



ESB Customer Supply Response

to

**The Review of All Island Transmission Use of System
Tariffs and Losses**

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Introduction

ESBCS is pleased to have this opportunity to respond to this consultation on the locational signal in transmission charges and losses. The locational basis for charging generators is a very important economic signal which is needed to improve system security and efficiency and helps to facilitate the build of renewable energy source plants which are likely to be situated at remote locations.

The transmission charges/tariffs are designed to recover the system costs, and to do so in a way which provides efficient economic signals. To provide efficient economic signals they should;

- Incentivise location of new generation entrants to areas which will benefit the overall system
- Likewise, in the extreme, incentivise the exit of generators which are located in less favourable areas
- Have existing generators pay in a manner related to their contribution to total network losses and use of the system

Beneficial location of generators means that generators will preferably choose to locate close to demand, reducing congestion on the transmission system. This has three major economic benefits:

1. Improved security of supply due to less risk of network constraints arising from the congestion caused by transferring energy from areas of concentrated generation to demand centres.
2. Reduced network losses incurred in transferring energy from areas of concentrated generation to demand centres.
3. Improved capacity on the network to transfer energy from remote areas which have higher wind resources to the demand centres.

Cost Recovery and Fairness

It is an important principle of the market that participants, both generators and suppliers, are capable of financing the operations which they are licensed to undertake. The cost of the transmission system must be paid for by the users, and ultimately by all final customers. It is important to note that even when the split of costs between generators and suppliers is changed that both will still be capable of paying those costs. The purpose of changing the ratio of allocating costs is to provide efficient economic signals which will promote a better and more efficient system for all users. Increasing the ratio of costs allocated to generators will allow a stronger signal to be sent to generators to locate their plants in a manner which minimises the losses incurred transferring energy over long distances. Having the location of generators closer to the location of customer demand will reduce these losses. It will also reduce the potential for congestion which could adversely affect security of supply. Also if generators chose to locate close to customer demand centres then there will be more capacity available to transfer energy from remote wind generators. For existing generators their fair share of the losses depends on how far they are from demand and how congested their location is.

Transparency

In order to calculate transmission charges based on location there will necessarily be some complex calculations and some simplifying assumptions required. However, because of the importance of having a reliable, efficient and sustainable network it is important that the rationale underpinning the determination of transmission loss adjustment factors is well understood and transparent.

Stability and Predictability

The reason that there is a concern over sustainability and predictability of locational charges is that they change from year to year. However the reality is that locations are actually changing their relative contribution to losses and congestion. Having the locational charges change each year will provide an early signal to prevent any congestion situation from becoming much worse. The daily bids of generators take account of locational losses so there will be a tendency for less generation being dispatched from congested areas. In that sense it is good for the locational signal to have a degree of volatility. However there is room for improvement in the current system. There is a long lead time in building generating stations and it would be useful to provide advance estimates of locational costs up to three years in advance. This would aid generators in their financial planning. For suppliers the current situation of having a set of costs which are determined annually is in line with the tariff duration so there is not the same level of financial issue.

Split of costs between suppliers and generators

The greatest contribution to improved efficiency will come from having a strong locational signal to generators. At the current split of 25% of costs to generators there is a real risk that security of supply, efficiency and sustainability are being undermined. We propose substantially rebalancing this towards the generators – for example, increasing this to 75% of the costs for generators and 25% of the costs for suppliers. As noted above this should not be a financial disadvantage to generators in general. In particular any change to the transmission costs should be reflected in the Capacity Payment Mechanism (*by updating the transmission costs of a Best-New-Entrant*).

Summary

ESBCS recommends that a strong locational signal is sent to generators using the transmission charges and loss factors. To do this the split of costs between generators

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and suppliers should be changed to substantially rebalance the higher proportion of costs to the generators. Having a strong locational signal will not adversely affect generators in general who will recover the money through pool and capacity payments. However, it will allow better-located generators to receive the rewards due for contributing to a more efficient and sustainable use of the transmission network.