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FOR PUBLICATION

Attention: David Naughton

Submission to CER

in response to consultation

**"Group Processing Approach for Renewable Generator Connection
Applications - Connection and Pricing Provisions
Proposed direction to System Operators"**

14 February 2005, CER/05/010

25th February 2005/final/gch/tc

Further to submissions of Oct. 25th and Nov. 29th 2004 and Feb 9th, in response to your consultations on the connection system.

There is a growing consensus in the wind industry that there are many problems in the Grouping Process presently underway, and that there are fundamental policy problems underlying these issues that need to be addressed. Meitheal Na Gaoithe has stated its position in very clear terms over the last year or more, especially as regards the major changes required in grid policy. We are now at a point where there is little or no dissent within the industry on the serious changes that are needed if we are to move forward, and secure Ireland's energy future.

We are encouraged to see that CER has taken heed of some of the industry's major concerns, as reflected in the present consultation. The connection payment schedule for shared network assets in particular is an ongoing problem that has been obvious for some time. As we said at the time, had the TSO/DSO

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proposal been adopted by CER, we are aware of quite a number of projects that would simply have been cancelled. We are glad to see that these projects have been brought back from the brink, but there remain issues within the present Proposed Direction that could impose similar risks.

In broad terms, we see a need for developers to have certainty on cost and programme, and neither is present under the proposed scheme. To circumvent the cost obstacles, we need contestability on all assets and, crucially, full functional design review. To give certainty of programme, we will argue that CER needs to allow ESBNG to move to a strategic grid policy for all generation, not just for peaking plant, as is currently the case.

We are aware that IWEA in particular has gone into considerable detail on many of these issues, and we will outline the Meitheal na Gaoithe concerns, especially those affecting smaller projects, as part of demonstrating the emerging consensus.

1. Contestability in the Distribution System in the interim

The most recent demonstration of dubious pricing practices by ESB units was the so-called Standard Pricing Approach, the subject of the previous consultation. "Standard Pricing Approach for Generators" cer05/004. The fact that the costs are so far out of line, and not based on published specifications, only serves to highlight the fact that the whole connection process needs to be subject to either full contestability or full review. The difficulty with contestability is that it doesn't in any way address the underlying issue - the anomaly that developers pay for network that is priced and built by the ultimate operators and owners. If the current situation highlights nothing else, it makes it very clear that this has to end. Meitheal na Gaoithe therefore views contestability as an interim measure, to be implemented to the fullest extent possible while connection policy is itself reviewed. It will be essential to projects with time-limited PPAs that they have the option to proceed and build assets themselves subject to agreed standards.

2. Programme and cost review

Even contestability will not address all current issues. It would not for instance help with functional design, which is carried out, again, by the grid operators and owners, and then effectively imposed on developers, regardless of the cost and timing implications. For example, there are areas where overhead line connections will not be practical from a planning viewpoint and developers have identified these must go underground. Furthermore, developers are faced with limited information on specification, programme, cost and cash-flow. Before any progress can be made, this must change. Developers must be presented with detailed information, and much earlier in the process. Clearly there is also a design review stage required in the process, where these aspects can be examined, questioned, revised and agreed. That review should also leave open the possibility for developers to question the Grouping arrangement, and whether the project or the connection is transmission or distribution connected. After that, and in possession of adequate detailed design information, developers can develop their own contestable assets, or where, for some reason, that is not

possible, they would have the right to review the full programme, costs and cash flow.

3. Payment schedule

The purpose behind the payment schedule would seem to be twofold - to ensure that (so long as developers must pay), costs incurred are paid, and also that the network is not 'out of pocket'. The excessive up-front payments are clearly aimed at addressing the first point. They could not be to address the second, since in reality most of the cost is incurred towards the end of constructing a connection. The mention of an additional connection costs bond, which the CER has put out for discussion, is probably the single greatest threat in the proposal. There are excessive agreements, conditions and capacity bonds in place already, to ensure payment for any costs incurred. There is no way that any community based or SME project-financed development could raise such a bond, as it effectively amounts to cash payment up front, before financial close is reached. We cannot emphasize enough - this proposal if implemented will terminate most if not all wind projects in the Distribution system and would amount to a direct attack on community based developments. There is no reason why the payment schedule should put the network operator into positive cash flow, as this raises the cost of projects for no good reason.

