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Dear Mark and Raymond,

RE: ALL ISLAND TRANSMISSION USE OF SYSTEM CHARGING (TOUS) AND LOSS FACTOR (TLAF) PARTICIPANT CALL FOR PAPERS

Viridian Power & Energy (VPE) welcomes this opportunity to respond to the above call for papers. This paper supplements our survey response submitted last week and our contribution to the workshop held on 3rd March 2009 to consider the options and methodologies for deriving harmonised all-island locational charges.

VPE supports the concept of locational signals for generators where a clear, upfront and unambiguous incentive is given to locate in areas that already have adequate transmission capacity available, or that are likely to have such capacity available in the near future. In the context of the Republic of Ireland, for example, this would mean incentivising generators to match their locations with the transmission infrastructure plan set out in the Eirgrid Grid 25 process. At the recent workshop, VPE shared the view that the best locational signal is upfront, providing maximum effect at the time a generator decides to enter into a connection agreement..

Current arrangements with respect to TUoS and TLAFs are unfavourable from VPE's experience of developing two major projects, phase I and II at Huntstown. In both of these instances the variability and unpredictability of generator TUoS and TLAFs has made it more difficult to sanction these investment decisions, and has featured as a significant concern for the financing of these projects. For the same reasons VPE has experienced similar challenges developing windfarm projects. VPE contend that our experience is not unique and that the volatile and indeterminate nature of TLAFs and TUoS for generators significantly increases investment risk for new generation projects and thus increases the cost of capital in general.

Our second concern in relation to generator TUoS and TLAFs is their application in the SEM. The SEM market design has not been able to accurately reflect these costs in the market for reasons noted below.

TLAFs are not included in the central market scheduling and pricing (MSP) engine. This means that generators have to manipulate Short Run Marginal Cost (SRMC) bids to reflect TLAFs. This process is flawed because TLAFs change over the day but generators can only submit a single set of PQ pairs for the day. Furthermore, the regulatory authorities issued a direction disallowing TLAFs in start-up and no-load costs, thus making this component of losses unrecoverable. For generator TUoS the majority of this cost is fixed and the values allowed in the capacity mechanism are significantly lower than the actual costs incurred by a CCGT such as Huntstown.

Because of these flawed cost recovery mechanisms for generator TUoS and TLAF costs future investment decisions made by generators will need to factor in these lost revenues and a risk premium for uncertainty in these projections. Again the net effect is a high cost of capital and ultimately higher costs to the end consumer.

VPE proposes a solution to the current problem that will reduce the risk to generators without imposing additional costs and that will consequently benefit consumers in the long run via lower cost of capital. Our proposal has three strands:

1. Locational signals should be provided in the connection agreement. VPE suggest that if a clear distinction is made in the TSO dispatch process, where non-firm generators are only dispatched after all firm generators have been dispatched, then there will be a strong incentive for generators to locate in areas with firm capacity.
2. The allocation of transmission charges to generators is arbitrary and the mechanism by which a generator then passes this cost on to suppliers/consumers is opaque. It would be clearer, less risky, and hence more efficient if all transmission charges were allocated to suppliers who could then directly pass through these costs to consumers without any margin or premium added.
3. The allocation of transmission losses to generators is also arbitrary. VPE consider that either a flat transmission loss factor socialised across all generators, or the re-introduction of the infinite busbar concept (that existed prior to SEM in Northern Ireland), would reduce the volatile and indeterminate nature of losses for generators, and increase investment certainty. The effect on the SEM would be to remove scope for manipulation of SRMC bids, and to lower the SMP (if the infinite busbar concept is re-introduced).

Please do not hesitate to contact us for further information or clarity on the points we make.

Yours sincerely

A handwritten signature in blue ink that reads "K Hannafin". The signature is written in a cursive style with a large, looped 'K' and a trailing flourish.

Kevin Hannafin
Senior Regulation Analyst