



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Proposed Direction on Conventional Offer Issuance Criteria

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The purpose of this proposed direction is to present, in detail, the Commission's current view on the criteria for determining which non-renewable ("conventional") network connection applicants should receive a connection offer along with Gate 3 renewable projects.

This follows the Commission's broad consultation paper published on 18th February (CER/09/031) and a public workshop held in Dublin in March.

Another public workshop will be held on this proposed direction in the Gresham Hotel in Dublin from 14:00 to 17:00 on Wednesday 26th August. Comments to the paper should be submitted by Friday 11th September. The Commission plans to issue a final direction in October.

Target Audience:

Non-renewable electricity generator/interconnector applicants for connection to the network.

Related Documents:

CER direction on Gate 3 and Related Matters (CER/08/260) of 16th December 2008. See following link:

<http://www.cer.ie/GetAttachment.aspx?id=54270766-56dc-4ddf-b0a1-d3be66a23df1>

Consultation on Treatment of Conventional Generator Connection Applicants (CER/09/031) of 18th February 2009. See following link:

<http://www.cer.ie/GetAttachment.aspx?id=157f1e6a-1154-4647-baef-cd604332cd95>

Responses to this proposed direction should be returned by email, post or fax and marked for the attention of John Lynch at the Commission, by no later than 17:00 on Friday 11th September 2009.

The Commission intends to publish all submissions received. Respondents who do not wish part of their submission to be published should mark this area clearly and separately or enclose it in an Appendix, stating the rationale for not publishing this part of their comments.

EXECUTIVE SUMMARY

1. Introduction & Background

Last December the Commission published a direction (CER/08/260)¹ on Gate 3 of Ireland's group processing approach (GPA) for the connection to the electricity network of renewable generators. The Commission directed EirGrid and ESB Networks to issue connection offers to circa 3,900 MW of renewable generation projects in Gate 3, in the context of EirGrid's long-run plan for the development of the transmission system to 2025 known as *Grid25*².

Following this, on 18th February the Commission published a broad consultation paper (CER/09/031)³ to discuss the basis for determining which conventional applicants (i.e. non-renewable generator and interconnection projects) should receive an offer in tandem with Gate 3 renewables. This paper was discussed with stakeholders at a public workshop held by the Commission in Dublin on 12th March.

Having considered the Commission's objectives for this process (see section 3) and the comments received to the consultation paper (see section 5), the Commission publishes this proposed direction, which sets out in detail the proposed basis for determining which conventional applications will receive an offer with Gate 3 renewables. It also deals with inter-related issues such as the CER/ESB Asset Strategy Programme.

The Commission will hold a public workshop to discuss this paper in the Gresham Hotel in Dublin from 14:00 to 17:00 on Wednesday 26th August. Parties interested in attending this workshop should contact John Lynch at the Commission by Tuesday 18th August. Final comments to this paper should be submitted to John Lynch at the Commission by no later than 17:00 on Friday 11th September. The Commission then intends to publish a final direction on the matter in October.

2. Maximum Conventional Capacity to 2025

A *maximum* of 3,400 MW of conventional project capacity is considered for a connection offer with Gate 3, as this is the capacity of conventional projects that is needed to maintain Ireland's security of supply to 2025. This figure will be subject to change by the Commission as warranted, for example due to changing demand growth assumptions impacting on the expected long-run required conventional generation.

3. Small Steps to 2025

The Commission agrees with most respondents to the consultation that a "small steps" approach to this matter is most appropriate, so that not all of the required 3,400 MW will receive an offer as part of Gate 3. This will allow the

¹ <http://www.cer.ie/GetAttachment.aspx?id=54270766-56dc-4ddf-b0a1-d3be66a23df1>

² <http://www.eirgrid.com/media/Grid%2025.pdf>

³ <http://www.cer.ie/GetAttachment.aspx?id=157f1e6a-1154-4647-baef-cd604332cd95>

conventional connection applications that do not receive an offer in this phase, as well as those applications not yet received, to be separately considered for offer issuance/connection in the future. What this provides is future flexibility. It reduces the chances of “locking in” grid connections to 2025 with 3,400 MW of today’s technology and so keeps open the ability of the system to connect potentially new and more cost effective, flexible, diversified, reliable and/or environmentally friendly generation, ultimately to the benefit of the environment and the end-customer. It also has the advantage of being able to consider the longer-term connection of conventional projects when information is to hand on the take-up rate of Gate 3 renewable offers, which will impact on the availability of network capacity.

The criteria for selecting conventional projects for an offer in the next phase(s) will be subject to a separate consultation, expected in the first half of 2011. This is the earliest stage when the take-up rate on Gate 3 renewable and conventional offers can be known with a reasonable level of accuracy. This paper will also consider providing for “backfilling” if conventional applicants eligible for an offer in this phase do not accept their offers.

4. Offer Issuance Criteria

In keeping with small steps, the Commission believes that a “multi-dimensional” approach should be applied in selecting conventional projects for an offer with Gate 3 renewables. They will be selected using the following three criteria, as detailed in section 6 of the paper:

1. All those generating projects which have received a non-firm offer - and not rejected it - as well as those already connected which are non-firm or partially firm. This includes five generation projects, totaling in the order of 600 MW⁴. In addition it includes two pumped storage generating plants also given non-firm approval by the Commission⁵. The five generation projects were selected by the Commission, in application date order, on the basis that they can be relatively easily accommodated on the transmission system and contribute to security of supply, so selecting them for a firm offer makes efficient use of transmission infrastructure and facilitates optimal development of it. It is also simple and transparent, and, by recognising the ability of the system to accommodate the generating plant, will help contribute to competition and security of supply in a timely manner. In view of this and the general desirability not to have plant on the system on an enduring non-firm basis, it is consistent with the Commission’s objectives for this issue that they receive a firm offer.

For similar reasons the projects already on the network with non-firm or partially firm access which are therefore also eligible for an offer are the 104 MW peaking plant at Tawnaghmore and the “extra” 215 MW applied

⁴ The 5 projects are: Suir 98 MW OCGT; Caulstown 58 MW OCGT; Cuilean Power 98 MW OCGT; Edenderry 116 MW OCGT; Kilbride 280 MW OCGT. Please see:

<http://www.cer.ie/GetAttachment.aspx?id=1ce9dba5-70fa-4487-83d1-8d6f4f9ba288>

⁵ Please see <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=c254af28-c1bc-495b-8695-35f41573773f> & <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=a9046b59-2032-4ba8-aae7-063b3d06eb3c>

for by Endesa at Great Island. The latter assumes “immediate” firm capacity being provided to Endesa for its 285 MW connection application at Tarbert, with 216 MW of firm likewise immediately provided to Endesa’s Great Island plant. This is consistent with these sites’ current firm connection capacity and is to uphold the integrity of the CER/ESB Asset Strategy. Endesa’s extra 215 MW applied for at Great Island will therefore be eligible for an offer as this is considered as non-firm capacity pending allocation of a firm access date and the associated completion of the ITC Programme. Please see section 7 for further details; and,

2. The first 500 MW of applicants with the earliest scheduled transmission firm connection date for their full requested MEC, in addition to the projects eligible for an offer through (1) above, as indicated by the ITC Programme. This approach recognises the ability of the transmission system to accommodate the projects’ output in the short to medium term and it means that those plants that can be connected to the system on a firm basis relatively speedily, thereby contributing to security of supply and electricity market competition most quickly, will be eligible for an offer. It also makes efficient use of transmission infrastructure and facilitates optimal development of it, as it means that offers issue to those projects which require the least deep transmission upgrades, thereby meeting another of the Commission’s objectives. The results of the ITC Programme will be published by EirGrid so it will be transparent as to which plants have a firm connection offer on this basis; and,
3. In recognition of the strategic benefits of interconnectors associated with the cross border trade in electricity, an interconnector with the earliest scheduled full firm access date as determined by the ITC Programme will be eligible for a connection offer. This is likely to be IMERA’s 350 MW application for an east-west interconnector at Arklow. This is a proportionate step, recognising the benefits of interconnectors but also that they cannot be viewed in isolation to generator applicants in what is a congested network. Please see section 7 for further details.

Overall, this approach means that those conventional projects that can be connected to the transmission system on a firm basis in the short and medium-term will receive an offer. It provides for circa 1,600 MW of conventional generation plant connection offers being issued in this phase with Gate 3, in addition to one interconnector project.

5. Scheduled Firm Quantities

Scheduled firm access dates will initially be determined for the conventional applicants eligible for an offer (see above) and the Gate 3 renewable projects using EirGrid’s ITC Programme, with an application date order methodology as already set out in Gate 3 direction. Details of the assumptions used in the ITC Programme are published in the Appendix.

In addition, EirGrid will apply criteria for the allocation of scheduled firm access quantities, for both Gate 3 renewable projects and the conventional

projects eligible for an offer, which will examine the cost of alleviating transmission constraints (via transmission reinforcements) versus the cost of incurring the constraint costs. This is already the underlying basis with which EirGrid determines transmission reinforcements associated with a generator. It recognises the reality that when building the network, EirGrid, in keeping with its functions, develops the transmission system efficiently. It would not develop a transmission reinforcement for a connecting party where the cost of that reinforcement is greater than the anticipated cost of system constraints incurred by not building it. To do so would result in an inefficient system leading to higher end-user costs (if this was the sole reason for developing the deep reinforcement). In recognition of this reality, the criteria may therefore bring forward the firm connection dates for the projects eligible for an offer from those determined by the ITC Programme, to their benefit. This approach should, by definition, also be beneficial to the end user. EirGrid is currently developing an approach to the application of these criteria, to be approved by the Commission, and they will be published with the final direction anticipated in October.

6. Project Advanced Commitment

The Commission has decided against requiring significant advanced commitment to make conventional projects eligible for an offer in this phase. However there may be merit in doing so for a subsequent phase(s), in order to help ensure that those projects in the connection queue are serious and have the intent to proceed. This issue will be dealt with as part of the consultation process on offers for future phases, expected to commence in the first half of 2011.

7. Timelines

It is anticipated that the scheduled firm access quantities/dates will be published by EirGrid in phases covering the 2010 to 2025 period, following the completion of ITC Programme runs, from September through to January. Conventional applicants that are eligible to receive an offer will be required to pay the standard processing fee within 20 business days of the final firm access dates being published.

Assuming they pay the processing fee, conventional applicants will receive an offer along with Gate 3 renewable generators, i.e. between December 2009 and June 2011. When within this period they will receive an offer depends on what Gate 3 offer group they are associated with, as referred to in section 8.

On efficiency grounds, conventional projects in this phase must accept their connection offer within 50 business days, as is already the case for renewable generators.

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1. Introduction

- 1.1 The Commission for Energy Regulation ('the Commission') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sectors. The Commission was initially established and granted regulatory powers over the electricity market under the Electricity Regulation Act, 1999. The enactment of the Gas (Interim) (Regulation) Act, 2002 expanded the Commission's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the Commission additional powers in relation to gas and electricity safety. The Electricity Regulation Amendment (SEM) Act 2007 outlined the Commission's functions in relation to the Single Electricity Market (SEM) for the island of Ireland. This market is regulated by the Commission and the Northern Ireland Authority for Utility Regulation (NIAUR). The Commission is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.
- 1.2 Following extensive consultation, on 16th December 2008 the Commission published a direction (CER/08/260)⁶ on Gate 3 of Ireland's group processing approach (GPA) for the connection to the electricity network of renewable generators. The Commission directed EirGrid as Transmission System Operator (TSO) and ESB Networks as Distribution System Operator (DSO) to issue connection offers to circa 3,900 MW of renewable generation projects as part of Gate 3. This is with a view to achieving the Government's recently announced target of 40% of electricity consumption coming from renewable sources by 2020. The direction decided that the 3,900 MW of renewable generators in Gate 3 will be selected by (earliest) application date order and connected to the network in the context of EirGrid's long-run plan for optimal development of the transmission system to 2025. This plan is now known as the *Grid25*⁷.
- 1.3 The direction also discussed the potential treatment of non-renewable generation, referred to as "conventional" projects and which also includes interconnector connection applications. It stated that the size and criteria for the issuance of connection offers to conventional generation would be the subject of a separate consultation.
- 1.4 Accordingly on 18th February 2009 the Commission published a broad consultation paper (CER/09/031)⁸ on the potential treatment of conventional connection applications for offer issuance. The options and issues raised in this paper were discussed with stakeholders at a public workshop held by the Commission in Dublin on 12th March.

