regard to this.

Additions to the Regulated Asset Base (RAB)

The Commission's model of the potential costs of this scheme to the consumer, attached to the consultation paper, makes the assumption (for simplicity) that the EU grant is to be received at the start of each year that the expenditure is incurred¹. The costs of providing the common connection equipment, which are efficiently incurred, will be added to the RAB in the year it is incurred, as is normal practice with other capital expenditure. The RAB will be subsequently reduced upon receipt of capital contributions from developers and EU funding.

The total expenditure under this scheme will not exceed €30,000,000. The Commission understands that the programme would be co-funded by the EU. Consequently, it is possible that the money received from the connecting parties and the EU funding will be greater than the expenditure on the connection equipment. In the most optimistic case, i.e. where all projects in the clusters proceed, then the money received will exceed the expenditure by the amount of the EU funding received. Where the money received does not exceed expenditure then the EU funding will be used to reduce the exposure of the TUoS customer. Where there is a surplus after completion of the five proposed clusters, the Commission understands that the Steering Group proposes to use this surplus to fund further cluster type schemes.

The Commission's understanding is that construction will only begin on a cluster if there is sufficient uncommitted money in the fund to complete the cluster.

Cost Recovery

The Commission believes that recovering the costs, which may arise from this scheme, will be through TUoS charges. The rationale behind levying the costs through TUoS rather than a combination of TUoS and DUoS is that it spreads the cost more evenly and among all end-users. Hence, the expenditure under this scheme will be added to the Transmission System RAB, the costs arising will be recovered in the normal manner.

Tom Reeves
Commission for Energy Regulation
7th April 2003

¹ The exact details with respect to the EU Grants are to be arranged by the Department and ESB Networks.