



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Consultation on Financing of the SO Preferred Connection Method in Contestable Builds

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**Abstract:**

When the connection method specified by the System Operator results in costs greater than the Least Cost Chargeable (LCC) or Least Cost Technically Acceptable (LCTA) Connection method, and such a connection is being built contestably, these extra costs may result in an additional financing burden on the Independent Power Producer (IPP).

The accompanying paper from the System Operators sets out their proposals to address financing issues faced by IPPs when choosing the “Contestable Build” option, such as the higher level of borrowing required and the financing cost for the extra capital raised.

This consultation paper seeks comments on the System Operators’ proposal which has been published alongside this consultation paper.

**Target Audience:**

This consultation paper is for the attention of members of the public, the energy industry, customers and all interested parties. It will be of particular interest to project developers that are engaged-in or considering the development of contestable builds where the connection method preferred by the System Operator is more extensive or of higher specification - and hence of greater cost - than the Least Cost Technically Acceptable (LCTA) or Least Cost Chargeable (LCC) method.

**Related Documents:**

The SOs’ proposal is entitled “*Contestable Builds and Financing of SO Preferred Connection Method*” and is published alongside this introductory paper from CER.

Other related documents include:

- [CER/10/085\(g\)](#): Joint TSO and DSO Group Processing Approach - Charging and Rebating Principles
- [CER/10/056](#): Contestability for Distribution & Transmission Level Connections to the Electricity System

Responses are requested as detailed in Section 1.4 of this paper

## **1.0 Introduction**

### **1.1 *The Commission for Energy Regulation***

The Commission for Energy Regulation ('the CER') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sector's. The CER was initially established and granted regulatory powers over the electricity market under the Electricity Regulation Act, 1999. The enactment of the Gas (Interim) (Regulation) Act, 2002 expanded the Commission's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the CER additional powers in relation to gas and electricity safety. The Electricity Regulation Amendment (SEM) Act 2007 outlined the CER's functions in relation to the Single Electricity Market (SEM) for the island of Ireland. This market is regulated by the CER and the Northern Ireland Authority for Utility Regulation (NIAUR). The CER is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

### **1.2 *Purpose of this paper***

ESB Networks and EirGrid – as DSO, DAO, TAO and TSO - have recently submitted to CER a proposal<sup>1</sup> for the approval of arrangements to address the additional financial burden (in excess of the Least Cost Technically Acceptable (LCTA) or Least Cost Chargeable (LCC) costs attributable to the project) borne by developers undertaking a contestable build of a System Operator preferred connection method.

This consultation paper requests comments from stakeholders on the proposal which has been published alongside this consultation paper.

### **1.3 *Background Information***

When the connection method specified by the System Operator results in costs greater than the Least Cost Chargeable (LCC) or Least Cost Technically Acceptable (LCTA) Connection method, those extra costs may result in an additional financing burden on the Independent Power Producer (IPP) undertaking a contestable build.

The accompanying paper sets out proposals from ESB Networks and EirGrid to address financing issues faced by IPPs when choosing the "Contestable Build"

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<sup>1</sup> The proposal is entitled "*Contestable Builds and Financing of SO Preferred Connection Method*" and is published alongside this introductory paper from CER.

option, such as the higher level of borrowing required and the financing cost for the extra capital raised.

#### **1.4 Responding to this consultation**

Responses should be received by 5 p.m. on Friday 11<sup>th</sup> March 2011 and should be sent to:

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Unless marked confidential, all responses will be published by placing them on the CER's website at the following address: [www.cer.ie](http://www.cer.ie). Respondents may request that their response is kept confidential. The CER shall respect this request, subject to any obligations to disclose information. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality.

Respondents who wish to seek clarification on any aspect of the proposal prior to responding to this consultation should contact Fiona O' Donnell ([Fiona.ODonnell@esb.ie](mailto:Fiona.ODonnell@esb.ie)) at ESB Networks or Enda Feeley ([enda.feeley@eirgrid.com](mailto:enda.feeley@eirgrid.com)) at EirGrid.

Thereafter, responses to this consultation should be forwarded to the CER as detailed above.

## **2.0 Next steps**

The CER welcomes comments from respondents on the proposals from ESB Networks and EirGrid as are published alongside this introductory paper from CER. In addition the CER also welcomes the views of stakeholders as to any timelines/ milestones which might be applied to the recovery mechanism and any other proposed mechanism for the recovery of IPPs' costs as pertain to this

issue. All proposals will be considered prior to the CER finalising its position on this matter.

The deadline for receipt of comments is by 5 p.m. on Friday 11<sup>th</sup> March 2011. The CER will then consider the comments received on foot of this consultation. The responses will inform CER's decision on this matter and whether any amendment to the proposal from the System Operators is warranted.

Following the CER's decision the CER will publish the approved measures to address financing issues faced IPPs when choosing the "Contestable Build" option.