

BGE Response to the CER's Review of Connection and Grid Access Policy

5th February 2016

This response is structured in 2 parts. The first part summarises Bord Gáis Energy's high level points in 3 sections focusing on: 1) the principles and objectives of this review; 2) the transitional proposals, and 3) the enduring proposals. The second part then answers each of the specific consultation questions with reference to the high level positioning outlined in the first part.

1. Summary and Overview

1.1 Principles and Objectives of the Connection Policy

There are a number of aspects of the current connection policy that work well for the Irish system and the Irish market given the policy priorities at the time it was developed. Specifically, it is effective in promoting new entry, it is transparent and non-discriminatory and looks to optimise the cost of Ireland's extensive grid expansion programme. However, there are shortcomings in the current policy in terms of how effective it is in; incentivising and supporting effective investment signals; providing for timely connections, and freeing up old capacity that is not actively providing any system or market benefits.

Bord Gáis Energy (BGE) believes that it is appropriate to review the current connection policy in light of Ireland's changing grid requirements and energy policy. This review is not dependent on the outcome of the energy market redesign – and therefore can in our view be implemented before ISEM Go-Live. However, the review must be cognisant of the policy direction of the ISEM design. In that regard, the connection policy must at least ensure that it does not contradict the market signals being provided through the energy, capacity and ancillary service markets and ideally it should complement the policy goals that the different markets are aiming to achieve.

With that in mind, BGE suggests that the objective of the policy is tweaked to account for the market redesign, and specifically to ensure that it is consistent and complementary with the signals provided by the market.

With respect to the principles outlined in the consultation, BGE also suggests that the policy includes a principle relating to 'optimal grid operation' as well as 'optimal grid development'. In our view, when investments and connections are being considered, their impact on the operation of the system and the subsequent costs are also important considerations when seeking to optimise the use and distribution of grid capacity. This will be particularly important under the new policy in our view if a mechanism is to be developed to objectively enable the TSO to differentiate between projects when distributing connection offers.

Lastly, as a point of principle, BGE believes that a well designed connection policy that allows for timely investments and connections and that complements the relevant markets should be appropriate for all technology and connection types. Therefore, BGE believes that the connection policy should be applied equally to interconnectors, renewable technologies and all other connection types. The connection policy should therefore **not** be designed for exceptions and should be designed such that it can apply equally to all types of connection applicants.

1.2 Transitional Policy

The proposal to implement a transitional policy while the enduring policy is being consulted on is in BGE's view a timely and proactive step. We support the principle of releasing and using the current capacity surplus. We see the benefits in terms of increasing renewable energy both quickly and cheaply and also in encouraging investment in much needed flexible generation. However, BGE has some concerns about the proposal to indiscriminately allow any connected party, complying with the criteria outlined in the Consultation, to increase their MEC by up to 10%. Specifically, BGE is concerned that it could be used by some connected parties to hoard capacity and therefore act as a barrier to future connecting parties that may better facilitate renewable generation and system flexibility.

As the consultation notes, grid capacity is a scarce resource, particularly given the short term nature of the transitional proposal. In our view capacity should only be allocated under the transitional arrangements on the basis that those connecting are enhancing the near term system and energy policy objectives. Given the pressing need for flexible generation on the system and Ireland's looming renewable target deadline, BGE does not see the benefit in allowing capacity that does not support

either of these objectives to connect to the system in the immediate term. In our view, an indiscriminate approach to the type of capacity connecting under the transitional proposals would undermine the objective of making best use of the capacity that we have available to us.

In the interest of making the most efficient use of the existing capacity BGE suggests that only parties with renewable generation (perhaps linking this to REFIT contracts to align with government policy) or who will use the increased MEC to provide a scarce DS3 service (even under the regulated tariff) would be allowed to avail of this once-off increase. This should be capped to a maximum of 10% of their MEC and be contingent on the basis that no further grid or connection asset investments are required.

In our view this will ensure that the capacity is put to the most efficient use for the system as a whole and ultimately for the customer. Recognising the 30th June deadline and the fact that the next tranche of DS3 contracts will likely not be issued until later in the summer, parties may apply for an increase in their MEC before the June deadline but the surplus capacity should only be allocated once the TSO has published the required DS3 volumes and has undertaken analysis of the volumes' being provided by relevant parties through the DS3 pre-qualification process.

1.3 Enduring Policy

The Irish electricity system is a small system with incredible ambitions. An enduring connection policy must as a starting point consider how we develop and operate that system on a long-term and short term basis. Without considering the long-term connection policy and focusing on the ad hoc connection of individual or grouped connection offers, the policy will quickly become one of congestion management given that we have in excess of 25,000MW of capacity in the connection queue.

Therefore before considering how to allocate capacity, the connection policy must first consider how best to plan for and develop capacity in a timely manner. BGE proposes that an '**advanced planning**' approach is taken to the long term development of the grid. That is, the long term forecasts conducted by the TSO will anticipate the level and location of changes in demand, generation, policies and targets and publish a long-term forecast statement accordingly. This statement, approved by the Commission for Energy Regulation (CER), will be used as the basis to plan the long-term development of the electricity system.

