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Saorgus Energy Ltd comment on SEM-09-102; Draft Transmission Loss Adjustment Factors

The view of Saorgus Energy Ltd is that TLAf charges should be abolished.

Firstly, charging or rewarding specific participants for the grid operator's success or failure in preventing specific locational examples of energy loss merely randomly rewards or penalises those who have no role in the grid operator's task. On a superficial or simplistic level, the current approach is ideologically-based on the "user pays" or "cost-reflective" principles but in the real world results in a conflict of interest for the system operators and provides no system benefits. It is also typically opaque to stakeholder analysis despite the publication of input information.

Secondly, the existing policy is in contravention of the EU Renewables Directive which states that an appropriate network to accommodate renewables must be provided. The locational signal system not only disregards this imperative but actually and potentially does the opposite by punishing renewables located on the margins of the network. The existing system therefore works against the energy security aims of government and the EU.

A third argument is that the existing system favours fossil fuel plants; there was a significant difference in the TLAf's applied to conventional and renewable in 2009. This may be explained, for example, by the fact that gas plants can be located next to the junctions of the main electricity and gas networks whereas wind and other renewables must be located where the resource is available, commonly in regions or at nodes that attract a negative TLAf. The current charging system therefore unfairly favours those who use imported and insecure fuels.

Fourthly, locational charges create a poor investment environment as they change from year to year. TLAf's are a poor investment location signal because changes in TLAf are not controllable by generators and are also both unpredictable and commercially significant. For example, it is proposed in SEM-09-102 that the TLAf for the Tralee node, to which all of our operational projects are connected, will decline by almost 4% in a single year. This rate of decline significantly but needlessly affects our business case and the business case of all prospective generators.

Finally, if a theoretical locational signal model has both inputs and output that are expressed in terms of generator behaviour, but with a overlay of other policy-led signals, the results will be at best unstable and the benefits will not be measurable. Even if the principle behind TLAF is that economic losses should be allocated at source, this idealistic approach is swamped by the grid development effects of the Group Processing Approach and Grid25. This argument against TLAF's strengthens in the context of a move to embedded generation when the modelling of transmission losses will become even uncertain.

Our understanding is that the existing system is (or is close to) a zero sum game where the TLAF penalties and losses are evened out over all generators (average was 0.9965 in 2009). In that context, the most effective solution for the clear inherent inadequacies of the TLAF system would be to simply abolish it. In effect, all TLAF's move to 1.000 and stay there; residual losses are charged to final customers, see below.

We believe that all UoS charges as well as losses should be levied on the final customer, who pays in the end in any case. The current arrangements, where generators and suppliers pay UoS charges, effectively buries UoS charges within suppliers' bills to final customers. We do not believe that it is good economic or regulatory practice to allow the cost of running the grid to be disguised in this way. In the same way as PSO charges are levied in a transparent way on final customers' bills, so too should UoS charges be broken out for the benefit of final customers. There is no apparent regulatory benefit, and certainly no benefit to the final customer, in purposely impeding public scrutiny of the cost of running the grid.

A handwritten signature in black ink, appearing to read 'Aidan Forde', with a stylized flourish at the end.

Aidan Forde
Director

Tuesday, 24 November 2009