ESB Networks proposals for changes to Generator Standard Charges
Executive Summary

Generator Standard Charges (GSC) are applied to all generator connection offers that are issued by ESB Networks. The present set of GSCs that are used by ESB Networks were established in 2007. The current GSCs are not reflective of the actual costs in delivery of the works required to facilitate generator connections and until this is corrected Distribution Use of System (DUoS) customers will continue to subsidise these generator connections.

In March 2018, ESB Networks proposed a review of the GSC and submitted their recommendations to the CRU. In its submissions ESB Networks noted that if the current GSC’s were to continue to be charged, DUoS customers would continue subsidising generator connection works and could cost the DUoS approximately €10m per year for the foreseeable future.

The CRU notes that DUoS customers should not continue subsidising generator connection works as it is inconsistent with the CRU’s policy. The CRU’s policy states that 100% of the costs associated with distribution connection works should be recovered from generators.

The CRU has conducted its own initial review of the proposed GSCs supported by independent economic and technical advisors. The review was broken into two phases:

- In Phase I, the data that ESB Networks had already provided to the CRU was analysed and benchmarked against other utilities for similar services.
- In Phase 2 additional details were requested from ESB Networks to understand the makeup of the cost in detail (to be completed).

The CRU had initially considered evaluating the proposed charges as part of Price Review 5. However, given the impact on the DuoS customer the CRU is bringing forward its review in order to ensure the DUoS customer does not pick up the shortfall in generator contributions for grid connections. This is especially pertinent given the upcoming Enduring Connection Policy -1 offer process.

The CRU proposes that the revised charges as proposed by ESB Networks will take effect from 1st January 2019. This is subject to ESB Networks providing the necessary detailed and quantified information requested by the CRU in advance of any decision.

The CRU is seeking comments on the request made by ESB Networks to approve the revised 54 GSCs by 17:00 Wednesday, 14th November 2018. Responses to this consultation should be sent to Mantas Vencius (mvencius@cru.ie) at the CRU.

Please note that the CRU intends to publish all responses received unless it is marked confidential.
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Public Impact Statement

Generator Standard Charges (GSC) apply where generators connecting to the Distribution System and the Distribution System Operator builds the associated connection works, e.g. the substations, overhead lines, cables. GSCs are designed to ensure that the costs associated with the provision of the distribution connection works are 100% recovered from generators.

Since the GSCs were originally compiled in 2007 the costs of carrying out the associated connections have significantly changed, e.g. the cost of carrying out works, changes in work practices, increased price of raw materials including copper and steel. The current GSCs are not reflective of the actual costs in the delivery of the works required to facilitate these connections. Currently, any shortfalls in generator contributions for grid connections are subsidised by Distribution Use of System (DUoS) customers.

By revising the existing GSCs, the CRU aims to:

- update the GSCs to be more cost reflective in the delivery of the works required to facilitate generator connections;
- recover 100% of the distribution connection works from generators; and
- minimise the risk to the DUoS customer.
1. Introduction

1.1. Commission for Regulation of Utilities

The Commission for Regulation of Utilities (“CRU”) is Ireland’s independent energy and water regulator. The CRU’s mission is to regulate water, energy and energy safety in the public interest.

Further information on the CRU’s role and relevant legislation can be found on the CRU’s website at www.cru.ie.

1.2. Background

The combined associated charges are known as Generator Standard Charges (GSC) and these are applied to all generator connection offers that are issued by ESB Networks. The present set of GSCs that are used by ESB Networks were established in 2007. These GSCs have been used for all connections processed under the gate processing approach including those in Gate 3, they have also been applied to non-Group Processing Approach (GPA) connections. The current GSCs are not reflective of the actual costs in delivery of the works required to facilitate generator connections and until this is corrected Distribution Use of System (DUoS) customers will continue to subsidise these generator connections.