⁶ <http://www.cer.ie/GetAttachment.aspx?id=54270766-56dc-4ddf-b0a1-d3be66a23df1>

⁷ <http://www.eirgrid.com/media/Grid%2025.pdf>

⁸ <http://www.cer.ie/GetAttachment.aspx?id=157f1e6a-1154-4647-baef-cd604332cd95>

- 1.5 Now, having considered comments received to the consultation paper, the Commission publishes this proposed direction which sets out, in detail, the proposed basis for determining which conventional applications will receive a connection offer in tandem with Gate 3 renewables projects. It also deals with related connection policy issues such as the CER/ESB Asset Strategy Programme.
- 1.6 Section 2 of this proposed direction invites public comment, section 3 provides a background to the issue and section 4 sets the legislative context. Section 5 summarises the main comments received to the previous consultation. Section 6 is the key section which details the criteria on which conventional applicants will receive a connection offer with Gate 3, while Section 7 discusses inter-related policy issues such as the CER/ESB Asset Strategy Programme. Section 8 deals with the timelines for offer issuance/acceptance and Section 9 then outlines the next steps in this consultation process.
- 1.7 Following a review of comments received to this paper, the Commission will issue a final direction on the matter to the electricity system operators, EirGrid as TSO and ESB Networks as DSO, pursuant to section 34 of the Electricity Regulation Act, 1999. This is anticipated to be published this October.

2. Purpose of Paper & Request for Responses

- 2.1 There are over 6,000 MW of conventional applicants in the network connection queue. These applicants are shown in Appendix 1. This proposed direction sets out detailed proposals on how many of these conventional applicants should receive a connection offer in tandem with the Gate 3 offer programme (for renewable generators), and on what basis. Inter-related connection policy issues such as the CER/ESB Asset Strategy Programme are also set out in this paper.
- 2.2 Given the importance and complexity of this issue, the Commission will hold a public workshop with interested stakeholders to explain and discuss the proposals presented in this paper. Stakeholders will also be given the opportunity to air their opinions on this matter. The workshop will be held at the Gresham Hotel in Dublin from 14:00 to 17:00 on Wednesday 26th August. Parties interested in attending this workshop should contact John Lynch at the Commission (preferably by e-mail) by Tuesday 18th August. A full agenda of the workshop will be circulated by e-mail to interested parties by Friday 21st August.
- 2.3 All comments to this proposed direction should be submitted to John Lynch at the Commission by no later than 17:00 on Friday 11th September. The Commission intends to publish all comments received. Respondents who do not wish part of their submission to be published should mark this area clearly and separately as an Appendix, stating the rationale for not publishing part of their comments.

3. Background

New Approach for Conventional Projects

- 3.1 As explained in detail in the previous consultation paper (CER/09/031), the recent large volume of conventional projects seeking to connect to the network means that reviewing them individually and issuing offers to them sequentially, as under the old single processing regime, is no longer feasible. In addition, the GDS processing approach to Gate 3 will allow for the long-term optimal development of the transmission system to connect both anticipated renewable and conventional generators. In this context, for efficiency and practical reasons our Gate 3 direction decided that *both* the 3,900 MW of renewable applicants *and* conventional applications submitted by 16th December 2008 (the date of the Gate 3 direction), which can also provide proof of land access, are included by EirGrid in the Incremental Transfer Capacity (ITC) Programme together. For clarity this would also include any interconnector applications.
- 3.2 The ITC Programme uses transmission capacity assumptions over the period from 2010 to 2025 as derived from *Grid25*. Details of the assumptions used in the ITC Programme are published in Appendix 2 to this paper. The Programme⁹ will indicate the scheduled deep/firm connection dates from 2010 to 2025 for conventional applicants eligible for an offer, along with Gate 3 renewable projects, using an application date order methodology referred to in the Gate 3 direction. As discussed in section 6, the firm connection dates derived from the ITC Programme will also be subject to further analysis by EirGrid to reflect the actual reinforcement build, which is optimised using a constraints analysis (to allow for the efficient development of the network), associated with the projects eligible for an offer. The scheduled firm connection dates for these projects are expected to be published by EirGrid in phases from September, as discussed in see section 8. Offers will then roll out to 3,900 MW of renewable projects and only a certain capacity of conventional projects - which is the subject of this paper - from December 2009.
- 3.3 There were over 6,000 MW of conventional applicants in the connection queue by the date of the Gate 3 direction, and these are included in the ITC Programme. These applicants are shown in Appendix 1. This proposed direction sets out detailed proposals on how many of these conventional applicants should receive a connection offer in tandem with the Gate 3 offer programme (for renewable generators), and on what basis.

⁹ The scheduled firm connection dates provided by the ITC Programme are impacted on by the estimated dates for the completion of shallow and deep transmission works. These dates could change for reasons outside the control of EirGrid, for example due to planning and other consenting delays. Currently any delays in this regard are borne by the connecting party. Firm dates are also linked to the achievement of Operational Certificates for wind farms which requires full compliance with the Distribution and/or Grid Codes.

Objectives for Selecting Conventional Generators

- 3.4 The possible approaches for selecting conventional generator applicants for an offer along with the Gate 3 renewable projects are, as mentioned in the consultation paper, measured against the following objectives which sometimes may conflict:
- Be transparent and easy to implement;
 - Be practical and timely to implement, especially with regard to the Gate 3 renewable offer timelines already set;
 - Maintain Ireland's security of electricity supply and contribute to competition;
 - Retain flexibility, to the extent feasible, for future generator connections to the network;
 - Provide for an efficient use of scarce network capacity and system operator resources;
 - Facilitate optimal development of the transmission system as provided for in EirGrid's *Grid25*;
 - Be fair and reasonable to individual connection applicants; and,
 - Not unfairly discriminate against renewable connection applicants.

These objectives assist the Commission in deciding on the criteria for selecting conventional applicants for an offer, as discussed in section 6.

Small-Scale / Autoproducers / Non-Wind Renewables

- 3.5 The list in Appendix 1 includes a number of small-scale distribution-level conventional applicants of less than 5 MW, as well as autoproducers and non-wind renewables outside of the GPA. They are included in the ITC Programme as with large conventional projects for derivation of their scheduled firm connection date. Given their potential public benefits, these projects are being considered for firm offer issuance separately by the Commission under a separate public consultation process¹⁰, a decision on which is expected over the next few working days.

Right to Direct on Offers

- 3.6 More generally, pursuant to the Electricity Regulation Act, 1999, and outside this process if deemed appropriate, the Commission will continue to reserve the right to direct the system operators to issue an offer to any generator connection applicant if warranted on security of supply, competition, environmental, or other grounds, taking into account the potential impacts of this.

¹⁰ Please see <http://www.cer.ie/en/electricity-distribution-network-current-consultations.aspx?article=d1dda12a-378f-4d96-bf82-d1883d8111c1>

4. Legislative Context

- 4.1 The Commission may give directions to the TSO and DSO under section 34 (1) of the Electricity Regulation Act, 1999 (as amended) (“the Act”). Section 34(2) of the Act provides *inter alia* that these directions may provide for “*matters which the Commission considers necessary or expedient for the purpose of making an offer for connection...*”¹¹ This affords the Commission with relatively wide discretion and is the statutory basis for the Commission’s proposed direction in this matter of conventional connection applications.
- 4.2 In relation to security of supply, the Commission has a duty to monitor this under SI 60 of 2005. It is also a function under section 9(4)(b) of the Act to secure that all reasonable demands of final customers for electricity are satisfied. To this end, the Commission is empowered under SI 60 of 2005 to “*take such measures as necessary to protect security of supply*”¹². The Commission therefore views its statutory responsibilities in relation to security of supply to be of paramount importance, including in relation to any decision it makes on this subject.
- 4.3 More generally, pursuant to section 9 of the Act, the Commission has a responsibility not to discriminate unfairly between relevant stakeholders, to protect the interests of final customers, to promote competition and to promote the use of renewable, sustainable or alternative forms of energy. The Commission also has a duty to take account of protection of the environment in carrying out its functions. The Commission is very mindful of these responsibilities in relation to decisions it makes on conventional connection issues.

¹¹ See section 34(2)(f) of the Act.

¹² See Regulation 28(5) of SI 60 of 2005.

5. Responses to Consultation Paper

5.1 The Commission received 26 responses to the consultation on the treatment of conventional generator connection applicants (CER/09/031). This section summarises the key comments to the consultation paper by topic, followed by the Commission's response. Generally speaking, respondents did not express a view on *all* issues raised in the consultation paper, so while a certain number may have been in favour or against a particular proposal as reflected below, many others were simply silent on the particular issue.

Identity of Respondents

5.2 The following is a list of the parties that responded to the paper:

- AES
- Airtricity
- An Taisce
- Art Generation Ltd.
- Ballylongford Electricity Company
- Bord na Móna
- Bord Gáis
- Constant Energy
- Dublin City Council
- EirGrid
- Endesa Ireland
- Enercomm International
- ESB Power Generation
- Fred.Olsen Renewables
- Greener Ideas Ltd.
- IBEC, Energy Providers Working Group
- Imera
- IWEA
- Luirc Energy
- Lumcloon Energy
- NOW Ireland
- Philip Lee Solicitors
- Shannon LNG
- South Dublin County Council
- SWS Energy
- Viridian Power & Energy

The detailed comments from these parties are published separately with this paper where the respondents had no objection to them being published.

The 3,400 MW Question

- 5.3 The consultation paper explained that in order to maintain security of supply at adequate levels to 2025, a *maximum* of 3,400 MW of conventional projects should be considered for an offer along with Gate 3 renewables. Of those that commented on this capacity level and the assumptions behind it, almost all stated that it seems reasonable, though it was noted by many that the demand and generation assumptions behind this figure, and therefore the 3,400 MW itself, is subject to uncertainty and change. It was therefore recommended by some respondents that this figure be kept under continual review. There was one respondent which differed from this consensus, stating that *all* “compliant applications” should be eligible to receive a firm offer as part of this process on competition grounds.

Commission’s Response

Not all 6,000 MW of conventional applicants are eligible for an offer as part of this process as it is not possible for the transmission system to accommodate them all, even after the significant upgrades envisioned by EirGrid’s Grid25. Furthermore, it could be considered unfair to bring forward more conventional applicants for an offer ahead of prior renewable applicants than are necessary for security of supply. This is discussed in section 6 of this paper and, as referred to later in this section, the Commission believes that its competition duty will also be served satisfactorily.

The Commission is of the view that the 3,400 MW of conventional capacity that is estimated to be needed for security of supply is based on reasonable assumptions - these assumptions are laid out in the consultation paper. It acknowledges that the figure could be potentially increased or decreased in line with changing circumstances, especially given the current uncertainty surrounding future demand growth, which in turn is related to the uncertain national economic situation. Therefore the Commission commits to keeping this figure under review and it will be changed as warranted in order to maintain security of supply to 2025.

Small Steps or Big Bang

- 5.4 A key question in the consultation paper was whether all of the 3,400 MW of conventional projects should receive a connection offer with the Gate 3 renewable generators in a “big bang”, or whether only a subset should do so, with the remaining applicants considered for an offer in a subsequent phase(s) to 2025 under a “small steps” approach.
- 5.5 The vast majority of respondents on this issue advocated the small steps approach over a big bang. The key arguments in favour of small steps is that it would provide flexibility to Ireland’s generation fleet for 2025 and not “lock it in” exclusively with today’s technology. By

selecting generators for an offer later in subsequent phases, it would allow for the connection of evolving - cleaner, cheaper and more flexible - generation technologies and it would take account of other potential future developments such as demand-side management and smart grids. A number of respondents recommended the size of the first phase of conventional offers, with one stating possibly a minimum of 500 MW and another in the region of 2,000 MW. Others referenced the first phase's size to how quickly conventional projects can be accommodated on the transmission system or whether they have non-firm offers (see later sections).

The minority of respondents who favoured a big bang approach stated that this would be more equitable and contribute to more competition in the market.

