



John Lynch
Electricity Transmission
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24

11th March 2011

Re: CER/11/027 Consultation on Financing of the SO Preferred Connection Method
in Contestable Builds

Dear Sir,

ESB Wind Development (ESBWD) welcomes the opportunity to respond to this consultation. We are pleased that the issue regarding financing of System Operator (SO) preferred method contestable builds is being addressed. The current rules regarding contestable builds means that developers are left with considerable additional financial burden should they elect to build on a contestable basis. This situation would effectively act as a disincentive for developers to choose the contestable option.

Ideally the financing required for connection works of contestable builds which are greater in cost than the Least Cost Chargeable (LCC) or Least Cost Technically Acceptable (LCTA) methods, would be borne by the SOs, as they are for non-contestable works. The borrowing and financing associated with this additional cost would be undertaken by the SOs, and the developer building on a contestable basis would receive payments from the SOs as the costs were incurred by him, making him completely financially neutral to the fact that the contestable build is a non LCC/LCTA connection method.

However, we recognise the requirement to protect the end-user from any additional risks, as identified in the consultation, in the situation where a developer builds a non LCC/LCTA connection on a contestable basis. Whatever solution is put in place by the CER should balance the protection of end-user and the need to adequately redress developers for the costs of delivering the additional infrastructure in excess of the LCTA/LCC where the build is undertaken contestably.

The paragraphs below give comments on the proposed solutions and implementation of these.

Requirement to raise additional finance:

Option 2 (with stage payments) would be the preferred solution from a developer's point of view. However, as discussed above, we recognise the requirement of the SOs to protect end-users against the risks highlighted in the consultation under Option 2. ESBWD therefore consider that the proposed solution, whereby the SOs would provide a written undertaking regarding their contractual position to pay the additional monies, is reasonable.

Furthermore, where upfront or stage payments to the developer are not provided for, then it is necessary that the developer is also reimbursed for the costs of financing the non LCTA/LCC infrastructure. This is discussed in the next section.

Cost of Finance: Both Option 1 and 2 presented by the SOs appear to be by in large based on the same principle, i.e. that the developer receives the equivalent saving to the end-user which occurs as a result of the time delay associated with the addition of the assets to the RAB when they are contestably built. While the monies received by the developer in this way may assist in contributing to the additional financing costs which have been incurred, there is no guarantee that the developer will not be left out of pocket, since the methodologies used in calculating the payment to the developer do not in any way try to calculate what the actual additional financing cost to the developer is.

ESBWD consider that the payments to developers must accurately reflect the additional financing costs which they will incur. As currently proposed under both options developers will be disincentivised from electing to build on a contestable basis in cases where the SO preferred connection method is not the LCC/LCTA, because of the additional financing cost they will face and the fact that the compensation they will receive for this may be inadequate.

Implementation of proposed solutions: The consultation proposes a threshold limit on the additional capital cost below which no payments would be awarded to developers. We consider that the inclusion of such a threshold is unfair on developers who will have to carry this cost themselves. It is unreasonable to make developers liable for these additional costs on the basis that the costs below this threshold are not material enough to justify or warrant the effort associated with calculating or administering them. Monies owed by developers to the SOs are not dismissed on the same basis. A system and methodology for managing this process will need to be put in place by the SOs in any case.

In conclusion, we recognise the requirement of the SOs to protect end-users and consider this to be a reasonable objective. However, the right of developers to fair treatment must also be balanced.

If you have any questions on any of the matters raised please do not hesitate to contact me.

Yours sincerely,



Áine Dorran
ESB Wind Development

By email