Response to

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

14 March 2011

On the requirement to raise additional finance

Of the two approaches presented in the consultation to address the requirement to raise additional finance, **SSE Renewables would recommend the second one – staged payments to the IPP**. As noted this approach "would remove to a large extent the requirement to raise additional finance, and reduce the financing requirements to the cost of carrying the finance for portions, rather than the entirety, of the project build". We believe this is crucial given the prevailing financial environment, particularly given the confirmation that "[t]he UoS customer would be no worse off". Again given the options for determining the carrying cost of finance, discussed later in this response, which may not relate to actual costs incurred, it is of utmost importance where possible to avoid incurring these costs in the first instance and where not, to minimise them. Otherwise the discrepancies in reconciling reimbursements of the costs to the actual costs may lead to unnecessary harm to project developers.

Regarding concerns about "increased complexity of contractual arrangements *which may not be realistically viable*", we would point out that in this case the increase in complexity of contractual arrangements would arise in counterbalance to eliminating/minimising the complexity in reconciliations of costs of finance under the alternative approach. Hence the charge of complexity is spurious. Again, the argument that such complexity 'may not be realistically viable' is really woolly and unsubstantiated; are the authors of the consultation positing that staged payments are not realistically viable or have never been used elsewhere, not even within the Irish electricity sector?

The attitude of the authors shows through in the statement that "[i]t must be recognised that the IPP is being facilitated with the option to contest the connections and, in any event, always has recourse to a non contested connection under regulated rates"; in other words, the IPP is being done a favour. This is regrettable patronising language and strongly rankles. The IPP as a stakeholder in the process has equally legitimate rights and expectations. And perhaps what is good for the IPP may even be ultimately good for the UoS customer: if payments to IPPs are staged, hence avoiding interest charges, as well as other unidentified bank fees, the UoS does not have to recompense costs that do not arise.

However, were the Commission to adopt the EirGrid/ESBN recommendation for option 1, we would strongly request that it is achieved through the introduction of additional clauses in the Connection Agreement, together with associated conditions that may apply, such as outlining strict timelines for reimbursements, penalties for late reimbursements, as well as dispute resolution mechanism.

On the cost of finance

Were the option of staging payments to be adopted, then the corollary approach for addressing any carrying costs would obviously be related. However, irrespective of the option adopted for dealing with the requirement to raise additional finance, **it would be our preference that**

finance costs are dealt with on actual basis, i.e. by submission of contract tenders, rather than through a deterministic method. Not only is this simple and transparent, we would anticipate it to be relatively 'admin lite'.

On threshold to apply to additional capital costs

Finally, on the threshold recommendations for reimbursements, adopting a staged payments approach, which reduces the costs and complexity of the overall process, would minimise the administrative and oversight requirement which are alluded to in support of the €1m or 25% capital requirement threshold. Given this it should be practical to implement a reduced threshold, perhaps as low as €50k or 2.5% of capital requirements.

However, we question the rationale for a threshold in the first instance. Given that such costs would arise, not at the IPP's discretion, but from the SO's specification of a connection method which *would offer system-wide benefits*, **why then should the IPP be required to bear any of the additional costs?** Is it not an evident harm to burden it with costs when its actions result in benefits to system users? Hence on the basis of principle we would oppose the application of any thresholds to reimbursement of finance costs.

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