In March 2018, ESB Networks proposed a review of the GSC and submitted their recommendations to the CRU. In its submissions ESB Networks noted that if the current GSC’s were to continue to be used, DUoS customers would continue subsidising generator connection works and could cost the DUoS approximately €10m per year for the foreseeable future.

The CRU has conducted its own initial review of the proposed GSCs supported by independent economic and technical advisors. The CRU considers that further detailed analysis is needed to understand the approach and logic that has been applied to determine these charges.

1.3. Purpose of this paper

This consultation paper seeks comments on the request made by ESB Networks to approve the revised 54 GSCs for generator connections, which is published alongside this paper.

To make an informed and impartial decision on this topic, the CRU wishes to obtain comments from members of the public, the energy industry, customers and all interested parties.

1 Following a request from the CRU, ESB Networks submitted additional supporting information.
1.4. Related documents

- CER/05/090: Standard Pricing Approach for Connecting Renewable Generators to the Distribution Networks
- CER/09/099: Treatment of Small, Renewable and Low Carbon Generators outside the Group Processing Approach

1.5. Structure of this paper

This consultation paper is structured as follows:

- **Section 1**, introduction and background.
- **Section 2**, provides an overview of the ESB Networks proposal and CRU’s initial review.
- **Section 3**, outlines conclusions and next steps.

1.6. Responding to this Consultation

The CRU is requesting comments on the ESB Networks’ proposal by 17:00 Wednesday, 14th November 2018. Responses to this consultation should be sent to Mantas Vencius (mvencius@cru.ie) at the CRU.

Unless marked confidential, all responses may be published on the CRU’s website. Respondents may request that their response is kept confidential. The CRU 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 to that effect and include the reasons for confidentiality.

Responses from identifiable individuals will be anonymised prior to publication on the CRU website unless the respondent explicitly requests their personal details to be published.

Our privacy notice sets out how the CRU protects the privacy rights of individuals and can be found here.
2. Overview

2.1. Generator Standard Charges

In order to provide connection offers in a timely manner, in 2007, a standard pricing approach was developed under which a standard price was identified for the main items that are included in the connection offers to generators. This approach was approved by the CRU at that time. The combined associated charges are known as Generator Standard Charges (GSC) and these are applied to all generator connection offers that are issued by ESB Networks. The present set of GSCs that are used by ESB Networks were established in 2007. The GSCs have been indexed in line with inflation on an annual basis since then. The current GSCs are not reflective of the actual costs in delivery of the works required to facilitate generator connections.

These GSCs have been used for all connections processed under the gate processing approach including those in Gate 3, they have also been applied to non-GPA connections. The GSCs have not changed to reflect new work methods, actual costs of materials or time required to deliver the connections and the scope has not been reviewed since the current set of GSCs were first published. The GSCs do not reflect current time, material and system costs, which has resulted in DUoS customers subsidising generator connection works of Independent Power Generator Companies (IPP) and ESB Networks funding these works upfront with recovery arising over 45 years.

2.2. ESB Networks Proposal

ESB Networks has submitted a proposal to the CRU for approval for the revised 54 GSCs. In its submission, ESB Networks notified the CRU that for the reasons outlined below it is appropriate to review the GSCs at this time:

- No detailed review has taken place since 2007;
- The GSCs do not reflect the cost of the required work;
  - Increases to material costs;
  - Changes due to standards etc;
  - Extensive experience gained by ESBN since 2007 in the works required to deliver generator connections needs to be reflected in the GSCs;
- DUoS customers are required to subsidise any shortfall between actual costs and IPP contributions which are based on GSCs, this is an unfair risk;

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2 The current indexation used is the Harmonised Index of Consumer Prices as agreed with the CRU. This index measures changes in the price level of a market basket of consumer goods and services purchased by households. This index has proven to be unsuitable for fluctuations in System Operator costs as it does not reflect price sensitivities in non-household items, the cost of carrying out works, changes in work practices etc.
• DUoS exposure to risks due to unknown and variable civil costs associated with provision of connection needs to be eliminated;
• High volume of offers expected to be processed under ECP-1 (including projects that may elect to fold in), commencing in 2018 in line with CRU direction, adding further to the DUoS exposure if the charges are not corrected first;
• Shortfalls from generator contributions towards the connection costs which DUoS has to subsidise could have an adverse impact on the monies invested in the CRU approved regulatory investment programme PR4.