Commission's Response

The Commission agrees with the majority of respondents that a small steps approach to this matter is most appropriate, for a number of reasons. As stated in section 6, it will allow the remaining conventional connection applications that do not receive an offer in this phase, as well as those connection applications those not yet received, to be separately considered for offer issuance/connection in the future. What this provides is future flexibility, which is one of the Commission's objectives in this matter. It reduces the chances of "locking in" long-run generator connections to 2025 with 3,400 MW of today's applicants and technology. By "holding back" some of the 3,400 MW for future phases, it keeps open the ability to connect potentially new and more cost effective, flexible, diversified (from a fuel perspective), reliable and/or environmentally friendly generation. It will provide the transmission system with the potential to accommodate up to 2025 technological advances in conventional generation between now and then, some of which are known possibilities such as "clean coal technology" and some which have not even been invented yet, ultimately to the benefit of the environment and the end-customer. It also has the advantage of being able to consider the longer-term connection of conventional projects when information is to hand on the take-up rate of Gate 3 renewable offers, which will impact on the availability of network capacity for such projects.

The Commission believes that this is a prudent, equitable and fair approach and that, by selecting a significant capacity of applicants for an offer as part of this first phase (see later), it will also meet its statutory duties to protect security of supply and promote competition in the electricity market in the short to medium term.

Application Date Only or Earliest Firm Connection

- 5.6 Among other potential offer issuance criteria (see later), the consultation paper asked respondents if offers should be issued based

purely on their connection application date (shown in Appendix 1), irrespective of whether they can be accommodated on the network quickly. Another option would be to select projects for offer issuance on the basis of those with the earliest scheduled transmission firm connection date as indicated by the ITC Programme. This latter option is not a pure date order only one as it also takes account of grid capacity.

- 5.7 A very large majority of respondents advocated the latter option - indeed several respondents came out specifically against the application date order only approach. Reasons cited in favour of the latter option were that, by taking account of transmission capacity, it is fairer to those applications with a better location to the transmission system, it issues offers to applicants that can provide a near-term security of supply benefit and it recognises the cost/time of deep transmission reinforcements. One respondent argued that offers should only be issued to applicants if they can demonstrate commitment (see later) and can be accommodated on the transmission system on a firm basis within the following 4 years, while another mentioned 7 years as a potential cut-off point.
- 5.8 It was argued that an application date order only approach is sub-optimal on security of supply, generation portfolio and cost grounds, is too arbitrary and takes no account of the deliverability of a project. It was stated that a date order only method helps encourage a “rush to apply” mentality which in itself simply adds to the size of the connection queue, resulting in sound generation projects being blocked by ones which are “speculative”, i.e. which will not ultimately proceed to construction.

Commission’s Response

The Commission agrees that “earliest firm connection date” should be at least one of the criteria for selecting conventional applicants for an offer along with Gate 3 renewables. It is consistent with the Commission’s statutory duties and objectives for this matter as it recognises the ability of the transmission system to accommodate the project’s output in the short to medium term. It means that those plants that can be connected to the transmission system on a firm basis most speedily, thereby contributing to security of supply and electricity market competition most quickly, will be eligible for an offer. It makes efficient use of transmission infrastructure (existing and planned capacity) and facilitates optimal development of it, as it means that offers issue to those projects which require the least deep transmission upgrade works, thereby meeting another of the Commission’s objectives.

The Commission concurs that a date-order only approach to selecting conventional applicants for an offer is too crude and sub-optimal from a security of supply perspective. Given that conventional plants are

needed to “keep the lights on”, this could result in a security of supply deficit and it could also hinder the development of competition. In addition, it could also be argued to be unfair to prior renewable applicants as security of supply is a key reason for bringing forward conventional plant for an offer ahead of them. If offers are issued to conventional applicants for which there is little or no firm transmission capacity available, then this security of supply benefit is much reduced.

In any event, it should be noted that the ITC Programme will ration the available firm capacity to applicants at that node on an application date-order basis, so where transmission capacity is scarce priority is given to those applicants that applied earlier.

Non-Firm Projects

- 5.9 The consultation paper presented for comment the possibility of prioritising for a firm connection offer projects which have already been given the opportunity to receive a non-firm offer to address public interest concerns.
- 5.10 Respondents were divided on this topic with a small majority favouring preferential treatment. One reason cited in favour of special treatment was that an “enduring non-firm” situation for generators would lessen the ability of the system operator to utilise and draw upon the generation capacity of the system and that it would lead to a distortion of market signals. In order to prevent enduring non-firm access it was suggested that the existing generation projects with non-firm offers should be given priority as they can be accommodated easily on the network. It was also pointed out that the SEM High Level Design does not provide for the concept of enduring non-firm access by generators.
- 5.11 Respondents who did not favour special treatment argued that all projects which qualified for inclusion in the ITC Programme should have the same rules applied.

Commission’s Response

The Commission agrees that those generating plant which received a non-firm offer, as well as those generators already connected which are non-firm or partially firm, should be eligible for an offer as part of this process. The reasons for this are discussed in section 6.

Interconnectors

- 5.12 The consultation paper invited comment on whether it would be appropriate to accord priority to interconnector projects for connection offers.
- 5.13 Of the ten responses received on this issue the majority commented that interconnectors should not receive special priority, with some

respondents arguing that competition and security of supply benefits provided by interconnectors are not significantly greater than those offered by new generation.

- 5.14 However, a significant minority were in favour of according priority to interconnectors, one of whom remarked that the absence of firm connection offers to interconnector applicants is hampering the development of interconnectors and that the delay is contrary to EU policy and Irish government policy. It was also remarked that compared with generation, interconnectors will limit energy price hikes and CO₂ emissions. Another respondent stated that interconnectors support and allow for energy trading and facilitate the deployment of large scale offshore renewable energy.

Commission's Response

In recognition of the strategic benefits of interconnectors, associated with cross border trade in electricity, the Commission proposes to allow a connection offer to be issued as part of this process (i.e. with Gate 3) to an interconnector with the earliest scheduled full firm access date as determined by the ITC Programme. This is likely to be IMERA's 350 MW application for an east-west interconnector at Arklow. It should be noted that the firm connection date for this interconnector will be determined from the ITC Programme using the application date order methodology as with all conventional applicants. Please see section 7 for further details on this matter.

Other Criteria Proposed

- 5.15 Many respondents to the consultation paper were in favour of some priority for offer issuance being accorded to flexible peaking/mid-merit generating plant, such as OCGT, rather than less responsive CCGT baseload ones. This is because the increasing amounts of wind power connecting to the Irish system will require more flexible conventional plant which can ramp up and down quickly to balance out troughs and peaks in intermittent wind output. Such a complementary generation portfolio is needed for security of supply and generation efficiency, leading to lower energy prices, and it can more readily share network capacity with wind farms given that peaking units are unlikely to be running at times of high wind output.
- 5.16 One respondent believes that the increased number of gas-fired generating stations and connection applications in Ireland is a "precarious trend", with reliance on gas representing a critical security of supply and energy price danger for the country into the future. The respondent urged the Commission to "deliberate carefully on the repercussions of this reliance to consumers" and said that the 40% renewable energy target should be complemented by "pumped hydro" rather than gas-fired OCGTs.

- 5.17 Three respondents said that off-shore wind should be singled out for connection priority given its strategic benefits arising from its scale, high load factors, flexibility and enhanced forecast ability which makes it more like a conventional plant. Another respondent advocated the prioritisation of non-intermittent renewable generators that will provide baseload renewable power

Commission's Response

In relation to the generation portfolio, the Commission agrees that flexible generation plant can provide system benefits by balancing out an intermittent and relatively unpredictable generation source such as wind. In this regard the Commission is keen that such plants connect to the system over the coming years, especially considering that the vast bulk of the 40% renewable penetration level for 2020 will be in the form of wind power. That said, the Commission must also act to keep the end cost of electricity at a fair and reasonable level, and in this context it notes that peaking plants typically provide more expensive electricity than baseload ones. In other words, the key is that the generation portfolio is balanced, between renewable and conventional plant, and also between peaking and baseload ones. The Commission believes that, using the proposed criteria for selecting applicants for an offer with Gate 3 as detailed in this paper, such a balance will be achieved. This is considering that the type of generation plant which will receive an offer under these criteria will consist of baseload as well as flexible peaking plant (OCGT and pumped storage).

It should be noted that the criteria proposed in this paper allow for two pumped storage plant and a merchant interconnector to receive an offer – both of which provide electricity to the system not necessarily from gas. Moreover, by adopting a small steps approach to conventional offer issuance, the Commission is keeping open, for future phases and for the medium to long run, the ability to connect to the network more diversified plant from a fuel perspective (including pumped hydro), should for example it consider that Ireland is over-reliant on gas. Indeed flexibility to address this matter if necessary in future is one of the key reasons that the Commission has decided to adopt a small steps approach.

Regarding off-shore and renewable projects, Gate 3 allows for the connection of circa 3,900 MW of renewable generation to the Irish network over the coming years through an application date-order methodology, linked in with EirGrid's Grid25. While no particular preference is shown to large scale or off-shore projects in the Gate, the Commission notes that this methodology incorporates a sizeable capacity - about 800 MW - of off-shore wind farms. In any event, this issue has already been dealt with and explained by the Commission as part of the Gate 3 consultation process. This involved publication of a

number of Commission consultation papers¹³ before a final direction on Gate 3 was issued by the Commission last December (CER/08/260). The focus of this process now is not on renewable generation (which has already been decided on in our Gate 3 direction) but on determining the offer issuance criteria for non-renewable projects.

Asset Strategy Programme

- 5.18 In the context of the criteria for conventional connection offers and the CER-ESB Asset Strategy Agreement, the consultation paper discussed how it proposed to treat Endesa's 285 MW Tarbert and 431 MW Great Island connection applications. The Commission proposed to direct EirGrid such that Endesa has pre-existing connection rights consistent with these sites' current connection capacity, i.e. it has "immediate" firm rights at Tarbert for its 285 MW application and at Great Island for 216 MW. It proposed that for the purposes of the ITC Programme Endesa be deemed to have applied for a connection offer for the extra 215 MW at Great Island on the actual date of its bid for ESB's assets, i.e. 16th June 2008 (see consultation paper for details).
- 5.19 A large majority of respondents were not in favour of the above proposal. Some respondents expressed concern over the possibility that Endesa may enjoy pre-existing connection rights. More generally it was argued by some respondents that the Commission's approach is discriminatory and contrary to transparency, fairness or objectivity.
- 5.20 With regard to discrimination one of the respondents commented that the proposal indicates that dual standards are being applied, pointing out that for Imera's EW-1 interconnector application at Arklow the date order rules apply one way to the detriment of that application, but for Imera's interconnector application at Great Island the date order rules do not apply, also to its detriment. One respondent stated that the Commission's proposed treatment of Endesa would be "exceedingly legally unsafe" because the reasons for making this direction are inconsistent with the obligations of the Commission to promote competition and to not discriminate unfairly. The respondent's belief is that the Commission has carried out its functions without transparency and that giving Endesa preferential treatment is "genuine discrimination".
- 5.21 Another respondent argued that the Commission's proposed treatment of Endesa is unfair as it is based on the promotion of competition. The respondent argues that this treatment is unnecessary considering that there are applications of circa 6,000 MW in the connection queue. Nor did this respondent subscribe to the argument that the Endesa proposal makes good use of existing infrastructure /brownfield sites as most of the sites in the 6,000MW queue are very close to the gas and electricity networks.

¹³ See the following link to the CER's website: <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=fb726a75-7365-4dfb-9e16-ff5c5d2d363a>

- 5.22 It was also pointed out that Endesa did not purchase sites with a guaranteed connection capacity for repowering and that, even if Endesa (as purchaser) wasn't in a position to apply for a connection, ESB (as vendor) certainly was.
- 5.23 Another respondent highlighted that Endesa plant is not being replaced on a like-for-like basis and could well end up running high in the merit order with greatly increased capacity factors. This could result in higher constraint levels for non-firm wind farms which could impact on the commercial viability of some wind projects.
- 5.24 A minority of parties were in favour of the Commission's proposed treatment of Endesa. One of these respondents stated that the Asset Strategy Agreement envisaged a transfer of pre-existing capacity rights from ESB to the successful purchaser. Another respondent also stated its support for the repowering of existing sites and, in general, the principle that rights be transferred on a "like-for-like" or "equivalence" basis given possible environmental and system security benefits. Another respondent particularly supported the suggested re-powering as it ensures that no further unnecessary environmental damage will be imposed compared to a greenfield generation site.
- 5.25 Two respondents supported the proposal on the basis of promotion of competition through the Asset Strategy Agreement. Furthermore, one pointed out that Endesa would not have been in a position to apply for a connection offer until the final purchase contracts were signed. This respondent also referred to the impact on system security noting that EirGrid had indicated that the repowerment of Great Island is likely to reduce the overall needs for network reinforcement.