Once the long-term forecast and development plan is established, this can form the basis of processing connection applications on an ongoing basis such that it facilitates renewable targets, system requirements and market signals. BGE would have concerns that if the long-term and short-term system requirements are not considered in parallel, the right signals will not be sent, the system will be developed reactively and the customer will bear the increased cost of both developing the system and managing congestion. A connection policy which advocates an 'advanced planning' approach therefore in our view is optimal from both a cost and timing point of view.

Once the long term or 'advanced plan' is agreed and published, the proposals outlined in the consultation for an enduring connection policy can be more appropriately applied in the shorter term (through regular connection rounds or '*milk rounds*'). In particular, BGE supports:

- A batch approach to processing applications as a means of optimising resources;
- The provision of **stable** locational signals for both generation and demand (although this will be through different means for each), and
- The implementation of strict contractual obligations and milestones to ensure that capacity is used effectively, in a timely manner and avoids capacity hoarding.

Although BGE agrees that the connection policy should facilitate renewable and other market based policies, we have concerns as to how the TSO will be able to objectively distinguish between applicants without creating an environment for challenges and therefore delays. The signals for renewable and other policies are provided through the market and/or supports. Although the connection policy should facilitate these market signals, it should not be prejudiced to try to enhance those signals further. Notwithstanding BGE's view on the transitional approach, we believe that the enduring approach should focus on the optimal development of the grid and the optimal use of the grid. We believe that a robust contractual framework, with regular milestones, certain stable locational signals and robust financial commitments may be a more appropriate means of ensuring that the enduring connection

policy meets the needs of connecting parties in an indiscriminate manner while also facilitating the investment signals provided in the market (or through support schemes). This will provide a more objective and transparent approach to connections and should ensure optimal use of the system by those best positioned to connect quickly and thus avoid capacity hoarding.

In summary, BGE is supportive of the CER's initiative to review the current connection policy and in so doing to provide a framework to bring greater clarity and speed to the connection of generation and demand to the electricity system. BGE believes that the transitional proposals have merit but have concerns that it may facilitate further capacity hoarding if it is applied in an indiscriminate manner, which would be contrary to the overall objective as BGE understands it. For an enduring solution, again BGE agrees with the principle to facilitate more regular connections, however we believe this needs to be combined with a view on the longer-term planning and development of the system.

BGE recognises the somewhat contradicting views it has proposed for the transitional and enduring arrangements, however in our view, there are different objectives of each and therefore we believe it is appropriate to apply different principles accordingly. Please see below for BGE's responses to the specific questions presented in the consultation.

2. Answers to Consultation Questions

2.1 Enduring Arrangements

- 1.1 Do you agree with the policy objective for the Enduring Connection Policy? Are there other matters the CER should consider?

As outlined above, BGE suggests that the objective of the enduring connection policy is revised to account for the market redesign, and specifically to ensure that it is consistent and complementary with the signals provided by the market.

Another objective of the enduring policy should also be to ensure that investment signals are stable over a sustained period of time for new parties connecting to the network. Although not explicitly accounted for within the connection policy review, we believe that the enduring arrangements should ensure that the locational signals, currently provided through TLAFs and GTUoS charges, are stable such that parties are not unfairly and unpredictably penalised after an investment commitment has been made.

- 1.2 Do you agree with the application of the above underlying principles to the development of Enduring Connection Policy? Are there any other principles that the CER should consider?

In addition to the principles outlined in the Consultation, BGE believes that the effective or optimal operation of the grid should also be included. Including this principle will ensure that when considering the allocation of capacity, the analysis will look beyond a single point in time. It also has the benefit of potentially providing more stable investment signals to investors connecting to the grid if it is aligned with the analysis conducted in calculating TLAFs and GTUoS charges.

- 1.3 What is your view on the high level processing approach outlined above? Are there other processing approaches the CER should consider?

BGE agrees with the high level processing approach outlined in the consultation and would only add that a fair and transparent connection policy that is based on the principle of optimising the development and use of the network is equally applicable to all technology and connection types. On that basis, BGE believes that the high level processing approach should be applied to all connecting parties including interconnection and renewable assets.

- 1.4 Do respondents agree that the CER should consider the connection of renewables as one of several drivers to be balanced in the development of an enduring connection policy?

As outlined above, BGE agrees that the connection policy should apply to all connection asset types equally. We believe that the connection of renewable generation (both levels and location) will be considered within the ‘advanced planning’ stage of the grid development process. It should not therefore be considered within the shorter term timeframe of allocating capacity between different applicants. This view is principally driven by our concern that the introduction of technology specific criteria will bring subjectivity into the TSO connection offer process, which will inevitably drive regulatory and legal challenges. This in turn will cause delays and strain resources.

