



Energy for  
generations

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## **ESB Generation and Trading Response:**

### **CRU Proposed Decision Enduring Connection Policy Stage 2 (ECP-2)**

**24<sup>th</sup> January 2020**



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## 1. INTRODUCTION

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to the Enduring Connection Policy Stage 2 (ECP-2) proposed decision. It is understood that the purpose of the proposed decision paper is to set out the CRU's position in relation to generator connection policy in Ireland post the ECP-1 process in advance of publishing a final decision.

ESB GT's response is broken into two sections; the first is an executive summary of ESB GT's response to the proposed decision paper and highlights key concerns in relation to the proposed decision, the remainder of the document details ESB GT's position more fully and raises some issues that we encourage the CRU to give further consideration in determining a final decision .

## 2. EXECUTIVE SUMMARY

ESB GT welcomes the clarity the proposed decision seeks to provide to the industry in relation to generator connection policy over the next four years. Notwithstanding the detailed comments below, ESB GT believes that this clarity will be key to allowing industry to deliver on the targets for growth in renewable electricity generation out to 2030 as set out in the Government's Climate Action Plan 2019.

ESB GT supports the delineation between onshore and offshore generation connection policy given the fundamentally different issues/risks at play. Given the pivotal role that offshore renewable generation will play in reaching the 2030 targets, ESB GT urges the CRU to issue its consultation on offshore connection policy as soon as practicable to allow a similar degree of clarity to be developed in this policy area.

ESB GT is concerned that the ambition for the number of connection offers to be issued under ECP-2 will not be sufficient to match the ambition of the RESS auction process. ESB GT believes that investment in the system operator's ability to deliver connection offers and ultimately the required connections and system re-enforcement is a prerequisite of a competitive RESS auction process that delivers on the governmental targets for 2030.

ESB GT supports the proposed prioritisation criteria to be applied by the system operators where the ECP-2.1 process is oversubscribed but is concerned that there may be unintended consequences for the diversity of generation projects in the first RESS auction. It is ESB GT's view that there is potentially an opportunity to apply an alternate generator offer process for a subset of projects in line with the Grid Following Funding model based on the direction given to the system operators in relation to issuing connection offers to projects successful in the T-4 capacity auction process.

ESB GT supports the proposed capacity release but believes, in the context of a competitive RESS auction process, there is value in offering projects an opportunity to release the contracted capacity after each auction round.

ESB GT would be happy to discuss further any of the points raised in this response.

### 3. DETAILED POSTIONS

This section sets out ESB GT's view on the details of the proposed decision.

#### 3.1 Topic 1: Interaction with RESS auction processes

Under the DCCAE consultation on the terms and conditions of the first RESS auction the CRU has been given the role to develop a set of "Representative Competition Ratios" which will be applied to the qualified RESS auction supply curve to determine the level of demand that can be competitively procured.

As a result, the CRU, through the determination of these competition ratios and through generator connection policy setting the quantity of offers to be issued by the system operators to renewable generation projects, will indirectly define the volume of generation to be supported under RESS.

Given the scale of the ambition in the 2030 targets and that the structural requirement under RESS for a surfeit of qualified projects, ESB GT is concerned that the proposal for just 50 offers to be issued under each of the ECP-2 batches will not be sufficient.

ESB GT recognises that the system operators have successfully scaled their ability to process connection offers under ECP-1 with 123 offers to be issued in approximately 18 months. There is a need to maintain this momentum from ECP-1 into ECP-2. To the extent that there is an additional resourcing requirement within the system operators, ESB GT believes that this is a necessary investment to ensure the competitive nature of the RESS auction process and is therefore in the long term interest of customers.

Additionally, ESB GT welcomes the CRU intention to align the timing of the ECP-2 batch process to the RESS auctions, accepting that beyond the first RESS auction, planned for Q2'20, the timings of the subsequent RESS auction process have yet to be determined. While ESB GT doesn't have a view on which process should lead in terms of setting timelines, we note that the proposed ECP-2 decision indicates a 15 month process for each ECP-2 batch however the DCCAE RESS Design Paper indicated the auction processes RESS 1-3 would take place annually over the period 2019 to 2021. With the delay of the first RESS auction to Q2'20 this suggests the second RESS auction would take place while ECP2.1 offers are being issued. This would result in some ECP2.1 projects being excluded from the auction process or being required to participate in the absence of seeing their connection costs and, therefore, being disadvantaged.

ESB GT urges the CRU to ensure that there is an alignment between the end of each batch process and the qualification process for each RESS auction.

#### 3.2 Topic 2: Proposed prioritisation criteria

ESB GT supports the CRU proposal that, in the event the ECP2.1 batch process is oversubscribed, the system operators will prioritise the first half of the batch on the basis of renewable project size. ESB GT notes that the RESS draft terms and condition includes a set of capacity factors for renewable technologies. Notwithstanding ESB GT's concerns that the values included in the draft RESS terms and conditions represent best case rather than industry average capacity factors, ESB GT proposes that once finalised this set of capacity factors should also be employed to the ECP-1 prioritisation process in order to support transparency and support consistency across before processes.