Commission's Response

The reasoning for immediately providing Endesa with existing connection capacity at Great Island and Tarbert, and for treating Endesa's additional connection capacity applied for at Great Island as if it was submitted on 16th June 2008, is detailed in section 7. More specifically, the Commission rejects the argument that this proposal is unfairly discriminatory, legally unsafe or represents "dual standards". Firstly, for IMERA's EW-1 interconnector application at Arklow the Commission did not provide "priority firm access" over prior interacting generator connection applicants because to do so would, in the particular circumstances, not be proportionate. This is because the interconnector application did not warrant or have special circumstances which justified it being brought forward for firm capacity ahead of prior interacting connection applicants. To do so would impact materially (i.e. delay) prior applicants' firm capacity due to the capacity constraints in the Arklow area. Therefore bringing forward EW-1 in such a manner would constitute unfair discrimination.

However this does not mean that treating Endesa's applications in the way proposed is unfair discrimination, nor is it double standards. The circumstances surrounding the Asset Strategy and Endesa's applications are different to those that pertained for IMERA's at Arklow and are exceptional. Indeed the Commission was clear in its Gate 3 direction of December 2008 that it did not propose to establish an application process for conventional generation projects which ignored the overall objective of the Asset Strategy Agreement. The Commission also stated in the Gate 3 direction that it would only "bring forward" projects for connection that were warranted on the grounds of their wide system/public benefit and where this would not have a disproportionate impact on other applicants. This must be read in the context of the stated determination on the part of Commission to take account of the overall objective of the Asset Strategy Agreement. This is because delivery in full on that Agreement is entirely consistent with Government policy and the Commission's obligations under its statute to promote competition in the generation and supply of electricity. The forthcoming energisation of ESB's new Aghaha plant was authorised by the Commission only as a quid pro quo for successful delivery of the divestment and re-powering of ESB plant such as was contained in the Asset Strategy Agreement. Therefore, if the Asset Strategy is not successful, ESB's market share could in fact be increased, which would be contrary to Government policy and the Commission's duty to promote competition. The Commission's proposed treatment of Endesa's applications recognises this reality and also the special circumstances surrounding the bidding process whereby Endesa (or indeed any other bidder) was not in a position to apply for a connection offer until it had emerged as a preferred bidder and had signed, or was near to signing, the purchase contracts.

Regarding some other comments raised, the Endesa re-powering connection applications are not expected to have a material adverse impact on the level of constraints borne by wind farms already connected or contracted to connect or due to receive a connection offer under Gate 3. However an important consideration here is the all-island dispatch rule-set which has recently been published for consultation¹⁴. Interested parties are advised to comment on this paper by the 18th September deadline.

Demonstrate Commitment for an Offer

- 5.24 The consultation paper presented for comment possible ways in which a conventional project could be required to demonstrate commitment, indicating that it is serious and/or capable to proceed to construction, in order to receive a connection offer. These are briefly summarised as follows:

¹⁴ Please see http://www.allislandproject.org/en/programme_updates_recent_publications.aspx?article=3860d95f-1b34-4bce-99c4-7bd5d2050371

- Post a commitment bond after scheduled firm connection dates are published (but in advance of offer issuance), of say Eur10,000 per MW;
- Participate in an auction with an offer issued to the highest bidder;
- Pay the application processing in advance of publication of the scheduled firm connection dates, rather than after when eligible for an offer;
- Show the Commission evidence of financial capability such as a letter of guarantee; and/or,
- Show the Commission evidence of “ready-to-go” such as planning permission or an IPC licence.

5.25 At a high level, most respondents to the consultation were in favour of some level of commitment being shown by conventional applicants in order to receive an offer, though there were some who were strongly against. Reasons cited in favour of advanced commitment were that it will help ensure that those projects that receive an offer are viable and/or serious (rather than offers issuing to those which are not) and that it will reduce the number of speculative applications and the “rush to apply” mentality referred to earlier. Reasons cited against were that “financial hurdles” in advance of offer issuance will discriminate in favour of large incumbents (especially in the current economic environment), that it is not the Commission’s role to “pick favourites” and decide on which applicants are speculative, and that it is likely to lead to perceptions of unfairness and a lack of transparency.

5.26 Regarding the specific advanced payment methods proposed in the consultation paper, most respondents were against the requirement to post a bond, believing that it would favour large players and is too onerous considering that the connection terms/conditions would not be yet known. However a number were in favour of the bond on the basis that it is objective (if it were reduced from Eur10,000 per MW). All respondents were against the auction option. It was argued that it would be a barrier to market entry for smaller players, would favour those with “deep pockets”, could be subject to legal challenge, is overly complex and is unsuitable to allocating capacity on the electricity grid. It was stated that an auction does not help to meet the Commission’s objectives for this process. The “pay early” method that gained the most relative support was the requirement to pay the application processing fees, as this was considered a more reasonable financial commitment. However a number of respondents questioned whether it would on its own eliminate all speculative-type generation connection applications given its relative small size.

5.27 There was a mixed but generally favourable response for a requirement to show the Commission evidence of financial capability and/or readiness-to-go. One party stated that, where firm transmission capacity is available within 4 years for an applicant (as mentioned earlier), it should be eligible for an offer if it has met a series of criteria designed to show project readiness, including a defined stage on

matters such as planning permission, IPC licence, site acquisition, EPC tendering and finance. (The respondent referenced precedence to the approach used by the Commission to allocate scarce capacity on the natural gas transmission system). Another respondent mentioned a letter of guarantee from a holding company/financial institution as worthy of consideration as a criterion for offer issuance. In contrast it was argued by some respondents that such financial capability/ready-to-go methods are difficult to assess, potentially subjective and vulnerable to legal challenge. A number of parties also warned against applying planning permission as a criterion for offer issuance as there could be timing difficulties in applying it.

Commission's Response

The Commission notes that, given it is adopting a small steps rather than a big bang approach, the risk or impact of serious projects being delayed by prior speculative ones in this phase (i.e. with Gate 3 renewable projects) is significantly reduced. With small steps, offers can be issued to conventional applicants in future phase(s) relatively quickly - a consultation paper on the offer issuance criteria for the next phase is anticipated for the first half of 2011 and this can consider providing for "backfilling" if conventional applicants eligible for an offer in this phase do not accept their offers. Furthermore, requiring financial or other commitments from applicants in this phase in advance of an offer, such that those which do not provide the commitment would then be removed from the ITC Programme (which is already running) prior to its finalisation and offer issuance, would save little net time/resources and would not provide a more efficient use of transmission capacity. Hence the key reason for requiring advanced commitment from a conventional applicant has been largely removed.

In addition, the Commission acknowledges that in the current deteriorated economic environment, it may be difficult for applicants to demonstrate significant financial commitment in advance of full connection terms and conditions being known. This advanced financial commitment could thereby constitute a potential and unnecessary market entry barrier, to the detriment of electricity market competition. This is especially the case for the bond and auction options. On the other hand, it is also the case that the processing fee is relatively small so requiring it from all applicants "upfront" - i.e. in advance of the publication of the firm connection dates - arguably does not demonstrate sufficient commitment, while at the same time it would not save significant time overall as referred to above.

The Commission has also decided against using evidence of financial capability as a criterion for an applicant receiving an offer. This is because in the current economic environment applicants may have difficulty in providing the Commission with a letter of guarantee from the company or lending institution in advance of offer issuance. This would mean that the Commission would have to use other methods to assess

financial capability, such as the health of a company's balance sheet and/or projected profit levels, which would be difficult to assess presently, thereby being potentially subjective and subject to subsequent legal challenge. Similarly a ready-to-go approach could be argued to be subjective and is also subject to timing problems where, for example, an applicant's planning permission is about to expire and/or its application is currently in the planning application process. This is not to say that such an approach does not have a place in the future - this issue is also discussed in section 6.

Instead conventional applicants that are eligible to receive an offer (i.e. by earliest firm connection date) will be required to pay the standard processing fee within 20 business days of the publication of the final firm connection dates (see sections 6.29 & 8). They will then be required to demonstrate commitment at offer acceptance stage under the normal process, i.e. should they wish to accept their offer, they must post the Eur10,000 per MW capacity bond and pay a contribution to their shallow connection assets to the system operator.

To help ensure an efficient offer issuance process, the Commission has decided that conventional applicants in this phase must accept their offer within 50 business days rather than the standard 70. They must also submit any disputes to the Commission by business day 25 of the 50-business day offer timeline. These are the same timelines that apply to Gate 3 renewable generators, and provide parties with sufficient time to examine the terms/conditions of their offers while also keeping the overall offer programme reasonably tight.

6. Selection of Conventional Generators

- 6.1 Taking on board comments received to the consultation paper (summarised in section 5 above), this section sets out detailed proposals on how many of the conventional applicants should receive a connection offer in tandem with the Gate 3 offer programme (for renewable generators), and on what basis. These proposals take account of the guiding objectives for this process shown in section 3 and the Commission's relevant statutory responsibilities shown in section 4.

Conventional Plant for Security of Supply

- 6.2 The Commission is, as stated in the consultation paper, committed to achieving its statutory functions to promote renewable generation and to take into account the protection of the environment. For example, the group processing and "Gate" connection regime, which is approved by the Commission, has facilitated a dramatic increase in the level of renewable generation connected or contracted to connect to the Irish system, from circa 400 MW in 2004 to 2,800 MW currently. The vast bulk of this renewable capacity is in the form of wind power.
- 6.3 Even as far more renewable generation projects have connected to the system in recent years, it is also the case that the level of renewable connection applications has continued to increase significantly. The Commission sees this as an encouraging sign for the future of renewable energy in Ireland. However, the scale of the applications received by EirGrid and ESB Networks does unfortunately create practical difficulties because the electricity network is quite congested and cannot accommodate the connection of all applicants at this time.
- 6.4 In this context 3,900 MW of renewable generation applicants are eligible for a connection offer from this December in the Gate 3 offer programme, with a view to achieving the Government's 40% target for 2020, as detailed in the recent Gate 3 direction. Adding this to renewable generation already connected or contracted to connect (as in section 6.2 above), it means that there will be potentially over 6,500 MW of renewable generation connected to the Irish system by 2020. However, even after this big step, it is acknowledged that there are currently still a large number of renewable generator connection applications that will have to wait until Gate 4 or beyond before their applications will be processed for connection.
- 6.5 It is the case that some of such renewable applications may "pre-date" the conventional applications. These renewable applicants consist almost entirely of wind farm projects which are intermittent and less predictable in output than other forms of generation. Therefore they are not sufficient to ensure that electricity demand is met in a secure manner. Maintenance of a safe, secure and reliable supply of electricity is vital for electricity demand customers and the country in general.

Consequently, in order to protect electricity security of supply, it is necessary to ensure that a mix of energy sources (other than wind on its own) is connected to the network. This means that conventional generation, which is a predictable form of generation output, is required in order to maintain security of supply, i.e. to “keep the lights on”. As noted in section 4, one of the Commission’s statutory duties is to ensure that security of supply is protected by taking such measures as are necessary to do so. In accordance with this duty and the Commission’s objectives for this process, the Commission considers that processing a number of conventional applications alongside renewable generation in Gate 3 is therefore required in order to protect long term security of supply.

6.6 That said, the Commission will direct EirGrid to make connection offers to conventional applicants only to the extent as is necessary to meet security of supply requirements. Processing all of the circa 6,000 MW of conventional connection applications received by the date of the Gate 3 direction for offer issuance would be a cause for concern because:

- It would mean that more conventional applicants than are necessary to provide public interest benefits, such as the country’s security of supply, would be issued with an offer ahead of renewable applicants who applied for connection beforehand and which are not in Gate 3. It could be argued that this would be unfairly discriminatory to these prior renewable applicants; and,
- EirGrid’s *Grid25* may in any event not be able to provide many of these applicants with firm connection within the 2025 period as they would represent more than is needed to 2025 to meet security of supply. This could mean that some of the conventional projects would be operating on a non-firm basis for a very considerable period, i.e. up to and beyond 2025.

