

**Submission by Bord na Móna Energy Ltd.**

**on**

**Preferred Options to be considered for the  
Implementation of Location Signals  
on the Island of Ireland**

**SEM-09-107**

## **Preferred Options to be considered for the Implementation of Location Signals on the Island of Ireland**

### **Response to SEM-09-107**

#### **Introduction**

Bord na Móna welcomes the opportunity to respond to this consultation process on locational signals in the SEM. The consultation paper summarises the work of the system operators from early summer 2009 in studying potential options for the treatment of losses, (TLAFs) and use of system charges (TUOS).

This response paper addresses separately the analysis and preferred options for a loss adjustment methodology and a use of system charging regime. In the first instance, Bord na Mona feel that the analysis does not clearly show a significant advantage of using the current TLAF methodology with a compression factor over a simple uniform loss factor approach, which is the clear preference from most market participants, on the basis of responses to previous consultations.

In relation to the use of system charges, the proposal to have a partly postalised tariff is a step in the right direction, but there are concerns that the dynamic element of the charge has too high a weighting, and can impose significant risks to incumbent participants arising out of decisions of other participants in the market. Bord na Mona believe that this type of locational signal is ineffective, and that a purely postalised tariff should be adopted for the SEM.

#### **TLAF options**

Firstly Bord na Mona recognise that there has been significant effort put into this process over a number of years, with a view to addressing the question of the optimal system of managing system losses to be adopted for the SEM. It is important that given the resources that have been put into this process, and the work that remains to come up with an enduring solution, that a specific study should be undertaken to indicate the overall level of losses and associated costs on the system. Such a study should also attempt to estimate the relative savings of the most efficient dispatch regime over a typical current dispatch pattern. It is fair to say that such a study would require a consensus in relation to the assumptions used, but the inputs could be agreed with a cross section of market participants beforehand. This type of study would put the evaluation of options into a much better context, as the scoring of options under objectives such as efficient dispatch would be more objective than the scoring used in the current paper.

Bord na Mona have previously argued against using loss factors to supply a locational signal as they do not work. There are numerous examples from recent history which indicate that generators who have located in areas with high TLAFs, such as in the Donegal and Cork regions, have seen their investment de-valued due to significant reductions in TLAFs when they became operational. There are also projects which have seen year on year changes of greater than 8% in the most recently calculated TLAFs.

A developer seeking a location for a new project has to consider a range of issues, including, where the primary energy resource is or can be easily accessed, where the project can acquire a site at a reasonable capital cost, where a project can achieve

planning permission, and where a project can get access to a grid connection in a reasonable timescale and at reasonable shallow connection cost. TLAfs and TUoS charges are not a primary consideration in the decision to locate, simply because there is no reliability that the values in a region at the time of an investment decision will be at the same levels when a project begins commercial operation. The main outcome of the volatility and lack of predictability generated by these mechanisms is an increased risk in the development of generation projects, with a consequent increase in the cost of capital for such projects.

In our response to the previous consultation on methodology options, Bord na Mona argued in favour of adopting a uniform loss factor approach on the basis of simplicity, stability, predictability and the fact that using the mechanism as a locational signal does not work. It is interesting to note, in the scoring system evaluating the different short term options in this paper, that the uniform loss factor comes out second to the preferred option of compression. The difference in scores is very sensitive to the weightings of the objectives, which gave approx two thirds of the weightings to the 'economic factors' of efficient dispatch, efficiency and cost reflectivity. The outcome would be different if only a slightly higher weighting is given to the criteria of predictability, stability and transparency. Bord na Mona are strongly of the view that these objectives should have been given a stronger weighting in the scoring matrix for the following reasons;

- the issues of predictability and stability of loss factors have an economic significance, as a loss mechanism which scores low for these objectives will increase the risks of development which ultimately add to project costs;
- the issue of volatility is particularly important, as loss factors don't work as a locational signal. This issue is highlighted by recent generator developments which has seen their loss factor drop significantly from the time of investment decision to commercial operation;
- it is unclear why the options of banding and compression are scored much higher for the objective 'efficiency', which refers to the efficiency of the mechanism in influencing further network development, over the current TLAf methodology which supplies the basic inputs for both of these options;
- the weightings do not reflect the results of the questionnaire issued to market participants earlier in the year, where respondents to the question on the importance of these objectives indicated that predictability, stability, transparency and fairness were more important than cost reflectivity.

