



Decision to adopt Uniform TLAFs

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Outline

- Regulatory Process and Risk
- Statutory Duties
- Conflicting Statements
- What is the Impact?
- Specific Impact for Northern Ireland Customers

The process has not reflected Good Regulatory Practice

- Approved minutes, published on 1 June 2010 clearly indicate a decision had been taken to adopt uniform TLAFs from October 2010
- Consultation paper on the “proposed” decision published 7 weeks after the SEMC meeting on 29 April 2010
- The decision is not underpinned by any analysis of the impact on the primary objective of the SEMC
- Concerned about disingenuous statements such as “Generators almost unanimously supported a move to uniform loss factors” that is not borne out by the individual responses
- **Increases and Highlights Regulatory Risk**, perception or otherwise, which can only be to the detriment of the market and to the detriment of customers

How does the decision comply with the SEMC's Statutory Duties?

- The principal objective of the SEMC is “to protect the interests of consumers of electricity in Northern Ireland and Ireland”
- Generally accepted as lowest possible prices within the context of
 - security of supply, promoting efficiency and economy, and
 - with further consideration in respect of sustainable long-term supplies having regard to the effect on the environment
- Clear from the consultation paper that there was no analysis completed into the impact of adopting uniform TLAFs
- **Given its principal objective, how could the SEMC make a decision to adopt Uniform TLAFs in the absence of a rigorous impact assessment?**

Conflicting statements

- Efficient despatch is stated as a key principle but is obliterated by uniform TLAFs
- Compression is viewed as “arbitrary and does not address the underlying issues”, yet Uniform TLAFs which is the most extreme form of Compression is proposed?
- State that in the short-term a critical principle is that reform will only be progressed if it offers progress towards a preferred long-term solution
 - BUT it is clear the long term solution has yet to be identified with extensive analysis proposed
 - hence Uniform TLAFs could be a step in the wrong direction!

What is the Impact?

- SMP will likely be higher – our analysis shows up to 3%
- Constraint costs can only increase
- In addition, there will be inefficient despatch (which runs totally contrary to what was deemed, and often claimed, to be the main benefit of a single wholesale market)
- Also inefficient despatch must also mean it is environmentally deficient
- **The result is higher costs for all customers and negative impacts on efficiency and the environment**

Specific Impact on Northern Ireland Customers

- In addition to the general impact on prices, Northern Ireland customers are further disadvantaged as a consequence of the decision
- The application of a TLAF of 0.98 substantially reduces PPB's:
 - Energy revenues
 - Capacity revenues
- The aggregate reduction in PPB's SEM Revenues results in higher PSO Charges to Northern Ireland customers
- **In effect Northern Ireland customers subsidise generation in poor network locations**



Thank you

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