

25th February 2005

David Naughton
Commission for Energy Regulation
Plaza House,
Belgard Road
Tallaght,
Co. Dublin

ESBNG response to CER's Proposed Direction to System Operators on Group Processing Approach for Renewable Generator Connection Applications

Dear David,

On 14th February 2005 CER published a proposed direction to the System Operators on Connection and Pricing Provisions for Group Processing Approach for Renewable Generator Connection Applications. ESB National Grid broadly welcomes the proposed direction but would like to make the following comments:

- Section 4.2 refers to connection agreement backstop dates. ESBNG's standard connection agreement includes three "longstop" dates. The effect of a "longstop" date is that if certain milestones have not been met prior to its occurrence, the agreement may be terminated. From previous discussions involving the CER and the DSO, ESBNG is lead to believe that the DSO is planning to review its standard connection agreement with a view to aligning it with the TSO connection agreement from a "longstop" dates perspective. The TSO does not anticipate having to amend the transmission connection agreement.
- Section 4.7 states "*The Commission understands that, while the results of such studies are unlikely to affect an applicant's shallow connection date, they could potentially lead to unanticipated network reinforcement works being required to meet the applicant's deep connection date...*". This suggests that wind farms will be allowed to connect upon the completion of the shallow connection prior to the completion of the deep reinforcement works. However, the CER also recently advised ESBNG that (by virtue of the fact that it is unlikely that wind farms can comply with the rules set out in page 3 of the Direction) the Firm/Non-Firm Direction of September 2001 (CER/01/111) does not apply to wind farms, which could be interpreted as suggesting that wind farms would not be connected prior to the completion of the shallow works and deep reinforcement works, as this is the existing policy for all generation for which the Direction does not apply.

- Section 4.8, in referring to historic GUDP charging policy, states

*Under the GUDP for Renewables the LCTA principle applies to the method of connection for the Dedicated Connection Asset. **The Shared Connection Asset must also be based on the LCTA principle of connection, taking into account all applicants within a Subgroup.***

This does not align with our understanding of GUDP. The concept of LCTA was not inherent for the shared asset in GUDP as the shared connection was based on being the ‘right’ or ‘optimal’ connection. The actual decision criterion was stated as follows (ref: Grid Upgrade Development Programme: Implementation Guidelines for Generators):

TSO/DSO, in accordance with their respective licences, will decide upon the connection method and final location of the Network Station.

Similarly, as outlined in the TSO/DSO Joint Proposal of 5 October 2004, the TSO and DSO proposed a charging methodology under the Group Processing Approach which consisted of charging generators the LCTA connection cost for the Dedicated Connection Asset required to connect the user as well as the appropriate percentage of ‘Actual Build’¹ costs for the required Shared Connection Assets. Again, the shared connection design was expected to be based on the TSO’s and DSO’s technical judgement on what was the ‘right’ or ‘optimal’ connection in accordance with their respective licences. This may not, in every case, correspond with the LCTA ‘shared connection’ as CER has defined it below.

“In relation to point 1 above the overall “connection method” shall be in line with the Least Cost Technically Acceptable (LCTA) principle, taking into account all applicants within a Group/Subgroup.”

Further, this runs somewhat contrary to one of the central aims of Group Processing approach which is ensure efficient system development.

The second point relates to the probability factor to apply for Gate 2. ESBNG is of the opinion that it would be far more prudent to allow Gate 1 to run its course before setting the Gate 2 probability factor. If a probability factor of 1 is set now for Gate 2, which is clearly the most optimistic assumption, then the TUoS customer is being exposed to an unnecessary risk. This runs contrary to CER’s own guiding criterion *to minimise the risk to the end-user TUoS and DUoS tariffs.*

The €10,000/MW Capacity Bond is not designed to mitigate any stranded shallow costs. The bond is designed to prevent hoarding of system capacity and is intended to go some way (not entirely) towards the stranded deep reinforcements costs required

¹ We use the term ‘Actual Build’ to refer to the shared connection assets that are used to connect a user or group of users. In some circumstances the TSO may deem that a connection method other than the least cost method is more appropriate therefore the cost of the ‘Actual Build’ in some cases may be higher than the cost of the LCTA connection.

for connections of parties to the system. It is ESBNG's opinion that the actual cost/MW of shared transmission shallow connection costs for Gate 1 will all be in excess of the €10,000/MW figure and in some cases will be substantially in excess of it.

For your information, there is, if anything, an additional stranded cost risk that arises under Group Processing that does not arise for standard connections. Under Group Processing the system operator(s) may be required to progress a shared shallow connection in the event of one, or more, of the connecting parties failing to progress thereby increasing the risk of under-recovery.

In relation to GUDP money, ESBNG is aware that the DSO has submitted a proposal to CER that GUDP money be used to finance the difference in cost between the LCTA connection and the 'Optimal' connection for Shared Connection Assets, which would mean that the generators would be liable to pay only LCTA shared connection asset costs. Broadly we are in support of this idea and we shall issue our proposals for the expenditure of GUDP funds to CER in a separate document. Another possible use of it is to 'allow' a probability factor of 1 to be used, as CER has proposed, with the resulting 'un-recovered' connection costs recovered through GUDP funding.

ESBNG is of the opinion that whatever charging policy is decided upon, it must afford adequate protection to the TUoS customer. Accordingly, if GUDP is not available to underwrite the 'Actual Build' shared connection costs the connecting generators should.

- Section 4.9 appears to suggest that under Group Processing parties connecting to the distribution system could build the shared transmission asset on a contestable basis. It is ESBNG's legal opinion that no statutory provisions exist for contestability in relation to distribution connected parties and therefore we are presuming that this is not the intended case and respectfully suggest that the section be re-worded to avoid any confusion. The following are some issues which need to be considered in relation to contestability.
 - (a) Can the unanimous voting process involve distribution applicants? If it can not then this could lead to disquiet amongst those distribution applicants who are affected by the shared transmission connection but who have not had a say in who builds it.
 - (b) In order to ensure offers issue on time the TSO requires that the respective applicants unanimously nominate their decision within 3 weeks of the connection method being formally indicated to them. Please note that ESBNG is meeting the Gate 1 transmission applicants next week to formally advise them of their respective connection methods. We are unaware of the situation with regard to DSO generator applications.
 - (b) The confidentiality of parties within ESBNG's Offer Process is ordinarily maintained. Under this proposal all transmission applicants (and possibly the distribution applicants) within the Sub-group will know each other's identity.

ESBNG has no particular concern with this, however, it is something which we respectfully suggest needs to be explicitly addressed.

- (c) What happens if the nominated applicant does not accept its offer - does the shared transmission asset be built (i) contestably by another transmission party, again nominated by the respective parties, requiring an amendment to that party's executed connection agreement or (ii) uncontestably (by ESB).
- (d) In the context of the shared transmission connection asset the charging regime for recovering the associated cost from the non-contesting applicants and the payment of this to the contesting applicant needs to be considered carefully.

For the avoidance of doubt, if there is only one transmission applicant the need to nominate is unnecessary as their connection offer will include two connection options i.e. fully² contestable and fully non-contestable, unless the applicant chooses one of the options prior to their offer issuing. They may also choose to contest to a defined interface in accordance with the published ESBNG Connection Offer Process.

Yours sincerely,

Simon Grimes
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ESB National Grid

² 'Fully' refers to both the shared and dedicated transmission shallow connection assets