



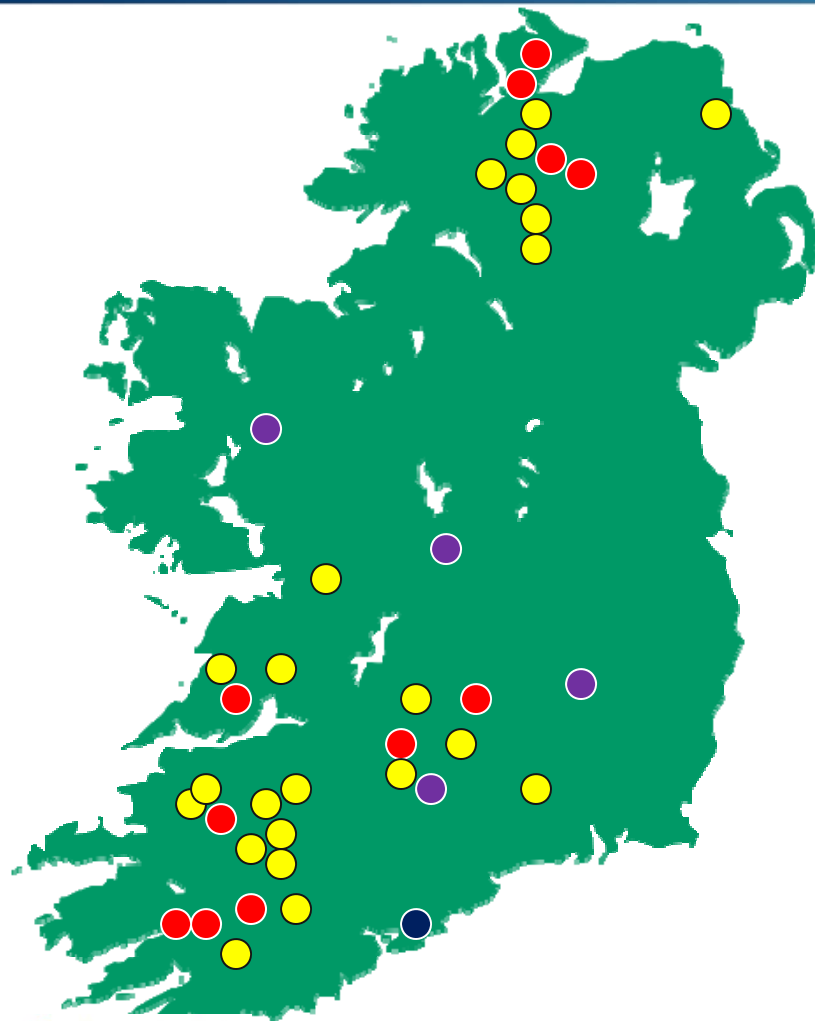
Transmission Loss Adjustment Factors

Implications for the All-Island Market

Padraig Fleming, 26th July 2010



Relevance to BG Energy

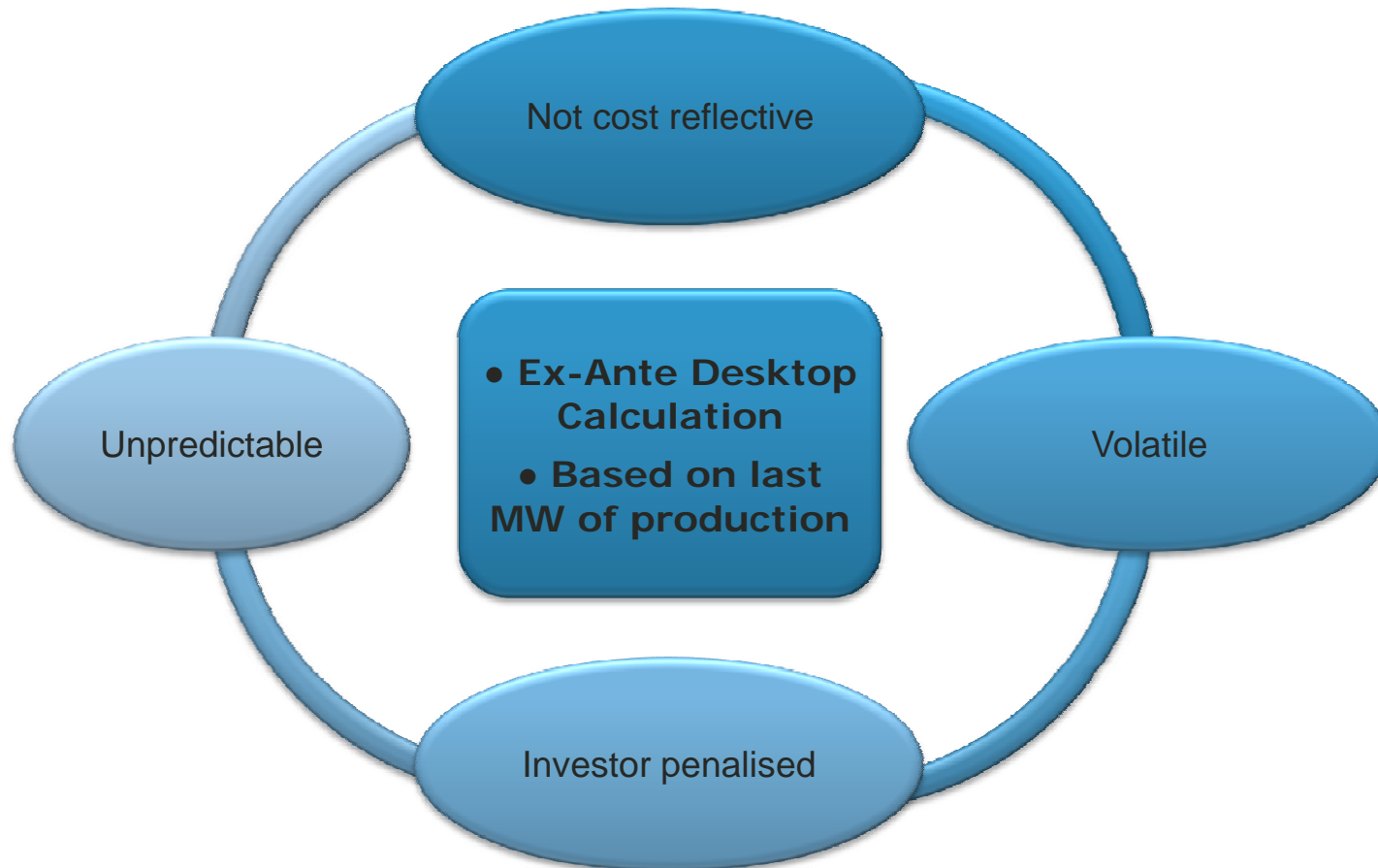


- BG Energy has a range of both operating power generation assets and development projects in the All Island Market
- Supply electricity on all island basis
- The proposed decision, if implemented, will impact each asset and development differently

- Operational wind farm
- Development wind farm
- CCGT in Construction
- OCGT in Development

