

**NIE Energy Limited
Power Procurement Business (PPB)**

**Draft Transmission Loss Adjustment
Factors for 2010**

Consultation Paper

SEM-09-102

Response by NIE Energy (PPB)

24 November 2009.



Introduction

NIE Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper seeking views on the Market Operator’s proposals for the draft Transmission Loss Adjustment Factors for application in 2010 (TLAFs).

PPB has previously raised concerns with the TLAF methodology and in particular that the TLAFs for Northern Ireland Generators were significantly lower than for RoI generators, and that some the despatch scenarios were not reflective of our view of likely despatch. The current project that is conducting a review of “Locational Signals”, includes a review of the TLAF methodology and we expect this will fully consider all the matters that have caused us concern and PPB will continue to engage in all consultations on that workstream.

Despatch Scenarios

In light of the ongoing review of the wider TLAF methodology, PPB agrees that the development of TLAFs for 2010 should use the current methodology that has been used since SEM Go-Live. As in previous years, all participants will likely have differing views on the despatch scenarios used in the analysis but, pending the outcome of the general review, we believe those proposed for 2010 should be adopted.

Proposed TLAFs

While we cannot replicate the TSO studies, PPB consider the draft TLAFs to be generally more appropriate than those adopted in previous years and more closely reflect our analysis of likely energy flows and hence losses.

PPB supports the adoption of the proposed TLAFs.

Timing of the Implementation of the new Methodology

PPB has mixed views on the question of when any new methodology should be implemented. We have previously raised concerns about the value of TLAFs in terms of its strength as a “locational” signal, particularly where it shows high degrees of volatility and therefore the introduction of more stable arrangements would be welcome. However, PPB is also one of the major sellers of hedging contracts in the market and the determination of both volumes and pricing of such contracts should reflect the underlying forecast of plant scheduling and the estimate of the System Marginal Price, both of which would be affected by changes in TLAFs. Hence, from the perspective of not distorting or impeding the fledgling contract (CfD) market, for which there is a desire for increased liquidity, having certainty over the TLAFs that would apply over the following tariff year is very important.

The consultation paper indicates the decision on the TLAF review is scheduled for Q1 2010. However, the market desire is for CfDs for the 2010/11 tariff year to start trading early in 2010 (with the bulk of such contracts completed by June 2010). This creates a difficulty that could result in hedging being delayed until

after that review is completed, thereby reducing liquidity and compressing the contracting round for 2010/11 into a short window.

PPB considers it may be more appropriate to delay the implementation of any new methodology until October 2011 (publication of the relevant TLAFs required by end of 2010 at the latest), thereby allowing TLAFs to be determined over the next few months for the 2010/11 tariff year using the current methodology, which would provide greater support and certainty for the contract market.

In conclusion, PPB does not support implementation of any new TLAF mechanism earlier than October 2010 and as outlined above, believe there would be considerable merit delaying implementation such that any TLAFs applying from October 2011 can be determined following the consultation and policy decision in Q1 2010, for publication in a timely manner later in 2010, thereby providing sufficient notice of changes that can be utilised by market participants in the development of their risk management strategies for 2011/12.