



CONTESTABILITY IN CONNECTIONS

SSE AIRTRICITY RESPONSE TO  
THE UR'S CALL FOR EVIDENCE

SEPTEMBER 2014

## **Introduction**

In addition to supplying electricity and gas to over 800k customers, SSE has developed and now operates over 500MWs of renewable generation capacity on the island of Ireland. In GB, the company operates and/or owns distribution networks for electricity and gas and the electricity transmission network in the north of Scotland. SSE believes that the introduction of a contestable connections policy would significantly enhance delivery of Northern Ireland's renewable generation policy.

### **A proven policy**

Contestability in delivery of network connections is not a new idea. It has been in place in GB and ROI for a decade; supporting delivery of many millions of Pounds of generation investment. With such lengthy experience and existing process documentation to draw on, there is no reason why Northern Ireland should seek to reinvent this particular wheel. Rather, a policy on contestable delivery of all connections, based on the established and successful arrangements developed by NIE's parent company for ROI<sup>1</sup>, should be introduced without further delay;

### **A well-documented path**

Contestable delivery is not a complex process. In essence, Networks and developers agree on a split of responsibility for delivery of the overall connection assets based on their capabilities and priorities. For assets that are to be handed over to the networks company, there must obviously be standards and processes in place to ensure that these are of an acceptable standard once constructed. In this context, the value of existing clear and proven templates, underpinning contestability elsewhere on the island, cannot be over-emphasised. With this documentation being freely available, the need for standards and processes does not represent an insurmountable, or even particularly onerous, barrier to implementing contestability in Northern Ireland.

It is reasonable to assume that functional specifications also exist in Northern Ireland, otherwise grid assets could not be constructed by NIE. The next step towards implementation of contestability must therefore be to refine these internal documents so that they are usable by developers seeking to build their own grid assets. SSE would emphasise here, that the process of editing these existing specification documents for third party use, should be started now. When the need for contestability is so widely accepted by stakeholders, it would be unacceptable to delay the start of their production until after contestability is formally introduced.

### **Contestability and risk management**

Two of the principal risks faced by any project manager, whether delivering the Commonwealth Games or a windfarm, is that a key, third party supplier cannot commit to delivery of a basic component when required, or at an economically viable cost. In the context of this consultation, third party delivery of network connections constitutes exactly this type of risk, which can only be mitigated if it is brought in house where it can be controlled effectively.

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<sup>1</sup> It should be noted that paragraph 1.1.7 of the consultation is wrong. ROI has contestability for both transmission and distribution connections.

Existing connection arrangements impose multiple process steps that depend on either, or both, of NIE and NIAUR. This creates a major risk for project delivery, in that lack of certainty over timelines materially constrains a developer's ability to obtain investment approval for large-scale wind projects in NI. The risk of failing to meet the ROC deadline is leveraged by the connection delivery risk which, in turn, is exacerbated by uncertainty as to the impact on project economics of the unproven new CFD mechanism.

Developers are better able to manage connection delivery risk, because they avoid one or more approval stages by regulator and are able to balance cost and timetable to maximise value, rather than being obliged always to seek the lowest cost. They are also able to assign whatever resources are necessary to meet their grid delivery programme. This flexibility brings significant value, not only to management of project risk, but also to optimisation of overall project value. Day to day project efficiencies are legion.

### **Consultation timetable**

SSE is concerned at the timetable proposed in the consultation. In particular, we are concerned by the indication that the conclusion of the current process will only be delivery of a "next steps" paper in Q2 of 2015. This is astounding. The consultation has not raised any substantive issues impeding delivery of contestability; surely because none exist. Responses to previous consultations have shown overwhelming support for contestability, even from NIE. Any suggested need for a further cycle of consultation would therefore seem to be gold-plating<sup>2</sup>; no explanation has been provided as to why such a process should be considered necessary.

### **Other considerations**

#### **Customer benefit**

Early delivery of renewable power benefits customers in two ways; firstly by pushing down the price of electricity in the SEM and secondly by reducing the level of pollution associated with electricity production. The regulators' own analysis has clearly shown that increased wind output drives energy prices down. Prompt delivery supports Government policy of meeting European targets for increased renewable generation. Non-contestable delivery slows deployment of renewables, due to the investment approvals process, whereas contestable delivery accelerates delivery while transferring financial risk to developers, rather than customers.

#### **Local economic benefit**

Greater certainty on project delivery benefits local economies, as delayed or cancelled investment hits the nearby businesses that would otherwise have benefitted from the local spending during construction. A study of SSE's Slieve Kirk project showed that the first two development phases boosted the local economy by £36m; a benefit that was only made possible through contestable delivery of the windfarm connection. It is incontrovertible that, by allowing developers to gain control over delivery of this critical component of project infrastructure, contestability both eliminates a major project risk and benefits local communities.

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<sup>2</sup> note that the NIAUR 2014-15 Forward Work Plan commitment was to 'deliver contestability' as opposed to 'review into the introduction of contestability in new connections' as stated in Executive Summary.

**Efficient delivery**

Efficiency of the delivery process could be improved by adherence to published timelines for consultation processes and delivery of contestability by Q2 2015. In this regard, it is important that development of a contestability policy for NI builds on established practice that is familiar to many stakeholders in Northern Ireland. There must be no attempt to reinvent the wheel or create over-complication in process. Recognising the limitations of any policy in addressing every possible scenario, the new NI contestability rules must provide for the UR to adjudicate on unusual scenarios and disputes, to ensure fair treatment by and of, all parties.

