

10 October 2008

**Ref: Consultation Paper – “Draft Transmission Loss Adjustment Factors for 2009, “SEM-08-121”**

Bord Gáis welcomes the opportunity to respond to consultation paper – ‘Draft Transmission Loss Adjustment Factors for 2009’. Please see below our comments.

**Information**

The additional information provided in the consultation paper is welcomed as it aids the review of the draft TLAFs. In terms of the generation load profile provided, we believe this profile should be tested against the historic running regime in the SEM in order to validate their accuracy.

It would also be useful to understand the underlying assumptions used in building up the generation profile, such as:

- Technical generation unit characteristics
- Fuel and carbon prices
- UK electricity prices

**TLAFS**

In terms of the draft TLAFs themselves we would have a concern with regard to the extent of the range of the TLAFs among the generation fleet and their year-on year volatility.

- The availability of suitable generation sites in Ireland is limited, meaning it is very difficult to optimise new build co-incident with network signalling.
- The impact a new generation unit can have on the TLAF in a locality seems unduly penal. Investors will look to TLAF as a signal as to where to locate a generation unit. However, if a new generation unit in the area means the TLAF will be changed significantly for the worse, then it undermines the usefulness of the signal itself.
- A new generation unit can also have a negative impact on nearby generating units, through no action of their own.

There is a danger that a volatile TLAF system will diminish investment returns significantly and undermine investments going forward.

To this end we believe a volatility mitigation mechanism should be put in place or alternatively a TLAF cap and floor.

We refer to a previous consultation carried out by the Regulators on Transmission Use of System charges (ref: SEM-08-067). In this paper the point is made that generators may connect on the basis of a given tariff only for that tariff to change adversely after connection resulting in subsequent changes to the pattern of generation, the network and pattern of demand. We believe that this argument is also valid for loss adjustment factors, and supports a volatility mitigation mechanism being put in place for both locational based TuoS and TLAFs.

Such a mechanism will support investment in the generation business at a time when considerable investment in both conventional and renewable generation is required in order to maintain a sufficient capacity margin and achieve renewable targets, set out in the White paper.