

IWEA response to the consultation on 2011 to 2015 distribution revenue for ESB Networks Ltd.

13th August 2010

IWEA welcomes the opportunity to comment on the Consultation on 2011 to 2015 distribution revenue for ESB Networks Ltd and have a number of comments outlined below.

- With the increasing amount of wind generation coming on the system in the coming years, there will be many generators connecting to the distribution network. While the cost of connection is covered by generators it is essential that there are sufficient resources available in ESB Networks to cope with the increasing workload. The revenue review needs to take this workload into consideration when determining the revenue for 2011 to 2015.

It is essential that there are incentives in place to ensure that the resources available are used efficiently, and that potential delays are minimized through the use of meaningful incentives. These incentives should be closely related to actual business lost so that developers can have some confidence in relation to build out rates and connection dates.

IWEA welcome the proposal by ESNB in section 9.5 in relation to a new mechanism to incentivise the connection of renewable generation to the network. We agree that connecting a higher capacity of renewable generation to the network ahead of schedule brings benefits to the connecting parties, the environment and to the general customer, and it is therefore appropriate to introduce an incentive mechanism in this area.

In advance of ESNB designing these incentives it is our intention to propose to both CER and ESNB and key areas to be addressed and specific mechanisms which could aid in delivery of this goal.

- IWEA welcomes the provision of revenue for smart metering. It is important that there is sufficient revenue to ensure that smart metering can be rolled out in an efficient manner. Smart metering will allow increased demand side management of electricity use and increased penetration of wind generation on the electricity system.
- IWEA is concerned over the cost of connections and potential over-recovery.

In relation to operating expenditure, in the SKM report it states that “The DSO has also identified €15m additional revenue from commercial activities”. IWEA would like clarification on what these commercial activities are and where the grid connection offer processing fees are accounted for.

IWEA note SKM’s concern in section 3.3.2 of CER10103a regarding the Services Provided from ESB Corporate and Other ESB Entities to the DSO. 22% of DSO operating costs derive from other parts of ESB Group, including ESB Corporate, Supply Call Centre, ESB ITS, ESB Telecoms and ESBI.

SKM state “benchmarking of these services indicates reasonable day rates but longer times to deliver services” and conclude that “commercial day rates do not appear to be appropriate for enduring contracts for services that could equally be provided in-house with no added margin”.

IWEA recognise that the DSO has made economies in its own costs during PR2; however as stated by SKM “there is no evidence of the same level of efficiency improvement in these internal services”. With the advent of distribution contestability, and in light of the concerns raised here, IWEA would request that any reduction in costs due to efficiency improvement or change in the manner of provision of these services would be reflected in generator charging and DSO contestability oversight charging.

In relation to capital expenditure the SKM report CER10103b states that between 2006-2010 (PR2 term) there was €63.1m spent on generator connections and €70.8m of generator contributions received, resulting in a 12% over recovery. The report says that “Allowed costs for Generation connections have been adjusted to outturn since they are regulated outside the price review process. This over-recovery is partly due to the phasing of contributions and expenditure and the use of standard costs to calculate contributions, which in individual cases may give rise to over-recovery.”

SKM have recommended acceptance of the DSO forecast of gross generation connection costs of €162.5m, however they state that these are based on forecasts for Gate 2 and Gate 3 generation connections at standard prices which are regulated outside the scope of this PR3 price review.

IWEA has always argued that standard pricing was too high and in light of these figures our concerns would seem to be appropriate. It has been indicated that ESB win and lose on standard

pricing and that there is both over recovery and under recovery on projects with standard pricing applied. If this was the case we would not expect such high levels of over-recovery in a given year. IWEA requests that this pricing policy be reviewed.

- We note a statement from section 5.1 of CER10103b saying that “New generation connections are fully paid for by the connecting party, and therefore no Capex is incurred by ESNB. However some assets relating to generation connection may ultimately be added to the RAB”. IWEA would like further clarification on the reasons for this, the mechanism by which it would occur, and the value of generator provided assets which are expected to be added to the RAB over the period of this review.

IWEA also request a breakdown from the DSO as to the amount and value of the equipment that has been provided by the generators and added to the RAB for the previous 10years.

Taking the year 2011 as an example there is expected to be a Capex of 7.5m for generator connections (shown as a negative 7.5m on the Capex calc). This is funded fully by the generator (shown as a positive amount in the Capex model). This means that it does not appear on the RAB. Does this mean that there is 7.5million euros worth of equipment which once transferred from the generators will be effectively owned by the DAO at a nominal €1 value for each transaction? Where is the real value of these assets accounted for?

IWEA believes that the actual valuation and the separate balance sheet treatment of these assets, on a cumulative year by year basis, should be clear and transparent and would request that this should be part of the standard published dataset.

In conclusion, IWEA would like to thank the CER for the opportunity to respond to this consultation. We would be delighted to meet to discuss or develop any of the points raised above.