The Current Approach

Flaws with the Current Methodology



Consultation Process

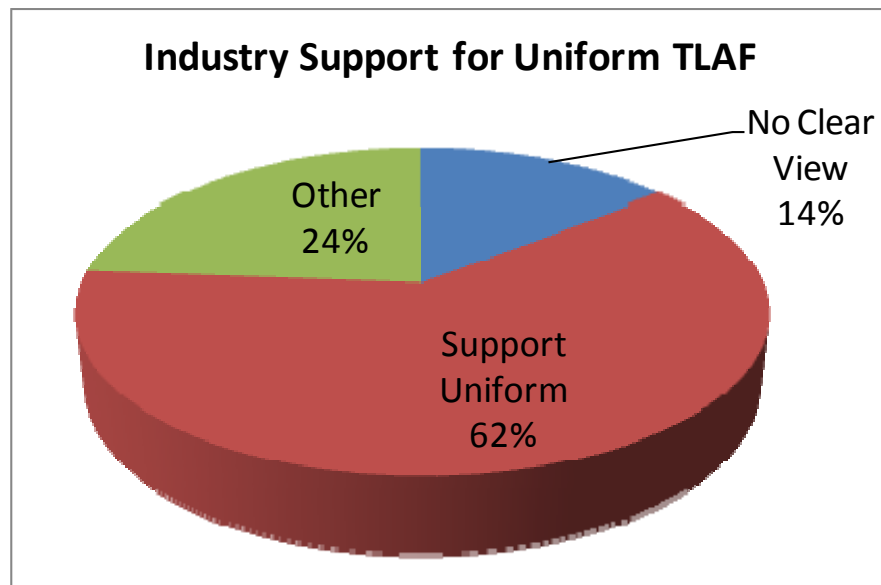


19 MONTHS

Date	Type	Process
Jan 2009	Paper	SEMC published a paper outlining its intention to review locational charges
Mar 2009	Questionnaire	Questionnaire and requests for submission
May 2009	Consultation	Detailed consultation paper on all options. Paper stated new system to be in place by Q4 2010
Jun 2009	Workshop	Workshop held for all industry participants where SOs presented options for consideration – parties invited to respond
Nov 2009	Consultation	Detailed preferred options paper released by SO's
Dec 2009	Workshop	Workshop held for all industry participants on preferred options – parties invited to respond
Jun 2010	Draft Decision	RA's release preferred options paper
Jul 2010	Workshop	Workshop on RA Draft decision – parties invited to respond

Consultation Process

- Throughout the consultation process a large majority of industry participants have supported uniform TLAFs



- Furthermore some parties who are arguing against uniform TLAFs at this point supported its implementation at the earlier March 2009 consultation

Views Previously Expressed by Participants



Viridian Power and Energy (March 2009)

“The allocation of transmission losses to generators is also arbitrary. VPE consider that either a flat transmission loss factor socialised across all generators, or the re-introduction of the infinite busbar concept (that existed prior to SEM in Northern Ireland), would reduce the volatile and indeterminate nature of losses for generators, and increase investment certainty.”

AES Kilroot (October 2008)

“TLAFS have a material impact on the relative competitiveness of generators. Given that losses are not metered, it is vital that the derivation of TLAFs from modelling and their application is robust and fair. AES is firmly of the view that this is presently not the case”

“In the interests of fairness, until this review is complete and a more robust analysis provided, transmission losses should be fully postalised, with 50% allocated to generation and 50% to demand.”

Views Previously Expressed by Participants



PPB (January 2010)

“In relation to existing generators, the connection decisions have been made and are therefore sunk. It would be unfair to seek to apply different locational charges now and therefore a uniform tariff charging arrangement should be adopted for existing generators.”

ESBI (March 2009)

“the current regime for TLAFs is not equitable and does not meet the criteria of providing full transparency, full predictability and minimum volatility”

Airtricity (October 2009)

“Airtricity strongly believes that uniform transmission loss adjustment factors should be applied across all generator units in the SEM”

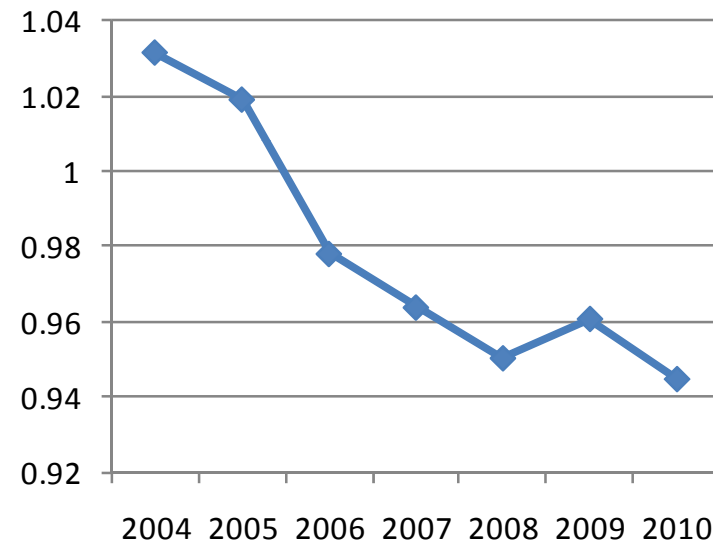
Impact of TLAFs and Rational for Uniforming TLAFs

