

# **Art Generation Wind Response to Modification Fees for Connection Offers**

**2<sup>nd</sup> December 2011**

Art Generation welcomes the opportunity to comment on the CER consultation on modification fees. Art Generation supports the detailed response provided by IWEA but would also like to take this opportunity to make some additional comments as part of the consultation process.

Art Generation is developing a portfolio of wind farm projects across the country.

Art Generation is disappointed that this proposal includes increased modification fees and timelines for developers. Although industry has been lobbying for improvements to the modification process, this proposal only serves to weaken the overall process. There is a distinct lack of information in the consultation on the structure or formulation of the new process. Art Generation requests this information to be provided along with justification as to why the System Operators deem these increases as necessary.

Art Generation would make the following comments in relation to the System Operators proposals:

## **1. Cost Reflective**

The proposed costs are not reflective of private industry norms in today's current business climate. The approximate cost of an electrical engineer is between €500-700, and these figures can be supported by various industry statistics.

## **2. Quantum of Cost**

The quantum of cost per level would also seem to be extraordinarily high considering this should be based on an incremental computation as opposed to a complete recalculation. Furthermore it is worth noting that the models are already built and the actual level of man hours are significantly less than what is being presented.

## **3. Interim Arrangements**

The approach taken demonstrates a disregard to other industry stakeholders and could be perceived as a rip off or excessively profiteering. Art Generation is concerned that the interim arrangements allow the System Operators to apply the new costs and timelines before consulting with industry or a decision has been made by the Regulator. This

suggests that the regulators decision is a foregone conclusion. Furthermore Table 1 in the consultation indicates that only the Level 5 fee has been approved by the Regulator. It is unclear how the Regulator could allow the System Operators to apply a non approved fee to its customers.

#### **4. Incorrect Approach**

It is suggested that the new process allows the System Operators flexibility to match the fees fairly to the work expected over time. There is a real concern that the System Operators have estimated the fixed costs of Staff required for processing modifications and spread this only over the number of modifications expected over a time period. This is a fairly crude approach and along with relatively conservative input assumptions has resulted in high fees. It also has to be considered that the team of ESNB and EirGrid Staff assigned to processing modifications would also be completing additional work in areas including non-GPA applications or preliminary and later detailed Gate 4 works. This team of ESNB and EirGrid staff are existing, and therefore already allocated to the system, so this approach could lead to double costing of these staff members.

#### **5. Potential Revenue for New Process**

Based on 1 to 2 modifications being required for each of the contracted and Gate 3 projects, the new process could produce revenue of approximately €6.5M. This level of revenue appears to be excessive when compared to the level of actual work that has to be completed to modify these offers.

#### **6. Economies of Scale**

The consultation proposes that there is an efficiency that comes with standardisation which results in less administration relating to calculating individual fees. It could be expected that a thorough review of the modification process would result in more tangible efficiency benefits, ultimately resulting in decreased costs and timelines.

#### **7. Cost Comparison of Actual and Proposed Fees**

A comparison of actual and proposed modification fees indicates that on average the new process will result in a 50% increase in cost for developers. For example in 2010 a modification was submitted to change the turbine type, merge two connection offers, change of connection method and a change to a contestable offer. The total cost of this modification was €4,175, excl VAT. Under this new process the modification fee would be €29,900 or a full application fee would be required. Art Generation respectively requests that the CER and its consultants complete a thorough review of the methodology that the System Operators are applying to calculate fees.

## 8. Timelines

Art Generation considers that the timelines for processing modifications to date have been excessive in some cases, especially where the quantity of work required to complete the modification is relatively short. Art Generation is particularly disappointed that the System Operators proposal will actually increase timelines in some cases. Art Generation requests a thorough review of the modification process to identify how timelines can be minimised whilst maintaining the appropriate quality level. Confirmation of the timeline from the modification being submitted to the invoice being issued should also be published. A timeline of 5 to 10 business days would be reasonable.

Art Generation recommends that the System Operators review the modifications processed to date and use this information to form the basis for calculating modification fees going forward.

In conclusion we are disappointed with the approach taken as it is not cost reflective. It is not quantifiably reflective. It does not allow for standardisation or economies of scale. It is based on an absolute fixed premium of that of a new person employed as opposed to an incremental approach. It does not take into account the software models already built. We would recommend in the interest of transparency and efficiency that the costs should be 25% of the proposed fees in the consultation, see Table 1 below.

Level	Fee/€ (excl VAT)
All	250
Level 1 fee	
Level 2 fee	2,762
Level 3 fee	5,362
Level 4 fee	7,475
Level 5 fee	As per individual Fees

**Table 1: Fee Structure**

We are also disappointed with the Regulator that they have allowed this consultation to be issued without proper adjudication. The numbers are so far north that there is ample room for negotiation. We look forward to the Regulators active participation to achieving a more reasonable solution.