4. Constraining off

Although CER rejected TSO's requirement that offers await the completion of the general dynamic modelling, we see this issue arriving by the back-door. Offers are to be conditional, and projects face open ended risks of delay or constraining as a result clearly creating further barriers to development.

The TSO was very late in catching up with its own analysis of this problem, and now we face the risk of un-financeable projects as a result. We must simply reject this serious conditionality, unless we are to be compensated for lost output. The proposal amounts to granting of involuntary non-firm access, that we believe would be too difficult for small projects to handle.

5. Application Fees

Meitheal na Gaoithe strongly reject the imposition of application fees as they are a serious barrier to small scale community based projects and seriously discriminate against SME developers. These fees arise again in the proposal, though they do not seem to be reviewed. We have made the point previously that the current fee schedule grossly discriminates against small projects, and yet the fee schedule proposed by the TSO/DSO seems to have been de facto accepted. We have already noted a fall off in development of small projects, and can state categorically that the fee issue is a major reason, on top of other difficulties. We have proposed a fee schedule related to project size, and we again suggest that CER review this, rather than creating a situation that will eliminate small scale community projects.

6. Project Size.

We note that there is a proposed cut-off for the Grouping Scheme of 0.5MW. This is different from the Distribution Code cut-off of 5MW. Consequently, we would suggest that non-contiguous projects between these two levels be given every chance to connect without Grouping. They are small, invariably 10 or 20kV T-connected, with little or no impact on the system, and it makes no sense whatsoever to link them with other larger projects, where they would have costs imposed on them for which they have no responsibility at all. Increasing the barriers to community and SME developers will cause considerable difficulties in the future planning and development of grid connections because of the exclusion of rural stakeholders from renewable energy development. It is now clear the anti development lobby are gaining support from rural communities that feel excluded from the development of renewable energy. Community scale and SME developments were encouraged under various government schemes and this sector is being undermined by these grid proposals. Small scale wind and biomass systems in particular should be encouraged and not discouraged by onerous application processes and high costs.

7. Grid policy.

As outlined previously, two of the main issues are: serious grid inadequacy, and attempting to recover connection and reinforcement costs from generators within a very short timescale (this was not the case historically with ESB). As pointed out a number of times already, these issues arise due to inappropriate network development and charging policies.

CER has argued that it is cheaper for the final consumer for the network to seek to recover all costs associated with connection from the generators. This is patently wrong for two major reasons:

1. Piling all connection related costs on new generation raises the cost of entry and thus raises the cost of power from the new entrants. If the network were to pay for these services and assets, they could recover the cost over a much longer period, thus reducing the annual cost to consumers as against that which the generator must charge for the same thing. Due to competitive forces, power from the generators would be cheaper by more than the increased cost of the TuOS.

2. Making generators pay all costs, and finance them up front, acts as a 'barrier to entry', and reduces competitive forces in the market. This absence of competition is a hidden cost to the consumer. In the absence of competition, prices have risen so much in recent years, with CER approval, that CER is now obliged to review ESB profits. This is the real cost to consumers.

Grid development policies operate today on a 'marginal' basis, leaving no spare transmission capacity, thus limiting competition, and also imposing cost and delays on generators. ESBNG itself agrees that a strategic approach to grid planning would be more effective, but this requires CER to allow recovery of the attendant costs through transmission charges. What Meitheal na Gaoithe finds troubling is that such an approach has already been adopted for the recent development of fossil-based peaking plant. ESBNG clearly has the methodology

and CER approves of the cost recovery, through the PSO, based on security of supply policy. We fail to see why such plant is facilitated in this way, while CER allows every possible obstacle to be put in the way of renewable energy, and wind in particular. We call on CER to end what is yet another discrimination against renewables.

Meitheal na Gaoithe calls again for a review of connection charging policy and grid development policy. A reasonable examination of the facts would establish that the Meitheal na Gaoithe proposals would reduce costs and support competition.

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