Size of Maximum Conventional Capacity to 2025

6.7 EirGrid has advised the Commission that, using certain assumptions, in the order of 3,400 MW of additional conventional plant may be needed to maintain Ireland’s security of supply standards at acceptable levels to 2025. The assumptions behind this figure for 2025 were provided in the consultation paper. Of those parties that commented to the consultation on this issue (see section 5), there was agreement that this figure seems reasonable, although it was noted that any prediction so far into the future is fraught with uncertainty.

6.8 On this basis, in order to maintain security of supply at adequate levels to 2025, a *maximum* of 3,400 MW of conventional projects will be considered for an offer along with Gate 3 renewable generators. It is considered that this would not be unfairly discriminatory against prior renewable applicants. This is because this is the capacity of conventional projects that is needed in the interests of the wider public interest, i.e. to maintain security of supply, which is one of the

Commission's key legislative duties and one of the key objectives of the Commission in this process.

- 6.9 As requested by certain respondents to the consultation, this 3,400 MW *maximum* will be kept under continual review. It will be subject to change by the Commission as warranted, for example due to changing demand growth assumptions impacting on the expected long-run required conventional generation.

Take Small Steps to 2025

- 6.10 Whether all of the 3,400 MW of conventional projects should receive a connection offer as part of the Gate 3 offer programme in a "big bang", or whether only a subset of the 3,400 MW should do so under a small steps approach, was a key question in the consultation paper. As referred to in section 5, the vast majority of respondents on this issue advocated the "small steps" approach over a "big bang".
- 6.11 The Commission agrees that a "small steps" approach to this matter is most appropriate, for a number of reasons. It will allow the remaining conventional connection applications that do not receive an offer in this phase, as well as those connection applications not yet received, to be separately considered for offer issuance/connection in the future. What this provides is, crucially, future flexibility, which is one of the Commission's objectives in this matter. It reduces the chances of "locking in" long-run generator connections to 2025 with 3,400 MW of today's applicants and technology. By "holding back" some of the 3,400 MW for future phases, it keeps open the ability to connect potentially new and more cost effective, flexible, diversified (from a fuel perspective), reliable and/or environmentally friendly generation. It will provide the transmission system with the potential to accommodate up to 2025 technological advances in conventional generation between now and then, some of which are known possibilities such as "clean coal technology" and some which have not even been invented yet, ultimately to the benefit of the environment and the end-customer. It also has the advantage of being able to consider the longer-term connection of conventional projects when information is to hand on the take-up rate of Gate 3 renewable offers, which will impact on the availability of network capacity for such projects.
- 6.12 The approach for the subsequent phase(s) of conventional offers/connection can be facilitated by re-running the ITC Programme, and then applying whatever criteria is decided upon for offer issuance for that phase. Of course the criteria for selecting conventional projects in the next phase(s) would be subject to a separate consultation closer to the time. This consultation process would be expected to commence in the first half of 2011, as this is the earliest stage when the take-up rate of Gate 3 renewable offers and conventional offer can be predicted or known. This paper will also consider providing for "backfilling" if

conventional applicants eligible for an offer in this phase do not accept their offers.

Offer Issuance Criteria Considered

- 6.13 Beyond the “small steps” versus “big bang” question, the consultation paper laid out various options for selecting conventional projects for an offer in this phase with Gate 3 renewables. One was to choose them based purely on their connection application date (shown in Appendix 1), while another option would select projects for offer issuance on the basis of those with the earliest scheduled transmission firm connection date as indicated by the ITC Programme. Another approach was to ring-fence projects that have received a non-firm offer, and/or interconnectors, for a firm offer as part of this process.
- 6.14 Responses to these options are summarised in section 5. The Commission agrees with most respondents that a pure date order only approach is not desirable as it would take no account of the ability of the plant to be fully accommodated on the transmission system, which is currently quite congested, in the near future. This could threaten security of supply for the short to medium term, in contravention of one of the Commission’s statutory duties and its guiding objectives for this process (as outlined in section 3). Furthermore, given that security of supply is a key reason for allowing conventional plant to receive an offer ahead of certain prior renewable generators applicants, it would be unfair to them if the conventional plants issued an offer contributed little or no security of supply value.

Criteria for Conventional Connection Offers

- 6.15 In keeping with small steps, the Commission believes that a “multi-dimensional” approach should be applied in selecting conventional projects for an offer with Gate 3 renewables. They will be selected using the following three criteria:
1. All those generating projects which have received a non-firm offer - and not rejected it - as well as those already connected which are non-firm or partially firm. This includes five generation projects, totaling in the order of 600 MW, eligible for a non-firm offer on foot of a Commission direction last year¹⁵. In addition it includes two pumped storage generating plants also given non-firm approval by the Commission¹⁶. The five generation projects were selected by the Commission, in application date order, on the basis that they can be relatively easily accommodated on the transmission system and contribute to security of supply, so selecting them for a firm

¹⁵ The 5 projects are: Suir 98 MW OCGT; Caulstown 58 MW OCGT; Cuilean Power 98 MW OCGT; Edenderry 116 MW OCGT; Kilbride 280 MW OCGT. Please see <http://www.cer.ie/GetAttachment.aspx?id=1ce9dba5-70fa-4487-83d1-8d6f4f9ba288>

¹⁶ Please see <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=c254af28-c1bc-495b-8695-35f41573773f> & <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=a9046b59-2032-4ba8-aae7-063b3d06eb3c>

offer makes efficient use of transmission infrastructure and facilitates optimal development of it¹⁷.

As per the above it was assumed that these non-firm projects can be relatively easily accommodated on the transmission system, and to a large degree this remains the case, so selecting them for a firm offer makes efficient use of transmission infrastructure and facilitates optimal development of it, which is one of the Commission's objectives for this process. It is also simple and transparent, and, by recognising the ability of the system to accommodate the generating plant, will help contribute to competition and security of supply in a timely manner. In view of this and the general desirability not to have plant on the system on an enduring non-firm basis, as the system by definition will not be able to use these generators' output to the same extent as generators with firm access (and the SEM is not designed with this in mind), it is consistent with the Commission's objectives for this issue that they receive a firm offer.

For similar reasons the projects already on the network with non-firm or partially firm access which would also be eligible for an offer would be the 104 MW peaking plant at Tawnaghmore and the "extra" (i.e. which is above current network capacity) 215 MW applied for by Endesa at Great Island. The latter assumes "immediate" firm capacity being provided to Endesa for its 285 MW connection application at Tarbert, with 216 MW of firm likewise immediately provided to Endesa's Great Island plant. This is consistent with these sites' current firm connection capacity and is to uphold the integrity of the CER/ESB Asset Strategy. Endesa's extra 215 MW applied for at Great Island will therefore be eligible for an offer as this is considered as non-firm capacity pending allocation of a scheduled firm access date and the associated completion of the ITC Programme. Please see section 7 for further details on the CER/ESB Asset Strategy; and,

2. The first 500 MW of applicants with the earliest scheduled transmission firm connection date for their full requested Maximum Export Capacity (MEC), in addition to the projects eligible for an offer through (1) above, as indicated by the ITC Programme. This approach recognises the ability of the transmission system to accommodate the projects' output in the short to medium term and it means that those plants that can be connected to the transmission system on a firm basis relatively speedily, thereby contributing to security of supply and electricity market competition most quickly, will be eligible for an offer. It also makes efficient use of transmission infrastructure (both existing and planned capacity) and facilitates optimal development of it, as it means that offers issue to

¹⁷ While the security of supply deficit risk has abated recently on account of lower demand growth, the principle that they can be relatively easily accommodated on the transmission system remains.

those projects which require the least deep transmission upgrade works, thereby meeting another of the Commission's objectives. The results of the ITC Programme will be published by EirGrid so it will be transparent as to which plants have a firm connection offer on this basis. For clarity, scheduled firm access is allocated on an annual basis through the ITC Programme, so it is unlikely that 500 MW will be reached exactly in a particular year. If the ITC Programme allocates capacity to more applicants than are necessary to satisfy this 500 MW criterion in any one year, the applicants shall be chosen in application date order up to the first project that brings the total MEC above 500 MW; and,

3. In recognition of the strategic benefits of interconnectors associated with the cross border trade in electricity, an interconnector with the earliest full scheduled firm access date as determined by the ITC Programme will be eligible for an offer. This is likely to be IMERA's 350 MW application for an east-west interconnector at Arklow. It should be noted that the firm connection date for this interconnector from the ITC Programme will be using the application date order methodology as with all conventional applicants. This is a proportionate step, recognising the benefits of interconnectors but also that they cannot be viewed in isolation to generator applicants in what is a congested network. The Commission is of the opinion that its proposal strikes a balance between the public interest, legislative and policy objectives sought to be achieved in Gate 3, and that there will not be a disproportionate impact on other applicants in the connection queue. Please note that this interconnector issue is discussed in more detail in section 7.

- 6.16 Overall, this approach is in accordance with "small steps" and the Commission's objectives, and means that those conventional projects that can be connected to the transmission system on a firm basis in the short and medium-term will receive an offer, with benefits as explained earlier. It provides for circa 1,600 MW of conventional generation plant connection offers being issued in this phase with Gate 3, in addition to one interconnector project.
- 6.17 Conventional applicants that are eligible to receive an offer will be required to pay the standard processing fee. Further details of the processing fee are provided in section 6.29.
- 6.18 The criteria for selecting conventional projects for an offer in the next phase(s) will be subject to a separate consultation closer to the time. This is expected to commence in the first half of 2011, as this is the earliest stage when the take-up rate of Gate 3 renewable offers and conventional offer can be predicted or known. This paper will also consider providing for "backfilling" if conventional applicants eligible for an offer in this phase do not accept their offers.

Scheduled Firm Access Quantities

- 6.19 Firm access dates will initially be determined for the conventional applicants eligible for an offer (see above) and the Gate 3 renewable projects using the ITC Programme, with application date order methodology as already set out in Gate 3 direction. Details of the assumptions used in the ITC Programme are published in Appendix 2.
- 6.20 Once scheduled firm access is allocated to the above conventional projects eligible for an offer, the rest are removed from the ITC Programme to free up capacity for Gate 3 renewables and speed up the ITC Programme running time. The ITC Programme will not be restarted to reallocate partial capacity to applicants not eligible for an offer. The exception to this would be small-scale (< 5 MW) generation projects, autoproducers or non-wind renewable projects outside the GPA which would not be removed from the ITC programme (once firm dates are allocated to the large scale ones). This is because, given their potential public benefits, these projects are being considered for firm offer issuance separately by the Commission under a separate public consultation process¹⁸, a decision on which is expected over the next few working days.
- 6.21 In addition, EirGrid will apply criteria for the allocation of scheduled firm access quantities, for both Gate 3 renewable projects and the conventional projects eligible for an offer, which will examine the cost of alleviating transmission constraints (via transmission reinforcements) versus the cost of incurring the constraint costs. This is already the underlying basis with which EirGrid determines transmission reinforcements associated with a generator. It recognises the reality that when building the network, EirGrid, in keeping with its functions as licensed transmission system operator, develops the transmission system efficiently. This means that EirGrid would not develop a transmission reinforcement for a connecting party where the cost of that reinforcement is greater than the anticipated cost of system constraints incurred by not building it. To do so would result in an inefficient system leading to higher end-user costs (if this was the sole reason for developing the deep reinforcement). In recognition of this reality, the criteria may therefore bring forward the firm connection dates for the projects eligible for an offer from those determined by the ITC Programme, to their benefit. This approach should, by definition, also be beneficial to the end user. EirGrid is currently developing an approach to the application of these criteria, to be approved by the Commission, and they will be published with the final direction, anticipated in October. For information, the issue of deemed firm access, whereby the Firm Access Quantity (FAQ) or the MEC is

¹⁸ Please see <http://www.cer.ie/en/electricity-distribution-network-current-consultations.aspx?article=d1dda12a-378f-4d96-bf82-d1883d8111c1>

granted before the completion of the necessary transmission system reinforcements, is being consulted on separately.¹⁹

Commitment Issues Considered

6.22 Through the ITC Programme scarce firm capacity at a node for any year between 2010 and 2025 is rationed among the generator applicants on an application date order basis. Therefore, one issue to selecting conventional applicants for an offer is that those applicants who applied for connection recently and who have the intent/ability to proceed to construction, could have their allocation of firm capacity “delayed” by more “speculative” applicants (i.e. those not intent or capable of proceeding to construction) who applied for connection slightly earlier, such that they wouldn’t receive an offer. Issuing offers to conventional plants that have neither the intention nor ability to proceed to construction, ahead of other plants that do, would seem at first glance contrary to the Commission’s objectives of efficiency and timeliness in implementation.

