RAs 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 (<u>jburke@cer.ie</u>) or Billy Walker (<u>billy.walker@uregni.gov.uk</u>).





Timetable for workshop

09:30 – 10:00: Registration (Tea & Coffee)

10:00 – 10:30: RA Introduction

- Proposed Decision on TLAFs

10.30 – 11.00 SO's presentation

- Current Methodology

- Summary of responses to SEM-09-107

- Impact of proposed decision on constraints

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





c1 update

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

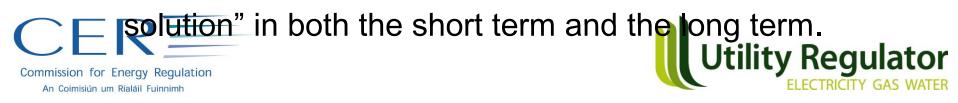
- Unpredictability of future TLAFs.
 - Leads to increased uncertainty for investors
- Transparency and accuracy of calculation.
 - Methodology deemed to be too complex. Difficult for participants to work out impact on their plant in advance or to forecast their TLAF.
 - No evidence these TLAFs reflect 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 reduces 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



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.