The ESB Networks proposal for changes to the current GSCs is published alongside this paper.

2.3. CRU’s Initial Review

The CRU had initially considered evaluating the proposed charges as part of Price Review 5. However, given the impact on the DuoS customer the CRU is bringing forward its review in order to ensure the DUoS customer does not pick up the shortfall in generator contributions for grid connections. This is especially pertinent given the upcoming ECP-1 offer process.

During the summer of 2018 the CRU conducted its own initial review of the proposed GSCs supported by independent economic and technical advisors. The review was broken into two phases:

• In Phase 1, the data that ESB Networks had already provided to the CRU was analysed and benchmarked against other utilities for similar services.
• In Phase 2 additional details were requested from ESB Networks to understand the makeup of the cost in detail (to be completed).

In Phase 1 the exercise started with a web search of the costs and charges that are available in the public domain. The information available in the public domain is quite limited as in the majority of countries such information is not openly published by the utility companies.

The initial review showed that the cost numbers suggested by ESB Networks underpinning GSC’s are broadly within the ranges indicated by other utilities. However, the lack of available published data from other utilities for comparison with the ESB Networks proposals meant that there was only a sample of the GSC’s for which comparisons could be attempted.

On that basis the CRU initiated phase 2 to further understand the make-up of the proposed charges.

3 An attempt was made to acquire unit costs from utilities that are based in the UK, Ireland, France, Spain, New Zealand, USA and Australia.
In Phase 2 of the assessment, the CRU has initiated detailed review of a sample of the charges to understand how the information available to ESB Networks has been used to derive the proposed charges. In order for the CRU to undertake the required analysis, it is necessary to understand the formulation process and cost make up for each (or, at least, a sample) of the standard charges. In order to facilitate this, additional information has been requested from ESB Networks.

The CRU is moving ahead with this consultation as the DUoS customers should not continue subsidising generator connection works as it is inconsistent with the CRU’s policy. The CRU’s policy states that 100% of the costs associated with distribution connection works should be recovered from generators.

The CRU notes that this is not the normal process in that the CRU would normally have fully completed its analysis before consulting. However, given ECP-1 offers are due to start issuing in early 2019 the potential for the DUoS customer to have to pick up the shortfall in generator connection contributions has prompted the CRU to progress in this manner.
3. **Next Steps**

The CRU welcomes comments on the request made by ESB Networks to approve the revised 54 GSCs for generator connection. The CRU will consider all the submissions it receives prior to making a final decision on the proposed GSCs.

The CRU will consider a full detailed analysis of the proposed GSCs to understand the approach and logic that has been applied to determine these charges. To understand the makeup of costs in detail, additional detailed and quantified information has been requested from ESB Networks. The CRU has requested a detailed breakout of costs from ESB Networks in order to complete its analysis on the proposed charges. ESB Networks is currently engaging with the CRU on all open points.

The CRU notes that DUoS customers should not continue subsidising generator connection works as it is inconsistent with the CRU’s policy. The CRU’s policy states that 100% of the costs associated with distribution connection works should be recovered from generators.

The CRU proposes the revised charges to take effect from 1st January 2019 subject to being satisfied that the proposed charges incurred efficiently are cost reflective.

The deadline for submitting responses to the CRU regarding the ESB Networks’ proposal is 17:00 Wednesday, 14th November 2018. Responses to this consultation should be sent to Mantas Vencius (mvencius@cru.ie) at the CRU.

Unless marked confidential, all responses may be published on the CRU’s website. Respondents may request that their response is kept confidential. The CRU 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 to that effect and include the reasons for confidentiality.

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