6.23 For this reason the consultation paper presented for comment possible ways in which a conventional project could be required to demonstrate advanced commitment, indicating that it is serious and/or capable to proceed to construction, in order to receive a connection offer. These are briefly summarised as follows:

- Post a commitment bond after scheduled firm connection dates are published (but in advance of offer issuance), of say Eur10,000 per MW;
- Participate in an auction with an offer issued to the highest bidder;
- Pay the application processing in advance of publication of the scheduled firm connection dates, rather than after when eligible for an offer;
- Show the Commission evidence of financial capability such as a letter of guarantee; and/or,
- Show the Commission evidence of “ready-to-go” such as planning permission or an IPC licence.

6.24 Most respondents to the consultation were in favour of some level of advanced commitment being shown in order to receive an offer, though some were also strongly against, with varying opinions expressed on the different commitment options as summarised in section 5.

No Advanced Commitment for this Phase

6.25 The Commission has considered this issue and notes that, given it is adopting a small steps rather than a big bang approach, the risk or

¹⁹ Please see: “Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code, A Consultation Paper”, SEM-09-073 - http://www.allislandproject.org/en/programme_updates_recent_publications.aspx?article=3860d95f-1b34-4bce-99c4-7bd5d2050371

impact of serious projects being delayed by prior speculative ones in this phase (i.e. with Gate 3 renewable projects) is significantly reduced. With small steps, offers can be issued to conventional applicants in future phase(s) relatively quickly - a consultation paper on the offer issuance criteria for the next phase is anticipated for the first half of 2011 and this can consider providing for “backfilling” if conventional applicants eligible for an offer in this phase do not accept their offers. Furthermore, requiring financial or other commitments from applicants in this phase in advance of an offer, such that those which do not provide the commitment would then be removed from the ITC Programme (which is already running) prior to its finalisation and offer issuance, would save little net time/resources and would not provide a more efficient use of transmission capacity. Hence the key reason for requiring advanced commitment from a conventional applicant has been largely removed.

- 6.26 In addition, the Commission acknowledges that in the current deteriorated economic environment, it may be difficult for applicants to demonstrate significant financial commitment in advance of full connection terms and conditions being known. Thus advanced financial commitment could constitute a potential and unnecessary market entry barrier, to the detriment of competition. This is especially the case for the bond and auction options. On the other hand, the processing fee is relatively small so requiring it from all applicants before the publication of the firm connection dates arguably does not demonstrate sufficient commitment, while at the same time it would not be saving significant time overall as referred to above. Only applicants that are known to be eligible for an offer will be required to pay the processing fee, as discussed later.
- 6.27 The Commission has also decided against using evidence of financial capability as a criterion for an applicant receiving an offer. This is because in the current economic environment applicants may have difficulty in providing the Commission with a letter of guarantee from the company or lending institution in advance of offer issuance. This would mean that the Commission would have to use of other methods to assess financial capability, such as the health of a company’s balance sheet and/or projected profit levels, which would be difficult to assess presently, thereby being potentially subjective and subject to subsequent legal challenge. Similarly a ready-to-go approach could be argued to be subjective and is also subject to timing problems where, for example, an applicant’s planning permission is about to expire and/or its application is currently in the planning application process. This is not to say that such an approach does not have a place in the future - see section 6.31.
- 6.28 In the context of these issues and particularly the diminished benefit associated with requiring advanced commitment under a small steps approach (as explained above), the Commission has decided against

requiring advanced commitment to make conventional projects eligible for an offer in this phase.

Requirements to Receive an Offer

- 6.29 Instead conventional applicants that are eligible to receive an offer will be required to pay the standard processing fee (to cover the system operator administration costs of issuing the offer) within 20 business days of the publication by EirGrid of the final firm connection dates for those eligible for an offer, anticipated by end January (see section 8). Should they not pay this fee, they will not be eligible for an offer. Should they pay the fee and then not accept their offer, the fee will not be returned as the administration cost has already been incurred by the system operator. The applicable processing fees are shown below, minus €7,000 already paid upfront for transmission connection applications submitted.

Connection Application Fees Excluding VAT		
MEC	Shallow Works Required	No Shallow Works Required
0 < 11 kW	€0	€0
11 < 50 kW	€789	€789
50 < 500 kW	€1,611	€1,642
500 kW < 4 MW	€9,145	€8,805
4 < 10 MW	€28,211	€23,642
10 < 30 MW	€54,642	€33,758
30 < 50 MW	€63,676	€37,846
50 < 100 MW	€76,367	€40,807
>100 MW	€89,389	€44,348

- 6.30 Applicants will then be required to demonstrate commitment at offer acceptance stage under the normal process, i.e. should they wish to accept their offer, they must post the Eur10,000 per MW capacity bond and pay a contribution to their shallow connection assets to the system operator.

Possible Advanced Commitment in Future Phases

- 6.31 The criteria for selecting generators for offer issuance in a subsequent phase(s) may be very different to this phase - indeed this flexibility is one of the key reasons for adopting “small steps” between now and 2025. While not applying advanced commitment as a criterion for an offer in this phase (for the reasons laid out above), the Commission believes that there may be merit in doing so for a subsequent phase(s), in order to help ensure that those in connection queue are serious and have the intent to proceed, and to help reduce “the rush to apply” mentality that has arguably contributed to a long connection queue.

This issue, along with the general criteria for subsequent phase(s), will be subject to consultation closer to the time, but the Commission is flagging this now as a distinct possibility for implementation. This issue will be dealt with as part of the consultation process on offers for future phases, expected to commence in the first half of 2011.

7. Related Public Policy Issues

- 7.1 In the context of the criteria on which conventional applicants should receive a connection offer, the consultation paper raised inter-related matters/projects as having potential particular importance due to the public interest. The Commission now sets out its proposed decisions on these areas as follows.

Asset Strategy Agreement

- 7.2 The Irish Government's White Paper on energy²⁰, which sets out Ireland's energy policy framework to 2020, provides for the divestment and re-powering of certain ESB generating plant. This is in order to aide security of supply, the integration of renewable generation, liberalisation of the electricity market and the promotion of competition.
- 7.3 In this vein the Asset Strategy Agreement (ASA) was entered into between the Commission and ESB in April 2007 for the sale of certain ESB power stations, with the objective to reduce ESB's dominant market share and promote competition for the benefit of the end-customer. As part of the ASA, ESB was allowed to build a 430 MW gas fired power station at Aghada in County Cork on condition that it agreed to divest itself of at least 1,500 MW generating capacity and offered sites to third parties for erecting generating stations. The successful divestment of certain capacity/sites was a necessary "quid pro quo" to allowing ESB build a new plant in Aghada - otherwise instead of competition being advanced as per the Government's White Paper, ESB's market share could actually intensify.
- 7.4 As part of the ASA, Endesa, a Spanish utility acquired a number of ESB power stations and has applied to EirGrid for a connection offer to re-power these, as follows:
- For the existing 589 MW Tarbert station, Endesa have applied to re-power with a 285 MW mid-merit plant using LMS 100 technology; and,
 - For the existing 216 MW Great Island station, Endesa have applied to re-power with a 431 MW high-merit CCGT plant.
- 7.5 The Commission made provision in its direction on Gate 3 (CER/08/260)²¹ for the ASA²² noting that in developing the criteria for the issuance of connection offers to conventional applicants (including interconnectors), it would take into account, inter alia, the overall objective of the ASA. The Commission stated it would only "*bring forward' projects for connection if warranted on the grounds of their*

²⁰ Please see <http://www.dcenr.gov.ie/Energy/Energy+Planning+Division/Energy+White+Paper.htm>

²¹ CER/08/260 at Section 8.6.

²² <http://www.cer.ie/GetAttachment.aspx?id=84559ccb-ad26-4da1-aea4-179d920a61bf>

*wide system/public benefit and where this does not have disproportionate impact on other applicants.*²³

Existing Capacity at Tarbert & Great Island

- 7.6 To uphold the basic integrity of the bidding process which underlay the Asset Strategy Programme the Commission proposes to direct EirGrid that Endesa has at least “pre-existing” firm connection rights at Tarbert and Great Island, i.e. has immediate firm capacity consistent with these sites' current connection capacity.
- 7.7 The Commission’s statutory function to promote competition²⁴ is particularly served by enabling Endesa to proceed with the capacity previously allotted to ESB as was envisaged in the ASA. Otherwise acquisition of the sites would not have been commercially attractive to bidders and there would be no competition gains.
- 7.8 The environmental²⁵ and public interest benefits from re-powering an existing “brownfield” site as opposed to developing a new “greenfield” one must be taken into account by the Commission in light of its statutory duties. The transferability of existing capacity at Great Island and Tarbert is also consistent with encouragement of the efficient use and production of electricity by the Commission.²⁶ As Endesa’s connections at Great Island and Tarbert are not “greenfield connections”, connection of the proposed new stations’ current capacity would not result in significant additional network capacity requirements as the necessary infrastructure for the current capacity rights is already in situ.
- 7.9 To uphold the goals of the ASA and policy as outlined in the White Paper, the Commission proposes to direct that Endesa’s application at Tarbert should receive “immediate” firm capacity for its 285 MW application, and at Great Island Endesa likewise receives 216 MW of firm capacity upfront. This is consistent with the sites’ current connection capacity as assessed on an equivalence or like for like basis and in particular following studies from EirGrid which confirmed that this would not result in significant network capacity reinforcements. Furthermore, it would not impact in a significant adverse material fashion on other parties connected or contracted to connect to the network or due to receive a connection offer as part of Gate 3.

Additional Capacity at Great Island

- 7.10 Endesa has applied for an additional 215 MW of capacity at Great Island and the consultation invited comment as to how to treat this. The Commission proposes to direct EirGrid to treat the Endesa application

²³ CER/08/260 at Section 4.13, Commission Response page 31.

²⁴ See section 9(4)(a) of the Act.

²⁵ See section 9(5)(a) of the Act.

²⁶ See section 9(5)(b) of the Act.

for this extra capacity as if it had been made at the date of Endesa's actual bid, i.e. 16th June 2008, rather than the date the Endesa application for Great Island had been submitted. This is for the following reasons:

- The Commission must have regard to the need to promote competition in the generation of electricity.²⁷ The importance of competition is a key objective of the Memorandum of Understanding between the Commission and NIAUR which underpinned the establishment of the All Island Single Electricity Market. The successful implementation of the ASA is necessary to ensure the whole competitive structure of the Irish Energy Market. The promotion of competition is particularly served through the divestment of a set portion of ESB's market share and the introduction of Endesa pursuant to the ASA. This basis of entry into the generation market distinguishes Endesa from all other applicants in the queue. If the integrity of the bidding process which underlay the success of the Asset Strategy Programme is not upheld, the public policy objective of the Asset Strategy could be frustrated. Indeed as referred to earlier, if the ASA is not successful ESB's market share could in fact be increased, contrary to Government policy.
- The Commission must recognise that Endesa or indeed any of the bidders who participated in the bidding process were subject to unavoidable delays inherent in the bidding process. These were out of the control of any of the bidders. Endesa was not in a position to apply for a connection offer until it had emerged as preferred bidder and had actually signed, or was near to signing, the final purchase contracts. Had Endesa applied earlier than the date of its emergence as the preferred bidder, it would have meant making a highly speculative application for the additional capacity at Great Island. The Commission does not condone or encourage the making of speculative applications for connection. In preserving the integrity of the Asset Strategy Programme the Commission must ensure that successful bidders are not prejudiced or disadvantaged by the inevitable delays and constraints they faced in making connection applications.
- As set out in the consultation, it was clear to bidders that these old stations relying on old technology and lacking the efficiency of newer gas stations, would be re-powered by the successful bidders. Based on an analysis carried out by EirGrid²⁸ in mid 2007 in the context of the assumptions and system conditions of the time, the Great Island node was identified as a "good location" with 250 to 400 MW of available generation capacity for connection. Endesa committed to the acquisition of Great Island on the expectation of

²⁷ See section 9(4)(a) of the Act.

