

Dave Naughton
Commission for Energy Regulation

25th February 2005

Re: GPA – Connection Pricing Provisions

Dave,

As agreed with CER, to endeavour to issue the connection offers in accordance with CER Direction of 23rd December, DSO has applied the standard charging method and the charging formulae to the Gate 1 applicants. As this point DSO's first 2 offers have already issued

As outlined in our previous letter of 12th February, DSO remains concerned regarding the decision under Section 4.8 relating to the Distribution Payment Schedule. As this directly impacts on the Distribution users I am copying my response to Tim and Keelin for their consideration. To reiterate, the three key areas of concern are:

1. Protection of the DUoS End-User

DSO's concerns relating to the exposure of the DUoS End-User to cater for the provision of connections of windfarms is well documented to-date.

It is DSO's understanding that the Capacity Bond was introduced as a means of maximising the MW actually exported by adopting the 'use it or lose it' approach to the MEC. This is further supported by the continued application of TSO's Connection Charges Bond in conjunction with the Capacity Bond. In addition the size of such a bond would not typically cover the cost of a shared connection asset

DSO appreciates the concerns of the smaller windfarms. However we remain concerned that by adopting a payment schedule, designed to accommodate the smaller generators while benefiting the larger generators, it continues to put the DUoS end-user at risk. In addition, both System Operators will endeavour to minimise the time period between Acceptance of Offer and the Construction stage and therefore viable windfarms should, in theory, have adequate financial backing at the Acceptance of Offer stage. Those that do not are more prone to drop out, thereby incurring a financial burden on the DUoS customer in the event that the cost of the shared asset has not been collected.

2. Connection Charges Bond

DSO is aware that the TSO will continue to apply their Connection Charges Bond. The protection of the DUoS End User is of paramount importance to DSO and therefore DSO's preference would be for collection of the 100% shared connection asset at acceptance of offer stage.

However, in the event that CER's final decision retains the current schedule, DSO requests that a DSO Connection Charges Bond is introduced for similar reasons as the TSO's connection charges bond¹. DSO would argue that the provision of a Bond for smaller windfarms is more of a financial burden, due to the requirements of the financial institutions, than providing the proposed payment.

3. Provision of a timely connection

As outlined in DSO's letter to CER earlier today, DSO's proposed payment schedule will expedite the connection of the subgroup as receipt of these monies at the acceptance of offer stage will enable DSO to progress the job through to construction. The current payment schedule does not support this process as DSO will need to wait for the 50% payments from all applicants before including the project on its work schedule and start the construction stage. Such a process will inevitably lead to delays in the connection of the overall subgroup.

In summary, on the basis of the above concerns, DSO requests CER to reconsider their proposal in relation to the Distribution Payment Schedule under section 4.8.²

Also in section 4.8, there is a reference to the shared connection asset being based on the Least Cost Technically Acceptable solution, taking into account all applicants within a sub-group. As previously pointed out, taking this approach in respect of Gate 1 applicants would result in sub-optimal development. DSO need a direction therefore on whether, in these cases

- We should build the sub-optimal connection, thereby potentially minimising the amount of generation which can be connected in the future, and indeed compromising system development
- We should build the optimal connection and charge this to the generators in Gate 1. The generators would then be refunded as additional generators connect.

¹ Please note that the implementation of this bond for DSO will add to the administrative burden due to the higher number of DSO applications - this will need to be incorporated into the Application Fees currently being finalised

² As neither of the offers issued to date have any shared element, a decision of this will not affect these offers

Finally in relation to the proposed charging formula, and in particular the probability factor, as stated in the Joint Proposal (5th October), the probability factor is aimed at minimising the cost liability if a committed project fails to proceed after offer acceptance. In the event that the Commission's final decision retains the current payment schedule, increasing the probability factor would minimise the risk to the end-user.

If you have any queries please do not hesitate to contact me

Regards
Fiona O'Donnell
Regulatory Relations