

**SEM Consultation on Preferred
Options to be considered for the
Implementation of Locational
Signals on the Island of Ireland
(SEM-09-1079(a))**

NIE Energy Supply's Response



Introduction

NIE Energy Supply (NIEES) welcomes the opportunity to respond to the System Operators recent consultation paper SEM-09-107(a) on the Implementation of Locational Signals on the Island of Ireland.

NIEES as the former Public Electricity Supplier (PES) and the participant currently responsible for the registration of the Northern Ireland Error Supplier Unit (ESU) is acutely sensitive to the issue of TLAFs. The Error Units in both jurisdictions are settled by difference via a calculation which requires the total loss adjusted generation as a primary element. Any change to TLAFs and the methodology by which they are calculated go directly to this formula and the volumes which the ESU is required to settle through the pool. Until global aggregation is implemented this will remain the case with both former PES being treated differently to other suppliers in the market.

NIEES is concerned that the impact on the ESU has not been sufficiently factored into the considerations with regard to the TLAF methodologies and no reference to the ongoing Global Aggregation work was made.

TLAF Methodology Preferred Option

As described above, from a supplier perspective the short term solution of implementing a compression factor directly impacts the ESU and in turn only their customer base. Without the prior implementation of Global Aggregation any changes in TLAFs go directly to the ESU, impacting our attributed trading point volumes without an equivalent meter point adjustment. This will affect revenue and competitiveness.

The medium term, splitting option with uniform TLAF, raises questions as to how the merit order may change. The current proposal could lead to greater divergence between the Market Schedule Quantity and the Dispatch Quantity. This impacts constraints, and to a supplier, imperfections charges. NIEES is concerned with the lack of visibility that this solution presents as the responsibility of applying TLAFs moves to the System Operators through Dispatch.

In reference to the long term solution, Purchase of Losses, NIEES believes that the market would benefit from greater clarification of this proposal. Questions as to how the System Operators plan to recover their costs and how they would ultimately be passed on remain outstanding.

NIEES is also concerned that this workstream appears to be progressing in isolation. Major projects such as the work underway on the dispatch of wind, the review of capacity, questions regarding DLAFs and particularly global aggregation should be considered in terms of inter dependencies and system development.

Conclusion

NIEES is concerned about the affect of this Preferred Option. Changes to the TLAF methodology without alterations to DLAFs compound an existing error. To alter the TLAF without consideration of a consequential DLAF change results in a combined loss factor which may not represent physical losses. NIEES is concerned that the review of the TLAF methodology is being undertaken in isolation and without appropriate consideration of the DLAF setting process.

Prior to the implementation of Global Aggregation any change in the level of error goes directly to the volumes which the ESU registrant settles through the pool. Post the implementation of Global Aggregation the volume of error will be immediately apparent to all Supplier Market Participants. The change to the TLAF methodology has the potential to materially increase the error without full consideration or understanding of how and by whom the volume will be accounted for.

This proposed change therefore, in the first instance, directly impacts and could materially affect the ESUs in isolation and in an inequitable manner.