²⁸ See letter from EirGrid made available to Bidders dated 31 October 2007.

expanded capacity at Great Island. Notably, Endesa did not seek additional capacity at Tarbert based on EirGrid's analysis that Tarbert was no longer a desirable location for new capacity.

- 7.11 Accordingly, the Commission is of the opinion that exceptional circumstances exist justifying it to distinguish Endesa from all other conventional applicants and departing from the date of application order for this extra capacity at Great Island. This is warranted on the basis of the legislative and policy grounds underlying the ASA and the wider system and public benefit as set out above. The Commission therefore proposes to direct EirGrid to treat the Endesa application in the ITC Programme for this extra capacity as if it had been made at the date of Endesa's actual bid i.e. 16th June 2008.

Interconnection Policy

- 7.12 The Commission consulted on whether it is appropriate to treat interconnectors in the same way as generation stations for a firm offer as part of this process or whether they should be treated differently. As stated in the consultation there are some obvious key differences which would tend to suggest that interconnectors offer strategic benefits not shared by generators. In particular, interconnectors can transmit electricity in both directions. The Commission therefore recognises the following interconnector benefits:

- Increases and facilitates cross-border trade, encouraging internal market integration - one of the primary aims of the European internal market in electricity. The European Commission identified interconnection between Ireland and UK as being a priority project in its decision on trans-European networks²⁹;
- Supports security of supply by creating the opportunity to import electricity from the UK;
- Promotes competition amongst generators in the market; and,
- Can off-take electricity from the grid, providing opportunities for generators to export electricity to the UK.

- 7.13 The Commission has previously recognised the exceptional features and strategic benefits of interconnection, when it directed EirGrid to make a non-firm offer to Imera's proposed interconnector project for connection at Arklow, TG127³⁰, ahead of other applicants. This was also on the basis that a non-firm offer would not disproportionately impact on other applicants ahead of Imera in the connection queue.

- 7.14 As and when it can be accommodated on the network i.e. when grid upgrades are complete, the Commission welcomes the contribution interconnectors can make towards an internal market in energy in Europe. The Commission notes that there are two merchant

²⁹ Decision 1364/2006.

³⁰ <http://www.cer.ie/en/electricity-transmission-network-decision-documents.aspx?article=9de081a5-f5d5-4134-8e2c-76479fb45fce>

interconnectors currently in the queue for Gate 3 connection offers, Interconnector T127 at Arklow and P181 at Great Island.

- 7.15 However, interconnector applications cannot be considered in a legislative and policy vacuum. Capacity allocation on the Irish transmission system is a scarce and valuable resource and the capacity constraints underlies the Gate 3 direction and the proposed direction criteria herein. Though national energy infrastructure will be strategically developed and upgraded to address longer term capacity deficits, as planned through EirGrid's *Grid25*, this will not happen immediately. Therefore at this point in time the Commission cannot disregard the reality that as an importer of electricity from the UK an interconnector is similar to generators for transmission connections as a user of capacity on a severely constrained system. In other words, the strategic benefits of interconnection do not mean that interconnection should be advanced in Gate 3 regardless of its impact on other applicants for network capacity in a congested system.
- 7.16 In recognition of the strategic benefits of interconnectors above and beyond generators, namely achieving cross border trade in electricity, the Commission proposes to allow a connection offer to be issued as part of this process (i.e. with Gate 3) to an interconnector with the earliest full scheduled firm access date as determined by the ITC Programme. This is likely to be IMERA's 350 MW application for an east-west interconnector at Arklow. It should be noted that the firm connection date for this interconnector will be determined through the ITC Programme using the application date order methodology as with all conventional applicants.
- 7.17 This is a proportionate step, recognising the benefits of interconnectors but also that they cannot be viewed in isolation to generator applicants in what is a congested network. The Commission is of the opinion that its proposal strikes a balance between the public interest, legislative and policy objectives sought to be achieved in Gate 3, and that there will not be a disproportionate impact on other applicants in the queue.

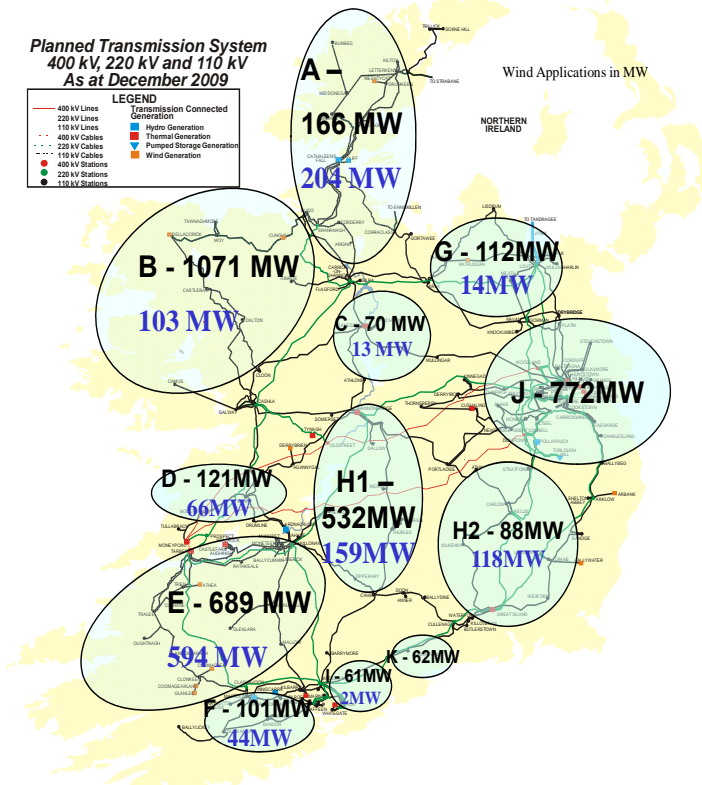
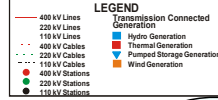
8. Timelines

- 8.1 It is anticipated that the scheduled firm access quantities/dates will be published by EirGrid in phases, following the completion of ITC Programme runs, from September through to early January. It is anticipated that the first 4 years of firm access dates (2010 to 2013) will be published in September, the next 4 years (2014 to 2017) in November, the next 4 years (2018 to 2021) in early January and the final four years (2022 to 2025) at the end of January. This is subject to no issues appearing with the Programme or the firm access results which could necessitate a Programme re-run. The Commission continues to reserve the right to request EirGrid to re-run the Programme if warranted on security of supply, competition, environmental or other public interest grounds.
- 8.2 In order to receive an offer, all conventional projects eligible for an offer will be required to pay the standard processing fee within 20 business days of the final firm access dates being published (anticipated by end January as above).
- 8.3 Assuming they pay the processing fee, conventional applicants will receive an offer along with Gate 3 renewable generators, i.e. between December 2009 and June 2011. When within this period they will receive an offer depends on what Gate 3 offer group they are associated with, which in turn depends on what part of the country they are located in. This is shown in the table below, which links to the following illustration.

Area	Offers Issue
K	17/12/2009
D	02/04/2010
H2	29/07/2010
H1	17/09/2010
B	13/10/2010
F	23/11/2010
E	07/03/2011
J	13/04/2011
A	10/06/2011
C	15/06/2011
G	17/06/2011
I	21/06/2011

Gate 3 ≈ 3900 MW
 Gate 2 ≈ 1300 MW

Planned Transmission System
 400 kV, 220 kV and 110 kV
 As at December 2009



Source:
 EirGrid,
 ESB Networks

- 8.4 To help ensure an efficient offer issuance programme, conventional applicants in this phase must accept their offer within 50 business days rather than the standard 70. They must also submit any disputes to the Commission by business day 25 of the 50-business day offer timeline. These are the same timelines that apply to Gate 3 renewable generators, and provide parties with sufficient time to examine the terms/conditions of their offers while also keeping the overall offer programme reasonably tight.

9. Next Steps

- 9.1 Given the importance and complexity of this issue, the Commission will hold a public workshop with interested stakeholders to explain and discuss the proposals presented in this paper. Stakeholders will also be given the opportunity to air their opinions on this matter. The workshop will be held at the Gresham Hotel in Dublin from 14:00 to 17:00 on Wednesday 26th August. Parties interested in attending this workshop should contact John Lynch at the Commission (preferably by e-mail) by Tuesday 18th August. A full agenda of the workshop will be circulated by e-mail to interested parties by Friday 21st August.
- 9.2 Comments to this proposed direction are requested by e-mail, post or fax and marked for the attention of John Lynch at the Commission by no later than 17:00 on Friday 11th September 2009.
- 9.3 Following a review of comments received to this paper, the Commission will publish a final direction to the system operators, EirGrid as TSO and ESB Networks as DSO, on the treatment of conventional generator connection applicants (including interconnectors), pursuant to Section 34 of the Electricity Regulation Act, 1999. This direction is expected in October.

Appendix 1: List of Conventional Applications in ITC Programme

Reference	Application received date	Application Type	Project	MEC [MW]
TG72	31/10/2006	BIOMASS	Carrowleagh 100MW Biomass	97
TG80	14/11/2006	Pumped Storage	Kippagh Lough	70
TG81	14/11/2006	Pumped Storage	Knockagreenan	70
TG79	30/03/2007	Conventional TSO	Suir OCGT	98
DG293	03/05/2007	CHP DSO	GOE Project	12.5
DG298	24/05/2007	CHP DSO	Elm Park Development 3	0.22
DG300	24/05/2007	CHP DSO	Elm Park Developments 5	0.334
TG89	02/07/2007	Conventional TSO	Caulstown GT	58
P121	03/10/2007	Conventional TSO	Oriel	25
TG100	30/10/2007	Conventional TSO	Boherduff OCGT	98.4
DG313	21/11/2007	LFG DSO	Knockharley Landfill Phase 2	4.275
DG314	21/11/2007	LFG DSO	Knockharley Phase 1	1.425
P38GB	21/11/2007	Conventional TSO	Coomacheo Pumped Storage (within existing wind farm)	0
TG158	06/12/2007	Conventional TSO	Edenderry Power	116
TG123	21/12/2007	Conventional TSO	Cuilleen Power OCGT	98.4
TG159	23/01/2008	Conventional TSO	Ballymonelly OCGT	110.25
TG124	07/02/2008	Conventional TSO	Kilbride OCGT	280
DG534	18/02/2008	LFG DSO	Connaught Regional Residual Landfill	0.75
DG535	18/02/2008	LFG DSO	Connaught Region Residual Landfill Phase 2	3.525
DG536	18/02/2008	LFG DSO	Ballynagran Phase 1	0.75
DG537	18/02/2008	LFG DSO	Ballynagran Phase 2	3.505
DG325	22/02/2008	CHP DSO	Ballyshannon Farms	0.15
TG161	03/03/2008	Conventional TSO	Barretts Park OCGT	202.5
TG127	04/03/2008	Conventional TSO	Templerrainey Interconnector	350
DG547	31/03/2008	Biogas DSO	McDonnell Farms Biogas	0.44
TG137	01/04/2008	Conventional TSO	Dunstown Power	196.8
DG546	04/04/2008	Biogas DSO	R & L Dowley Biogas	0.44
DG554	17/04/2008	CHP DSO	Farrelly Brothers Timberpro	10
TG162	21/04/2008	Conventional TSO	Bellacorrick Peaking Plant	94
TG160	06/05/2008	Conventional TSO	Kinnegad Power	197.2
DG566	26/05/2008	CHP DSO	Keelings CHP	4
DG565	28/05/2008	Waste to Energy DSO	Dublin Waste to Energy	72
DG564	06/06/2008	Biogas DSO	Adambridge Manufacturers Ltd	3
DG563	19/06/2008	Biogas DSO	Gorteen Lower	1
	19/06/2008	Conventional DSO	Tawnaghmore Peaking Plants	104
P170	28/08/2008	Conventional TSO	Derrygreenagh OCGT	166.5
P170A	28/08/2008	Conventional TSO	Derrygreenagh CCGT	442
P171	04/09/2008	Conventional TSO	Waterford Port Power	115.2
P172	08/09/2008	Conventional TSO	Cahernagh Mid Merit	101
P173	11/09/2008	Conventional TSO	Monavallet OCGT	280
P174	11/09/2008	Conventional TSO	Hayestown OCGT	392
P176	29/09/2008	Conventional TSO	Brinny Mid Merit	101
P177	30/09/2008	Conventional TSO	Cullenatreen Power	115.2
P178	30/09/2008	Conventional TSO	Ralappane CHP	40