Investments



- The current methodology undermines the investment environment in the SEM as it is:
 - Volatile
 - Unpredictable
 - Penalising for investors
 - Unreliable as an investment signal
- As a result, it is anti-investment and particularly anti-renewable investment

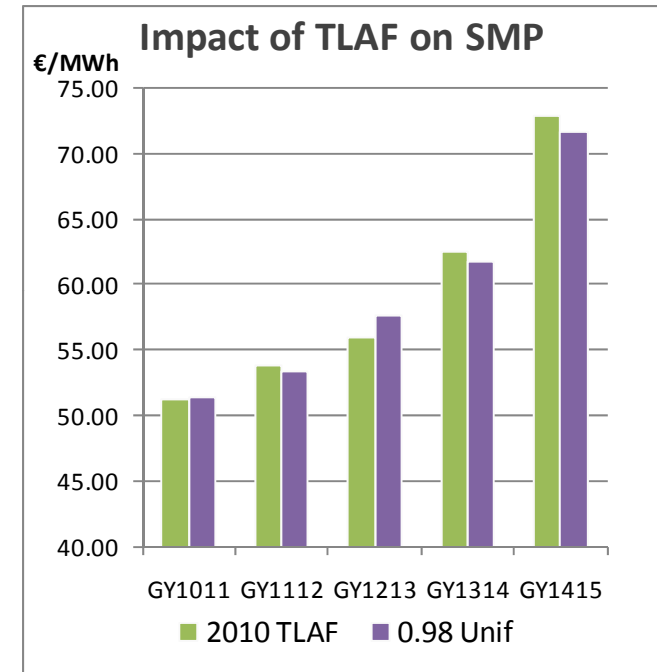
Donegal Wind Farm TLAf



In this example the investor reacted to a TLAf signal but has not been rewarded from doing so

SEM and SMP

- The current desktop methodology distorts the market and dispatch schedule by arbitrarily applying inaccurate losses to volumes and prices
- Uniform TLAFs will:
 - Ensure that the most technically efficient plant will be scheduled in order of priority
 - Have minimal impact on the SMP
 - Provide a fair, equitable, transparent methodology which will stabilise the investment environment
- In short, the decision to uniform TLAFs is a good step in the long-term development of the SEM



BG Energy analysis shows an overall price reduction by moving to uniform TLAFs

Customers and Prices



- BG Energy analysis shows that uniform TLAFs will deliver lower prices to customers
- Implications for Northern Ireland PSO –this is a legacy contract issue and not a TLAF/SEM issue
- In reducing market costs and risks (hedging, WACC etc), the decision to uniform TLAFs will deliver benefits for customers by stimulating investment and competition which will provide lower prices in the long-term

Need for Decision



- Since the establishment of the SEM there has been:
 - 4 annual review processes
 - 4 consultation documents, and
 - 3 workshops
- Throughout this process there has been general consensus on a number of issues:
 - The current TLAf methodology is inaccurate & ineffective
 - Meaning some parties are being unjustly penalised
 - TLAfs act as an impediment to the roll-out of renewable generation projects
 - Uniform TLAfs is the fairest, most equitable and transparent solution until such time as losses can be measured for each site
- Given widespread implications and consensus view it is both timely and necessary to implement change **NOW**