Interconnector & PCI first stage payments approach

Dear Stuart,

As you are aware, and in line with CRU/17/300, EirGrid is processing connection applications for Interconnectors that have received Projects of Common Interest (PCI) status from the EU Commission, specifically the proposed new Greenlink and Celtic Interconnectors. In June 2018 we provided a technical study report to CRU ("Interconnection Network Impact Study Report") which included the intended applicable Standards and Policies with a standard First Stage Payment (FSP) of €10,000 per MW of Maximum Export Capacity (MEC) for offer acceptance.

We have been engaging with both Greenlink and Celtic on their connection applications and they have queried whether a standard FSP mechanism is appropriate for PCI status projects, given they are considered key infrastructure projects intended to help achieve EU energy policy and climate objectives and receive certain progression benefits as a result. In this context EirGrid considers it appropriate to review the current FSP arrangements for such projects.

We recognise that an “FSP is an initial down-payment (non-refundable “deposit”) paid by renewable developers/generators on acceptance of a connection offer to the electricity network”¹ and is designed to:

1. Cover the System Operators costs in designing and planning the connection for that project.
2. Act as a barrier or deterrent to hoarding of network capacity by developers.

¹ CER/11/083
3. Reduce the risk to the end customer (the UoS customer) of having to pay for work carried out by ESB Networks and EirGrid which was not paid for by developers.

EirGrid does however also recognise that it is important that we establish a connection charging regime for PCI projects which:

a. Ensures that EirGrid remains cash flow positive while performing its obligations under the connection agreement; and

b. Requires an appropriately significant financial commitment for a large scale project connecting to the Transmission System.

As part of our review we have undertaken an analysis of existing payment schedule options set out below:

1. Pre CER/09/138
   • FSP – Conventional and renewable customers treated the same
   • Calculation of FSP - 10% of the connection charge
   • FSP refundable on termination of connection agreement net of total TSO costs
   • MEC Bond - €10,000 per MW of MEC at offer acceptance which we could draw upon in the event of termination.

2. CER/09/138 Decision on Electricity Network Connection Policy 25 August 2009
   • Applies to renewable customers only until decision made under CER/13/145, after which applies to conventional customers.
   • Calculation of FSP - at offer acceptance the customer is required to pay the greater of (a) or (b) -
     a) 10% of the connection cost
     b) The lesser of €10k per MW of MEC or 50% of the connection cost.
   • FSP wholly non-refundable on termination of connection agreement.
   • MEC Bond - €25,000 per MW due one month pre-energisation or 2 years post consents issue date - whichever is the earlier.

3. CER/11/083 Decision on First Stage Payments on acceptance of a Connection Offer to the Electricity Network
   • Allowed for the FSP to be spread based on a milestone after offer acceptance. The milestone used was the “Scheduled Consents Issue Date” (SCID). Known as the “Sliding Scale Mechanism” it reduces the FSP by a percentage based on the milestone.
This mechanism took into account difficulties some developers had in raising finances, particularly where there may be long lead times.

Same bonds and FSP approach as per CER09/138

EirGrid believes this “Sliding Scale Mechanism” with a slight adjustment could be appropriate for interconnectors and addresses their FSP scale concerns. It balances the intent behind an FSP arrangement whilst also recognising the importance of PCI status. Therefore we propose to adopt this methodology for PCI designated projects with the application of the 50% scale level which recognises this is a significant commitment for large scale projects. This solution will:

1. Appropriately reduce the upfront payment to €5,000 per MW with remainder of the FSP instalment due 18 months prior to SCID.
2. Ensure that the UoS customer is not exposed to any post offer acceptance project costs.
3. Provide EirGrid with significant financial commitment (£2.5m and £3.5m) for current PCI projects.

EirGrid notes that in addition to the FSP, the procurement of a MEC bond for a large connecting party involves additional costs however at this stage we are not proposing any further changes to the arrangements. We may review this in the future and revert. In the meantime we intend to continue to engage with the Interconnector parties to progress their applications and at the appropriate time charge FSP on the basis of the above, subject to no objection from the CRU and of course we would welcome any feedback.

Kindest regards,

Oona Kelleghan

Connection Policy and Contracts