Implicit within this proposal is a bias towards wind projects over solar given their inherently higher load factors. This discriminatory impact is in of itself considered to be due in the context of the urgency in the

climate change agenda. That said, within RESS there is recognition of the value of contracting to support a diverse range a generation types with a specific solar sub-category within the planned first auction design. An unintended consequence of biasing connection policy towards wind generation could be to risk the level of competition in this subcategory and therefore to fail to contract sufficient solar to meet the RESS diversity objective. In ESB's view the most appropriate mechanism to mitigate this risk is to increase the overall ambition for the number of offers to be issued in each of the ECP-2 batches.

ESB GT supports the proposal for the remainder of the ECP2.1 batch process being prioritised on the basis of date of grant of planning. ESB notes that all generation and storage technologies will be included within this prioritisation category. Under CRU direction, for the 2022/23 T-4 and 2023/24 T-4 CRM auctions the system operators will issue connection offers to projects in the Dublin constraint area that are successful. In the most recent CRU direction to the system operators (CRU letter ref. D/19/18576) it was noted that the CRU does not anticipate requiring these arrangements beyond the forthcoming CRM auction.

ESB GT would ask the CRU to consider whether these arrangements represent an early adoption of the proposed Grid Following Funding model and rather than ending these arrangements they should be extended to any project that clears in a T-4 CRM auction in Ireland on an enduring basis with demonstration of land owner consent and planning consent (or exemption as applicable) being applied as the T-4 CRM qualification criteria for the T-4 CRM auction beyond 2023/24 T-4.

### 3.3 **Topic 3: Community-led renewable energy projects**

While ESB GT supports the proposed provision for community-led renewable energy projects to gain access to a grid offer process through the non-batch connection offers, we do not agree with the proposal to lower the requirement for planning consent in order for an application to be accepted by the system operator. It is possible that projects without planning consent will apply to the system operators, taking up the proposed number of allocated offers for this category of applicant, potentially delaying or preventing subsequent applications by community projects that have secured planning consent. Equally the community projects risk losing their application fee where they submit applications but are then not in a position to sign the resulting offers as a result of not having achieved planning consent. And finally, it is ESB GT's understanding that the effort required by the system operators in processing a connection offer does not substantially vary with the scale of the project and as the system operator's resources are limited they should be focused on project with consent in place.

On this basis ESB GT suggests that all projects should face the same requirement to achieve planning consent in order for their application to be accepted by the system operators.

### 3.4 **Topic 4: Non-firm basis of offer capacity**

ESB GT is concerned that it is proposed to maintain the position established under ECP-1 where all connection offers are issued on a non-firm basis. Issuing offers on a non-firm basis places an open exposure on projects which are rewarded solely on their exported MWh such as the REFIT and RESS schemes.

Under the RESS scheme it is likely generators will look to factor this exposure into their auction bid price. On the face of it this issue may then seem resolved; however, generators, in modifying their bid prices due to being issued a non-firm offer, will be forced to estimate the level of redispatch down they will face over the

period of the RESS support. Given the majority of generators face a requirement for project financing and natural conservatism in the finance community, there is a significant risk that the outcome of the RESS auction processes will be significantly distorted and the related costs faced by consumers higher than would be the case if connection offers were firm.

Additionally, in determining that all offers should be issued on a non-firm basis for an undefined period regardless of whether there are any underlying limitations in the transmission or distribution system in regards to a specific project is contrary to the premise of the recast electricity regulation (EU 2019/943). Under the recast regulation, to balance the removal of priority dispatch from new renewable generation projects, non-market based redispatch of generation by the TSO is to be compensated at a level reflecting the generator resulting forgone revenue with the exception of generators that have accepted a non-firm connection agreement. Directing the system operators to issue all offers on a non-firm basis undermines this aspect of the regulation and puts Ireland at odds with the intended internal market design.

ESB GT urges the CRU to reinstitute a mechanism whereby all generators will be made firm over time. ESB GT recognises that this may require a significant period to achieve and therefore in the interim a method which aligns the treatment of non-market redispatch to that intended under the recast electricity regulation should be put in place.

### 3.5 **Topic 4: Capacity Release**

ESB GT welcomes the proposal for a further opportunity for connected projects to release all of their contracted MEC. It is the case that under the Gate mechanism projects arrived in a position of holding a signed connection offer but were not able to achieve planning consent. Giving these projects a further opportunity to release the contracted capacity will allow the system operators to plan the development of the system on the basis of live projects that are in a position to deliver.

ESB GT does not support the proposal that this should necessarily be the final opportunity for capacity release for pre-ECP-1 projects. Rather, ESB GT suggests that regular capacity release opportunities should be included within the generator connection policy. It is agreed that there is a need to minimise the incentive for speculative applications being submitted to the system operators. However, it is considered that the requirement for planning consent, given the time and resources required to achieve such consent, significantly limits the incentive for speculative applications.

Under the draft design of the RESS scheme there will be, after each auction, a number of projects that have failed to secure a contract. These projects will have secured planning, applied for and signed a connection offer and provided the related payments and bonds. As such they represent a significant commitment on behalf of the developer. After an unsuccessful auction some projects may be able to find a route to market through a corporate PPA, but for others it may be clear that their economics are such that they are unlikely to be delivered. These projects have usefully added to the degree of competition in the RESS auction process but risk becoming 'zombie' projects that the system operators are required to plan around until their longstop dates are reached and their connection agreements terminated. ESB GT believes that providing an opportunity for the release of contracted capacity post each RESS auction, but in particular post the first RESS auction, would provide an appropriate incentive for projects in this position to terminate their connection agreements.