P179	30/09/2008	Conventional TSO	Ardmore Electricity	230
DG619	08/10/2008	Conventional DSO	Derrynadivva Peaking Plant Phase 1	10
DG620	08/10/2008	Conventional DSO	Derrynadivva Peaking plant Phase 2	10
DG621	08/10/2008	Conventional DSO	Gortahile Peaking Plant	20
P180	08/10/2008	Conventional TSO	Luirc Mid Merit	318
DG622	14/10/2008	Conventional DSO	Scart Peaking Plant	20
DG623	14/10/2008	Conventional DSO	Scart Peaking Plant Phase 2	20
P181	21/10/2008	Conventional TSO	EuropaGrid Interconnector	700
P54C	22/10/2008	Conventional TSO	Ballywater Biogas	5
P182	24/10/2008	Conventional TSO	Ballymakaily	115.2
P184	29/10/2008	Conventional TSO	Great Island – Note: the application date is deemed to be different for the purposes of ITC Programme, as referred to in this paper.	215
P185	29/10/2008	Conventional TSO	Knockmay Peaking Plant	58
P187	17/11/2008	Conventional TSO	Derrycarney	325

Appendix 2: ITC Programme Assumptions



Technical assumptions to be applied in Gate 3 ITC runs

(July 2009)

Introduction

This document collates the assumptions which the Transmission System Operator is intending to use in the Incremental Transfer Capacity/Capability (ITC) phase of the network studies associated with the processing of connection offers for “Gate 3”.

These assumptions are required to be able to apply the methodology outlined in the Commission for Energy Regulation (CER) direction ‘CER direction for Gate 3 and related matters’ issued on 16th December 2008 (“Gate 3 Direction”).

The ITC Programme has been run for the initial years from 2010 onwards. In the course of these runs, a number of issues were identified where amendments can be made to facilitate greater levels of firm access. As a result, the ITC Programme was re-started at the beginning of July following consultation with the CER in order to adopt these and other changes. It is hoped to make these improvements, which ensure better quality offers are provided to customers, with minimal impact on the offer delivery schedule. These improvements are included within the list of assumptions included in this document - particularly section 2 on the network development assumptions.

The assumptions have been collated under headings that best reflect the nature of the assumption.

1. Generation

Generation considered in Gate:

Renewables to be considered in the Gate:

As per the Gate 3 Direction, the total MW equates to 4018MW.

The actual list of applicants can be found in 'Gate 3 node assignments' document. This list totals to 154 applicants³¹, 30 TSO and 124 DSO applicants. Any applicant who is no longer eligible or does not want an offer will not be replaced in the list.

No new generation in Northern Ireland is assumed.

Conventional³² to be considered in the Gate:

As per Gate 3 Direction, the MW total equates to c. 6689MW.

The actual list of applicants can be found in 'Gate 3 node assignments' document. This list totals to 57 applicants³³, 33 TSO and 24 DSO applicants. Any applicant who is no longer eligible or does not want an offer will not be replaced in the list.

No new generation in Northern Ireland is assumed.

It is assumed that the criteria for selecting conventional plant to receive connection offers will be on the basis of:

- Any applicants who have received or are due to receive a non-firm connection offer. These applicants are:
 - TG80 Kippagh Lough 70MW Pumped Storage Plant
 - TG81 Knocknagreenan 70MW Pumped Storage Plant
 - TG79 Suir 98MW OCGT
 - TG89 Caulstown 58MW GT
 - TG158 Edenderry 116MW Peaking Plant
 - TG123 Cuilleen 98.4MW OCGT
 - TG124 Kilbride 280MW OCGT;
- Any party with a connection contract for partial firm access. These applicants are:
 - Tawnaghmore two 52MW peaking plants (104MW in total)
 - P184 Great Island additional capacity of 215MW;

³¹ A TSO and DSO 'applicant' in this context is defined by which of the system operators they made their application to, and does not represent the connection point and thus which of the system operators that the applicant will be offered a connection.

³² In line with node assignments the term 'conventional' in this context relates to all non-wind fuelled generation. Note the MEC for the hybrid scheme, 'Oriol', is accounted for as mainly renewable for with the residue conventional.

³³ See footnote i above.

- The first 500 MW of applicants with the earliest scheduled transmission firm connection date for their full requested Maximum Export Capacity in addition to the projects eligible for an offer above, as indicated by the ITC Programme;
- The interconnector with the earliest full scheduled firm access date as determined initially by the ITC Programme.

Once the criteria above have been satisfied the remaining conventional applications will be removed for the subsequent year runs of the ITC, bar the non-GPA generators consisting of small scale (< 5MW) projects, autoproducers or non-wind renewables. Any partial capacity allocated to conventional plant that is removed from the ITC will not be reallocated as this would involve restarting the ITC.

Generation already assumed in model:

Existing generation plant portfolio:

The existing generation plant portfolio (including Northern Ireland) in FS08 Planet database model will be in the network models used in Gate 3. This involves no closures except as noted below. The list of this generation can be found in Appendix D of the Forecast Statement available at www.eirgrid.com.

The following closures are assumed and associated capacity available to the system:

- Poolbeg Unit 3 closed from 2007.
- Poolbeg Units 1 and 2 closed from the end of quarter 1 2010.
- Marina Steam Turbine end of 2009

New generation to be added:

Three sources of additional generation will be added to the model, conventional and renewable, over and above that of the existing generation portfolio in the FS08 database.

The first is any remaining Gate 2 generation that has not signed its offer, and the offer is still valid post 1 April 2008 (the data freeze date for the FS08 database). All generation in Gate 2 that has signed post this date or offer lapsed pre 1st July 2009 will or will not be included in the model accordingly.

All remaining Gate 2 offers 'live' post 1st July 2009 will be assumed to be included in the model.

The second source of generation in the model will be driven by the existing offers that are still 'live' or 'committed' conventional offers post 1st April 2008. The list of the applicable generators, their status and the philosophy for their use is:

- Ballakelly CCGT in Co. Louth has accepted its connection offer.

- Nore Power in Co. Kilkenny has accepted its connection offer.

Both these generators will be added to the model and dispatched as with all existing firm generators.

The two pumped storage units included in Gate 2, Kippagh Lough and Knocknagreen, were issued with non-firm connection offers. They will be included in the model and tested for firm access in date order as per their application dates.

Similarly, both the peaking sets, either already connected or due to be connected, in Tawnaghmore will be tested for firm access in date order as per the date that firm access was applied for.

The third source will be as a result of re-powering applications of existing generation at both Tarbert and Great Island.

The existing generation in Tarbert (G1-4) will be replaced based on the applicant desired connection date with the replacement generation in the application. The replacement generations' total MEC is lower than the combined total existing generations MEC that are to be removed.

The existing generation in Great Island (G1-3) will be replaced based on the applicant desired connection date with the replacement generation in the application up to the existing contracted MEC for the combined total existing generations MEC. This remaining increase in MEC will be treated in the same manner as any other generators requested MEC in Gate 3, and will have an application received date of the 16th June 2008.

Interconnection

Interconnection considered in Gate:

Interconnection in Gate:

As per Gate 3 Direction, two TSO applications totaling 1050MW.

Interconnection already assumed in the model:

Existing Interconnection portfolio:

The existing generation plant portfolio in FS08 Planet database model will be in the network models used in Gate 3. These are the Moyle and EWIC interconnectors.

2. Network

Network development utilised in the Gate:

As per Gate 3 Direction, a Grid25 derived list of reinforcements will be included in the network models for the ITC runs.

The timing of the addition of new network build into the ITC model will be derived from Grid25, use standard lead-times for construction of new assets and certain practical considerations (e.g. the ability to obtain outages and sustainable capital spend).

The addition of line uprates to the ITC model for the 2010 run will be based on the most heavily loaded lines identified from some initial Grid25 and Gate 3 related studies. The timing of the addition of line uprates to the ITC model for each of the years 2011 through to 2025 will be based on those lines identified from the previous year's ITC run as being the most restrictive from a firm access perspective. The programming of line uprates will be done as systematically as possible taking into account practical considerations e.g. ability to obtain outages or where there is another uprate or new-build following closely behind which would negate the need for the uprate.

In addition to the Grid25 list of reinforcements, additional reactive support and or equipment changes (for primarily short circuit reasons) that are required to provide a valid system model at the start of each season or year will be added as required. The definition of a valid system model is a system model which will remain compliant following the loss of any item of plant or equipment due to fault or outage.

Network already assumed in model:

Existing network model:

The existing network model (including Northern Ireland) in FS08 Planet database model will be in the network models used in Gate 3. Details of the existing network models circuits, stations and transformers can be found in Appendix B of the Forecast Statement available at www.eirgrid.com.

New developments to be added:

A number of sources of additional network will be added to the model produced from the FS08 database.

All of these reinforcements will be added based on the current transmission standards and policies.

DSO related developments

In line with Grid25 the current Dublin City Plan (DCP), the elements of this DSO's proposal for long term development of Dublin's network, at 110kV or above, will be added based on the lead-times included in their report.

In addition to this additional transformer capacity is required to cover the period beyond the DCP end date to 2025. The system models will therefore be modified to reflect the need for increased transformer capacity as it arises.

These additional developments will be added to the model either by the DCP dates, or as required to obtain an N-1 compliant base case.

Gate 2 deep reinforcements

All Gate 2 deep reinforcements associated with Gate 2 that are not already in the FS08 database will be added in line with Grid25.

Capital Approved projects post FS08:

Any capital projects approved post the 1st April 2008 and prior to commencement of the ITC analysis will be included in the system model on the basis of the estimated completion date in the capital approval.

New Generation to be added to the model:

Additional firm generation outside of Gate 3 that are added to the FS08 database post 1st April 2008, which is restricted to Ballakelly and Nore Power will have the deep reinforcements associated with them added to the model as per the estimated completion dates derived as part of their offer processing.

Transmission shallow connection assets:

All³⁴ transmission shallow connection assets will be assumed to be completed immediately (and therefore in all seasons and years of study) to avoid shallow connection assets biasing the firm access quantities to be offered to the individual generators.

Offers will however recognize the completion date for shallow assets by only offering firm access quantities on the basis of the completion date of both the deep or shallow connection assets required for the generator.

³⁴ Due to lead-time involved in delivering 220kV infrastructure, in the case of Seecon (Galway) and Bellacorrick (Mayo) nodes (both of which involve 220kV shallow connections) we are utilising the existing 110kV network in the early years of the ITC model.

3. Load

Load utilised in the study:

The load demand used in the Gate 3 network models will be based on the latest forecast demand figures published in the updated Generation Adequacy Report by EirGrid in Q3 2009 (www.eirgrid.com).

Northern Ireland:

The load demand used in the Gate 3 network models will be based on the most up to date forecast demand figures provided by SONI.

4. Technical parameters

Firm Access Quantity step size:

0.5MW will be used in line with the Gate 3 Direction.

Order of Study:

Applications shall be tested in application date order at the nodes specified in the Gate 3 Node Assignments List published on the 22nd May 2009 as amended by approved Gate 3 change requests.

Period of Study:

Studies will completed from, and including, winter peak 2010 until winter peak 2025, using study periods at summer night valley, summer peak and winter peak.

Firm Access Quantity per applicant:

A scheduled Firm Access Quantity, either in part or full of their requested MEC cannot be guaranteed for each applicant.

Consequently, in the event that the Commission's objectives are not met then either in part, or entirety, the ITC phase of the process will need to be re-run with assumptions adapted to those outlined in this document, most likely with an augmented network model.

In this situation this document will be re-written with the new assumptions and a new version issued.