

RA's TLAFs Workshop

Dundalk, 26th July 2010

Objective of the Workshop

- Proposed decision on TLAFs published on 18th June;
- Workshop is an opportunity for industry to put forward their initial views in advance of the completion of the extended consultation period;
- Opportunity for the RAs to listen to these views;
- Consultation period closes – Friday 30th July;
- Comments to Jamie Burke (jburke@cer.ie) or Billy Walker (billy.walker@uregni.gov.uk).

Timetable for workshop c1

09:30 – 10:00:	Registration (Tea & Coffee)
10:00 – 10:30:	RA Introduction <i>- Proposed Decision on TLAFs</i>
10.30 – 11.00	SO's presentation <i>- Current Methodology</i> <i>- Summary of responses to SEM-09-107</i> <i>- Impact of proposed decision on constraints</i>
11.00 – 11.15	Q and A
11.15 – 11.30	Tea & Coffee
11.30 – 12.45	Industry Presentations (order To Be Discussed/Confirmed)
	11.30 BGE
	11.45 ESB
	12.00 IWEA
	12.15 NIE PPB
	12.30 VPE
12.45 – 13.00	Q and A

Slide 3

c1

update

cmannion, 23/07/2010

Overview of RAs Presentation

- Process to date
- Identify issues with current methodology
- TLAF Principles/Objectives
- SEM Committee Proposed Decision

SEM TLAF - Process to date

- January 2009, Review initiated by RAs (SEM-09-001). Paper outlines a number of principles which methodologies should adhere to: non-discriminatory, transparent, cost-reflective, predictable etc.
- May 2009, TSOs publish a consultation paper (SEM-09-049) which presented a range of potential methodology options.
- Nov 2009, TSOs published a further consultation paper (SEM-09-107) which outlines their preferred option on TUoS & TLAFs.
- Nov 2009, TSOs hold a workshop in Dundalk on their preferred options. RAs also present their perspective.
- Feb 2010, TSOs provide a formal response to the RAs in which they set out their updated position and recommendations.
- June 2010, RAs publish proposed decision on SEM TLAFs.

Summary of Process

- 4 separate consultation processes (including a detailed questionnaire);
- 2 workshops (today and last November);
- SOs Project Team and RAs Project Team plus external support analysing all options and proposals;
- Now time to move towards decision.

Objectives of Locational Signals

As stated in all SO and RA papers:

- Efficiency;
- Transparency;
- Predictability;
- Stability;
- Efficient dispatch;
- Cost reflective;
- Consistency.

Objectives of the TLAF Review

Transmission arrangements should provide appropriate signals to transmission users of the costs they impose on the system. These arrangements should be:

- Predictable;
- Non-volatile;
- Transparent;
- Provide an efficient dispatch signal.

SEM TLAF - Current

Current approach in SEM:

- Determined ex-ante year ahead based on various generation scenarios.
- Uses marginal TLAFs.
- Used by Generators when submitting bids to market
- Resultant merit order used both in dispatch and in constructing the market schedule.

Issues highlighted with current methodology

Industry have raised a number of issues :

- Signals are increasingly volatile
 - A new generator (or large load/interconnector) significantly impact on existing generator TLAFs;
 - As more wind generation comes on to system, existing TLAFs become more volatile.
- Ex-ante forecast TLAFs do not reflect actual system losses

Issues highlighted with current methodology

- Unpredictability of future TLAFs.
 - Leads to increased uncertainty for investors
- Transparency and accuracy of calculation.
 - Methodology deemed to be too complex. Difficult for participants to work out impact on their plant in advance or to forecast their TLAF.
 - No evidence these TLAFs reflect real time losses on system.
- Timing of calculation
 - Ex-ante TLAFs for full year published in advance of start of year (prior to October)

Conclusions on existing TLAF methodology

- No evidence that current approach to TLAFs incentivise locational decisions
- Calculated ExAnte and do not reflect prevailing conditions at time of dispatch - Concern that current approach does not reduce real-time system losses
- TLAF volatility increases investor risk
- Issues likely to become more pronounced in the coming years as greater volumes of wind are connected and dispatched;
- THEREFORE – RAs objective is to implement “a better solution” in both the short term and the long term.

SEM TLAF principles

To address the issues raised in the previous slides the RAs considered a number of options that would ideally:

- Reduce volatility.
- Provide a certain level of predictability to participants.
- Encourage efficient location of generation and efficient dispatch.
- Be transparent (insofar as possible).

Options Considered

- Existing TLAF methodology;
- Iterative approach;
- Uniform TLAF;
- Compression;
- 3 year average TLAF;
- Splitting;
- Existing TLAF with change to BCOP;
- Banding
- Zonal
- TSO purchases

SEM TLAF– Proposed Decision

- The RAs are proposing that from 1st October 2010 the losses in dispatch and the market schedule are to be treated on a uniform basis
- The RAs are also proposing, in principle, adopting in the long-term the concept of ‘Splitting’
- The implementation of the ‘Splitting’ proposal is to be contingent on a satisfactory outcome from an Impact Analysis

SEM TLAF – Uniform

Justification of Uniform from 1st Oct 2010.

- Robustness of current ex-ante methodology
- Current methodology for calculating losses is extremely sensitive. Significant swings from ‘good’ to ‘bad’ location
- Year-on-year volatility may be increasing the cost of capital. Leads to increased costs for customers
- Generators will locate where the grid is being built rather than vice versa – locational TLAFs will therefore not influence long-term system development planning.
- Uniform TLAF is closest match to objectives of predictability, stability and transparency

SEM TLAF - Splitting

- “Splitting”-based approach is proposed for Oct 2011;
- Impact analysis (including consultation) to outline what splitting will look like and the economic case for splitting;
 - Analysis will include - Impact on SMP, marginal plant, volume of losses, constraints, IT costs to implement splitting.
- TLAFs used for dispatch could be calculated in close to real time or real time fashion;
 - Methodology to be developed by SOs.
- Final decision on implementation of splitting is contingent on satisfactory outcome from impact analysis.

Conclusions

- Concerns regarding current TLAF arrangements;
 - Expectation that situation will deteriorate as generation mix changes & penetration of intermittent generation increases.
- Extensive engagement with industry since Jan 09 to find improved solution;
- Splitting appears to offer most suitable longer term solution;
 - Cannot be implemented for Oct 2010
 - Dependent upon impact assessment proving the benefits
 - Further consultation in 2011.
- In short term RAs propose Uniform TLAF as closest match to achieving workstream objectives.