

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

## **ESB Response to Public Consultation Document**

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ESB.

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## 1.0 Introduction

ESB welcomes the opportunity to contribute to the consultation paper on 'Funding of Grid Upgrade Development Programme for Renewables', dated 30th January 2003. ESB also welcomed the opportunity to partake, in its advisory capacity, on the Steering Group, where Simon Grimes provided his technical expertise.

We are concerned that the Government has moved away from funding such projects through specific grants and instead, opted to have the funding recovered through TUoS. This exposes ESB TAO and DSO to greater uncertainties and financial risks. However, we are satisfied that the Commission has determined that one of the priorities will be to retain the wholeness of ESB's financial position<sup>1</sup>.

ESB has outlined a number of the benefits and concerns that the funding of 'clusters' will have. I hope that you find this useful. For clarity, we have adopted a similar format to that of the Public Consultation Document.

## 2.0 Background

ESB has provided its full support and co-operation to the Department of Communications, Marine and Natural Resources and will continue to do so. We recognise the importance of introducing renewables and meeting the Government's target to develop 500MW of new renewable energy generation by 2005.

ESB welcomes the findings of the Steering Group in relation to the promotion of renewables by the use of defined 'clusters' in strategic areas. These will help reduce the proliferation of infrastructure, exploit economies of scale and improve the likelihood of developers being successful in their planning applications.

The Steering Group's report 'Grid Upgrade Development Programme' will need to be assessed in more detail. The following points are noted from the report.

- It encompasses both Distribution and Transmission upgrades.
- It proposes that payment for 'Phase 1: (Site selection, design and planning application)' be funded even if the project does not proceed. This is not current practice.
- It refers to developers being charged 'under reasonable assumptions'. All charges will be in accordance with connection charge policy and this issue is discussed below in more detail.
- EirGrid have costed clusters on the basis of standard budget costs.

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<sup>1</sup> Refer to Section Proposal, paragraph 1 of the Consultation Document.

### 3.0 Proposal

ESB is generally in favour of the overall proposal, however there are a number of issues which warrant further discussion and these are highlighted in the following sections:

#### 3.1 Implementation

ESB believes the most effective way to implement this proposal is as follows:

- The total cost of installing the 'cluster' is added to the Regulated Asset Base (RAB).
- The RAB is reduced upon receipt of:
  - (i) Capital Contributions from developers and/or
  - (ii) EU Funding.
- ESB Networks expenditure will not exceed the proposed €30 million allocation.
- In the event that renewable generators do not materialise as anticipated, legitimately incurred expenditure is not subsequently disallowed by CER and written off the RAB.
- EU Grants are transferred directly to ESB Networks (the party incurring the capital expenditure) and not Eirgrid as specified in the Pessimistic Model, Table 2 of the consultation document.
- Recovery of all costs including any discrepancy between EU funding projected and that ultimately received. Differences may arise due to EU cost eligibility criteria, timing of grant payments and in the event of planning difficulties potential loss of funding under the EU N+2 rule.

#### 3.2 Charging Policy

The following are a number of queries relating to the proposed charging policy:

- It is assumed that the proposed change to the existing transmission charging policy relates only to shared connection assets to a predefined 'shared connection point'. Consequently it is assumed that the existing charging policy will continue to apply to the renewable applicant for the infrastructure downstream of the 'shared connection point'.
- The existing distribution connection charge policy will apply, e.g. the developer pays 100% of the shallow connection.
- The basis to allocate capacity (economic, thermal or other methodology) needs to be agreed along with a procedure to handle shared costs.

- The proposal for allocation of capacity should address the treatment of losses.
- There is presently the risk of first mover advantage. The marginal cost of using the existing spare capacity is minimal therefore there is a greater incentive to do this than locate elsewhere, thus restricting the number of new renewable plants that could be established.
- There is also the risk of first mover disadvantage. By having a situation where the costs of connection could be shared in a defined cluster would reduce the initial funding risk that would arise if the first entrant had to pay for the entire connection, along which a subsequent applicant could be allocated spare capacity at a lower funding risk.
- The existing refund policy will continue to apply to the renewable applicant for the infrastructure downstream of the 'shared connection point'.

### 3.3 Funding Mechanism

A detailed procedure is required to cater for the administration of this funding mechanism. Issues to be addressed include:

- Who will be responsible for awarding the grants? The proposed criteria to prioritise and choose the clusters for funding will need to be discussed in greater detail.
- Mechanisms will be required to avoid the potential of 'hoarding' capacity by renewable applicants. Hoarding is undesirable from both an access and from a funding perspective. The Steering group's deliberations are based on MW output specified by future applicants.
- ESB's right to use under-utilised capacity to defer investments that would otherwise be required.
- Recovery of implementation costs.
- An agreed Dispute Mechanism for all parties.

## 4.0 Implications

ESB has a number of concerns relating to the financial implications provided in the consultation document:

- In order to quantify the potential tariff increase required in the two scenarios detailed in the Consultation Paper, it would be

useful if CER could provide the model used to generate the figures included in Tables 1 and 2 concerning customer costs.

- The provision of the model and the underlying assumptions would also allow verification of the other columns included in Tables 1 and 2.

Other implications include:

- An impact assessment report of these proposals on the Distribution System and its customers is required.
- In order to treat all customers in an equitable manner, it is vital that the resultant TUoS Tariff increase is imposed on all suppliers and generators, so the cost is spread over all end-users.
- clarification of the definition of Renewables - does the term include onshore and offshore developments? What forms of renewables will be covered under this scheme? Is there any size limit on each renewable?
- It may lead to pressures from other interest groups for similar preferential treatment. It is important that ESB is not perceived to be unfairly discriminating between users or classes of users. This proposal will lead to preferential access arrangements for these renewable applicants over other applicants.

## 5.0 Conclusion

There are a number of benefits associated with the proposed scheme which should promote the greater development of renewable sources of energy. The development of defined 'clusters' of renewables in strategic areas should be more economic and help to reduce the proliferation of electricity infrastructure necessary to support them. This response sets out ESB's approach to implementing the proposal. It is quite a complex area and ESB believes that there is a significant number of detailed elements which need to be further developed prior to such a scheme being implemented. We would welcome the opportunity to engage in discussions with CER on these issues.