The choice of the short term option of compressing the current range of TLAfs therefore seems to emerge on the basis of a somewhat arbitrary selection of weightings for the various objectives, which does not adequately address the views expressed by the majority of market participants in previous consultations.

The paper further suggests that the preferred solution is only a short term measure, being the first of a three stage solution to the ultimate preferred mechanism for the management of system losses. The intermediate and long term solutions are only developed to a concept stage and therefore cannot be compared either to the short term options, or to each other.

There are a number of immediate concerns that arise out of the proposed three stage strategy to managing losses

- (i) The cost and disruption to all participants of adjusting to three iterations of a loss management system in a relatively short period of time is excessive, and cannot be justified
- (ii) both the ‘Splitting’ and ‘Purchase of Losses’ options mention some sort of allocation of costs of losses to generators in a use of system type charge. This suggests that these options will present another potential source of volatility and unpredictability in the cost of using the transmission system.

The system operators should therefore develop the two concepts more fully, with a view to selecting a single preferred long term option. This option, including the mechanism for allocating the cost of losses to generators should then be evaluated against the preferred short term option of using uniform loss factors. Bord na Mona feel that unless these options can demonstrate a very significant advantage over the uniform loss factor method, the cost and disruption of implementing the new approach should not be undertaken.

### **TUoS**

The comments in the previous discussion on TLAFs in relation to the effectiveness of this mechanism as a locational signal also apply in the case of use of system charges. For this reason, Bord na Mona argued in responses to previous consultations that a postalised charging system was the best option available as it offered a simple, predictable and relatively stable charge which would act to reduce development risk.

The preferred option proposed by the system operators partly recognises this as it sets a minimum component of the charge based on a socialised cost for the existing network in proportion to export capacity. The floor for the postage stamp part of the charge is set at 40% on the basis that this element reflects the weighting given to the objectives of predictability, stability and transparency. Bord na Mona believe that a higher weighting should be given to these objective, as was argued in the previous section on TLAFs, as they do have an impact on the cost of developing new generation capacity.

In relation to the dynamic element of the proposed preferred option there are two major points of concern. Firstly, generators can face a charge under this dynamic element arising from network expansions that arise due to new generation locating in the same region, or the system operator strengthening the grid due to increasing demand from load centres in the area. This outcome contradicts the stated objective of cost reflectivity which requires that ‘participants should face the costs of their behaviour and decisions’. This again raises the question about how effective this mechanism is as a locational signal if it can significantly increase operational costs on an incumbent generator arising from decisions outside of their control.

There is also a question over what influence major transmission projects such as the North South tie line, and the East West interconnector will have on this part of the charge.

The second issue that arises in relation to the dynamic element of the preferred TUoS option is the impact of the Grid25 development program, which forms the basis of the Gate 3 ITC program. This program is intended to future proof the network to 2025, by

developing transmission infrastructure in anticipation of new generation and demand needs, rather than responding reactively as connection applications are received and processed. It is unclear how any Grid25 upgrade or new transmission infrastructure would be treated in this process, but it would be grossly unfair if existing generators were charged on the basis of their usage of new assets which are not needed in the short term but have been built on the basis that they will be required to accommodate further new generation capacity in the future.

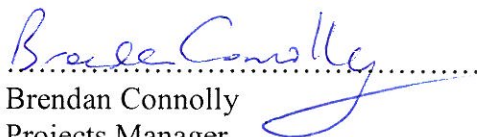
There is also an issue that there are only limited details publicly available at this time on the transmission development projects that will be arise out of the Grid25 programme. Participants need an indication of the line upgrades, routes for proposed new lines, transmission voltage and targeted completion dates for such projects to estimate if such projects could influence their dynamic TUoS charge in the future.

### **Summary**

In conclusion, Bord na Mona considers the analysis conducted by the system operators of the relative merits of locational based signals for losses and use of system charging over a uniform approach shows only marginal differences between these approaches which are sensitive the weighting used for the objectives. Bord na Mona still believe that the uniform loss factors and a postalised use of system charge are better options as the locational signals do not achieve their stated aim of being an effective signal to the location of new generation projects.

In addition there should not be three stages to developing an enduring loss management mechanism in this market. The splitting and purchase of losses concepts should be developed to a point where they can be compared to the uniform loss factor approach, and only one of these options should be selected if it can show a significant improvement over the uniform loss factor approach.

For and on behalf of  
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