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Our Ref: EN01-003184

19 July 2012

Dear Kevin,

**Re: NIE T&D Price Control 2012 - 2017 Draft Determination**

RES has been developing wind projects on the island of Ireland since the early 1990s, having developed 14 operating wind farms in Northern Ireland and 4 operating wind farms in the Republic of Ireland, totalling over 241MW. RES currently owns or operates over 134MW of wind capacity across the island. In addition, RES has 70MW of wind capacity in development with planning consent in Northern Ireland and a further 22.5MW of new wind generation currently in the planning system. RES has been an established presence at the forefront of the wind energy industry for over three decades. Our core activity is the development, design, construction, financing and operation of wind farm projects worldwide. With a portfolio of more than 6.5GW constructed and several thousand megawatts under construction and in development, RES continues to play a leading role in what is now the world's fastest growing energy sector. RES is also involved in the offshore wind and wave and tidal sector.

***Fund 3 Investment***

RES welcomes the statements made in paragraphs 3.9 and 3.10 which acknowledges that network investment is required in order to deliver longer term benefits to the consumer associated with the connection of renewable generation. RES also welcomes the commitment to the 40% of electricity from renewable sources by 2020. RES is clearly of the view that there is alignment between these two objectives; by delivering the 2020 renewables target, Northern Ireland's reliance on fossil fuelled conventional generation will be significantly reduced and risk of exposure to volatile oil and gas prices can be mitigated. RES understands the need for Fund 3 capex to be assessed on a project specific basis as discussed in Section 16 of the document. RES also understands that NIAUR intend to consult on a process, to include investment criteria that will be followed in conducting such assessments. RES welcomes the introduction of openness and structure to the assessment of renewables related investment, however this process will apply to infrastructure investments that are urgently required. There are many consented renewables projects in Northern Ireland, many of whom have been consented for a year or more, whose connection requires completion of new infrastructure that will form part of Fund 3 capex. The fact that the process by which these

infrastructure investments will be assessed, let alone the assessments themselves, has yet to be the subject of consultation is the source of some concern. RES urges NIAUR to progress this consultation to subsequently define a process for Fund 3 capex approvals and to progress funding decisions in the most timely manner possible. Further delay to infrastructure investments critical to a sustainable energy future, such as wind farm cluster projects, may result in irreparable damage to the confidence of those considering investment in Northern Ireland's renewables industry.

### *Contestability in Connection Construction*

RES welcomes consideration of the introduction of contestability in connections as described in Section 12 of the document. At a time when resources at NIE are stretched and the need for timely delivery of new connection is paramount, RES considers that progression of arrangements to support contestability in connection construction is of the utmost urgency.

### *Electrical Losses*

RES notes that paragraph 13.37 states that losses are a cost to the consumer. In isolation this statement may be true, but it is also true to say that, in order to get best value from grid infrastructure assets, they should be sweated, that is to say they should generally be operated at or close to their rated capabilities for as long as possible. If there is an incentive on NIE to keep losses to an absolute minimum, this would appear to be in conflict with their duty to support the connection of new generation necessary to deliver effective competition and to make optimum use of their assets. This is likely to diminish value provided to the Northern Ireland consumer. RES is therefore clearly of the view that any losses incentive should acknowledge that a certain amount of losses is reflective of an efficiently run grid system.

### *Weighted Average Cost of Capital*

RES notes the statements made in Section 16 of the document relating to the Weighted Average Cost of Capital (WACC) for Fund 3 capex. In particular, RES notes that NIAUR considers that, because Fund 3 capex funding decisions will be decided once the scope and timing of the infrastructure project is known, NIE T & D's exposure to systematic is significantly reduced. RES is unclear why NIAUR considers this to be the case. Many of the Fund 3 projects will present significant engineering and environmental challenges relative to other investments. While the level of project specific scrutiny may be raised for Fund 3 projects, it would seem to RES that the levels of risk inherent to projects of this scale and nature would justify the maintaining of WACC applicable to Fund 1 and Fund 2 projects. RES considers that, by imposing a lower than normal WACC for Fund 3 capex, NIAUR may be creating an inappropriate disincentive to NIE progress Fund 3 projects which are essential to the delivery of an economic and efficient system for the Northern Ireland consumer. RES would urge NIAUR to reconsider their position on this matter.

RES seeks to be clear and constructive in all consultation responses and I hope you find the above consistent with these objectives. If you wish to discuss this response or any other relevant matter, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Smart', with a horizontal line underneath.

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