In the interest of avoiding subjectivity and providing a policy that facilitates policy/market signals, as opposed to being part of them, BGE does not believe that renewables should be a specific driver or criteria in the allocation of capacity.

1.5 Should connection policy make explicit provision for interconnectors? If so, what issues should the CER take into consideration?

BGE does not believe that explicit provisions should be made for interconnectors. Increased interconnection should be considered under the same criteria as all other connecting assets. BGE does not see any merit in designing a policy with express exemptions from the outset.

1.6 Should the technologies and projects currently covered under the non-GPA process be processed under the GPA process when the new connection policy is implemented?

BGE believes that all technology types should be treated equally and that the policy should be designed such that it can accommodate all connecting parties. On that basis, BGE does not believe that any applications should be processed outside of the proposed enduring connection policy.

To the extent the policy environment should change, then perhaps exceptions may be required, but as a starting point for an enduring policy we do not believe there is any merit in providing for exemptions.

1.7 Should some categories of project be processed outside the GPA process when the new connection policy is implemented?

As per above, no, we do not believe any categories of project should be processed outside of the GPA.

1.8 Do respondents agree that the CER should progress the development of the Enduring Connection Policy in advance of I-SEM go-live?

Yes. BGE does not believe that the design of the ISEM will affect the outcome of the connection policy. However, the design of the connection policy must be cognisant of the market dynamics and facilitate these dynamics. The proposal to introduce more frequent ‘connection rounds’ will in our view facilitate the direction of the new market design.

1.9 Should connection policy facilitate a mix of generation and in particular facilitate providers of system services? Should connection policy focus on certain technology types or rely entirely on market signals?

The connection policy itself should not rely or be concerned about market signals. This is the prerogative of connecting parties. The connection policy should be structured such that it facilitates those who wish to respond to market signals to connect in a timely and efficient manner. This in turn should facilitate a mix of generation and remove the need to provide specifically for any generation type.

1.10 Should projects which make the most efficient use of the existing network be prioritised over projects driving more deep reinforcements?

As outlined in the overview above, BGE believes that a parallel process of long-term grid planning and shorter-term capacity allocation to those parties that make best use of the system as it develops is the optimal policy for Ireland at this time.

Within this context, it is also essential that a robust and stable mechanism for the calculation of TLAFs and GTUoS is provided for within the connection policy, such that parties can take these costs into account when considering their connection location and cost. To this end, where locational signals are given through these mechanisms to incentivise the optimal use and development of the grid, they should be stable for a sustained period of time to reflect the investment commitment being made.

1.11 Should large demand connection which make the most efficient use of the existing network be encouraged through the Enduring Connection Policy?

Yes, BGE welcomes this suggestion and believes it is consistent with our view on the long term develop and short term use of the grid.

1.12 Are there any specific issues the CER should take into consideration regarding community based schemes?

BGE sees merit in promoting community based schemes and is happy to engage with the CER on how this might be best achieved. However, this may be best progressed outside of an enduring connection policy.

1.13 Should the CER include planning permission in the criteria for receiving a connection offer?

In the event of more regular connection rounds and where capacity is being allocated in response to grid development that has been made already, BGE sees merit in including planning permission as part of the connection application/offer process. This will ensure that investments are utilised in a timely manner and allow for costs to be recovered accordingly.

1.14 Have we identified the correct policy issues? Are there policy issues which we have not accounted for?

Recognising that this is the starting point of a longer consultation process, BGE believes that the policy issues outlined by the CER in the Consultation Paper are appropriate for now. Our main concern relates to the suggestion of targeting the enduring policy at specific generation types. In our view, this could make the offer process overly complicated, particularly for the TSO, resulting in delays and mis-used resources.

As outlined in response to a number of questions above, BGE believes that this review of the enduring connection policy should also review how locational signals are provided through the TLAF and GTUoS mechanisms and seek to stabilise these signals. This will be an important policy consideration within the context of this review process if the correct signals are to be provided for such that investors can legitimately respond to them.

1.15 Should the GPA process be retained? And should there be more frequent rounds of offer processing?

Yes, BGE believes that a more regular batch approach would be suitable for the Irish system – provided that the long term grid planning and development process works effectively in parallel. In the absence of advanced planning, a system of more frequent batched connection rounds will only drive congestion on the grid.

1.16 Should the non-GPA approach be revised?

BGE does not see any merit at this time for parties to be processed outside of the enduring connection process. Therefore we do not think the non-GPA should be continued beyond the implementation of the enduring connection policy.

2.2 Transitional Arrangements

Comments are requested on the above proposed transitional arrangements, specifically:

Whether these transitional measures should be implemented ahead of the development and implementation of the Enduring Connection Policy;

The timing of such arrangements (30th June 2016 for policy measure (1) and (2));

The appropriate level of increase in capacity under policy measure (2) to deliver most final customer benefit.

Please refer to section 1.2 of the overview above for BGE's views on the Transitional proposals.