## Responses to consultation questions

### Q1 - How would you define 'contestability'?

Contestability is the right of parties connecting to the network to construct all or part of their connection to the Transmission System and/or the Distribution system. The concept was introduced by Directive 96/92/EC. The scope of contestable activities includes detailed design, routing, site selection, planning consents, wayleaves procurement and construction (subject to a given set of standards and TSO/DSO acceptance where applicable) for connection assets.

The Network Owner/ Operator is responsible for specification of the connection method, design approval, certain inspection work, and controlling the first energisation for assets which are supplied by the applicant, but that may or may not be part of the Transmission/Distribution system. The Network Owner/Operator is responsible for other, non-contestable work

### Q2 - What do you see as the main benefits of introducing contestability in new connections:

#### A) To the consumer?

#### B) To your company?

A) By facilitating timely delivery of projects, contestability supports delivery of a policy that has been deemed by Government to be to the benefit of citizens, but this also has the practical effect of lowering SEM Pool prices; as studies by the Regulatory Authorities have shown. In terms of the UR's cluster charging policy, contestable delivery of shared connection assets may also transfer asset funding risk from customers to developers.

B) Contestability ensures timely delivery of grid infrastructure and in many cases reduces the cost of delivering both individual and shared network assets. It therefore assigns the two major project risks to the party best placed to manage them; the developer.

### Q3 - What is the nature of your company's business?

SSE is a vertically integrated energy utility involved in development, construction, operation, ownership of large scale generation stations; both renewable and non-renewable. In addition to being the owner and operator of electricity networks in GB, SSE is a retail supplier of both electricity and gas.

### Q4 - What is your role in making new connections to the electricity network...

#### A) At present?

#### B) In the future?

A) At present SSE routinely builds connections to the electricity network across RoI and GB on a contestably basis. SSE also built the network connection to its Slieve Kirk windfarm in Northern Ireland on the basis of an informal contestability arrangement agreed with NIE.

B) In future, SSE intends to build connections to the NI electricity network on a contestable basis

### Q5 - What past experience do you have in making new connections to the electricity network...

#### A) in Northern Ireland?

#### B) or elsewhere? (Please state location)

A) SSE has delivered the only contestably built grid connection in NI to date at Slieve Kirk wind farm. SSE's experience on this project showed that we were able to build the grid connection at a discount of some 38% to the cost of non-contestable delivery. It is also unlikely that this connection would yet have been delivered, owing to it falling within the new cluster policy.

B) SSE routinely delivers contestable grid connections across ROI and UK- e.g. Athea, Dromada, Keadby, Clyde, etc.

**Q6 - What type of connections are you interested in?**

SSE is primarily interested in large-scale generation connections to the electricity network

**Q7 - Should contestability be applied to:**

**A) Transmission and distribution connections?**

**B) Onshore and offshore connections?**

A) YES

B) YES

**Q8 - To what extent should different rules apply to Transmission Network Operators and Distribution System Operators?**

SSE does not believe that different rules should apply to transmission and distribution connections; the same principles apply. In particular, there should be no discrimination between users connecting to hybrid (D/T/OS) assets

**Q9 - To what extent should different rules apply to offshore connections and onshore connections?**

SSE does not believe that different rules should apply to onshore and offshore connections; the same principles apply.

**Q10 - What industry codes would require updating to facilitate contestable connections?**

There needs to be a contestability procedure that clearly lays out the process by which a contestable connection is delivered- detail will include key principles, boundary definitions, interface to network owner/ operator, responsibilities of Customer and Network Owner/ Operator, functional specifications, design reviews, construction, commissioning, asset transfer, O&M. Proven documentation already exists in ROI and this should be the basis of NI standards, to ensure maximum compatibility for developers and contractors working across the single electricity market.

**Q11 – What works should be deemed as non-contestable?**

This should be agreed in discussion with network owner/ operator but probably includes

- Certain limited works and assets that, due to the particular location, cannot be safely separated from existing 'live' Transmission/Distribution System
- Certain works and assets that are required for system protection and communication
- Major deep reinforcement works and assets.

**Q12 – How should operations and maintenance be managed during the lifetime of a contestable asset?**

Eirgrid proposed a policy on the payment of maintenance costs, based on standard charges and task intervals for different equipment costs. SSE believes that this approach would be appropriate for

Northern Ireland, as it is a transparent approach to charging that can be readily understood by developers.

**Q13 – Should different degrees of contestability be introduced for each connection type?**

All shallow connection assets, both individual and shared, should be contestable. Only assets of the types set out in our answer to Question 11 should be non-contestable.

**Q14 – What are the barriers to introducing contestable connections?**

SSE does not see any significant barriers to the introduction of contestability

**Q15 – What is the current impact of not having contestability in the connections market?**

Lack of contestability imposes unnecessary time and cost risk on developers, for delivery of their critical infrastructure. . As a result, it is becoming increasingly difficult to maintain investor interest in the region

**Q16 – What is your view of best practice in regard to contestable connections?**

In general, the arrangements used in ROI work are practical and have been refined on the basis of experience. However, the UR should retain discretion to ensure that the policy operates as intended and that both large and small classes of developer are procedurally and economically protected from unreasonable behaviour by developers in the other group.

**Q17 – What type of arrangements would achieve the right balance between contestable and non-contestable works?**

SSE does not believe that balance is a relevant concept. See the answer to Question 13.

**Q18 – What problems could arise from the introduction of contestability?**

Problems encountered in other regions have principally been the consequence of a lack of clear, detailed functional specifications from network owners/operators, resulting in late changes to design; occurring even as late as the commissioning stage of the grid connection. Situations like this are easily solved by early and regular engagement with key stakeholders and clear functional specifications.

**Q19 - How much of a factor is the cost/timing of a new connection in regards to setting up a business/generator?**

It is THE main factor and issue presently faced by SSE in seeking to develop as a generator in NI at present.