

IWEA Response to CER/08/145

Introduction

The IWEA believes that the process to review the connection agreement has been positive and has resulted in an improved understanding of the issues facing developers and network operators. We believe that an improved agreement will emerge from this process but remain concerned about the degree of certainty around costs and timing that will be provided. The allocation of risks to the parties best placed to manage them is generally accepted as a prerequisite for efficient development. IWEA believes that this principle should be applied in connection agreements.

The IWEA also has some observations on the Capacity Bond proposal included in CER's paper. These are set out in the remainder of this paper.

Capacity Bond proposals

We agree with the CER that the need to protect the system operator from the risk of stranded deep reinforcements is now reduced given the more strategic and probabilistic approach of the GDS. Under current rules, developers place the bond of €10,000/MW at offer acceptance, but the CER now proposes increasing the level of the bond to €100,000 per MW, placed just before connection. If a developer fails to export their full MEC between 1 and 4 years after connection, the bond is drawn down in proportion to the year and the MEC shortfall. Developers are therefore encouraged to reduce any MEC they are unsure about filling to ensure that their bond is not drawn down, and they are allowed to make this change (up to a maximum of 2MW or 10%), at any point after offer acceptance but before the start of construction.

The IWEA is concerned at the level of this bond and also believe that the current proposal eliminates the possibility of a developer releasing capacity that they are unable to use to other users.

There may be merit in exploring a two phase approach to providing a capacity bond. A small initial bond to encourage developers to make a good estimate of project size at the application stage could be introduced. This would eliminate the need for restricting the rights of the developer to subsequently reduce their MEC. The initial bond should be set at a reasonably low level as the timelines for grid application and securing planning permission

are not aligned and it is unreasonable to place the developer at undue risk of unexpected outcomes from the planning process. It should also be set at a level that does not prevent small developers from submitting applications. Following this, developers may post a more significant bond prior to the start of construction (once planning and other consents have been obtained). At this stage the developer should have the option of releasing any capacity that they do not require at no penalty other than the loss of the initial bond.

For example, if the capacity of the development has been reduced due to modifications to the project during planning it would be preferable to allow the developer to release this capacity for other potential users rather than be forced to hold it and post a significant bond against it for several years. The requirement to post a small initial bond will provide an incentive to make a reasonable estimate of project size at the initial application stage.

We would also like to make the following observations on the current proposal in CER's paper.

1. Paragraph 3 on page 12 proposes that the connection bond is placed shortly before connection *"or ... 2 years from the start of construction of the shallow connection works, whichever is the earlier"*. We do not understand what situation this 2 year time limit is trying to address. All connection assets should typically be complete 2 years after start of construction. If construction was not completed, it could be for reasons inside of our outside of the system operators or developers control, for example a lockout situation. We fail to see why CER would wish to enforce the placement of the bond in that situation. The requirement of placing it just before connection seems to be sufficient.
2. Paragraph 2 on page 12 proposes that the connecting parties *"may reduce their MEC by up to 10% or 2MW, whichever is the lesser."* If the objective is to get developers to relinquish as much grid as possible, we see no risk in allowing a reduction in MEC of any magnitude. There is of course a risk that such a move may result in a change of connection method, either for that developer or for the group in which he is a part. This may on face value seem undesirable in that it causes re-working of connection offers, but the developer is paying the necessary modification fees for this change. The group processing already envisages the possibility that group members may fall away, and the group connection method in that situation is revisited, and if cheaper, the reduction in cost is passed on to the group. Increases are not passed on, but are

absorbed by the UoS customer. Is there really any difference in impact between a 40MW member of group falling away, and a 50MW member of a group reducing his MEC to 10MW?

3. Paragraph 1 on page 12 proposes quite a complicated calculation as to the value of the first payment on offer acceptance. A straight 10% payment, as is currently the case, would seem a reasonable for the planning and engineering work required prior to the start of construction.