



# **Treatment of Transmission Losses in SEM (SEM/10/039)**

**A Response by EirGrid and SONI**

**August 2010**

## **Introduction**

EirGrid and SONI welcome the opportunity to respond to the SEM Committee's consultation in relation to the application of Transmission Loss Adjustment Factors in the SEM. EirGrid and SONI are licensed as both Transmission System Operators and Market Operators and therefore in a unique position to comment on these matters without direct commercial interest. Indeed the earlier incarnations of this work involved extensive review and consultation by EirGrid and SONI as System Operators on the preferred approach to losses going forward.

## **The Timeliness of the Review**

Locational *ex ante* TLAFs have been applied in the Republic of Ireland since 2000. A voltage level based *ex ante* TLAF has been applied in NI from 1998. Since the inception of SEM in November 2007 locational *ex ante* TLAFs have been applied on an all island basis. The methodology has, however, increasingly been stretched by rapidly changing circumstances which have themselves exposed its shortcomings. In particular the importance of forecast series for generation which is less predictable in nature and the addition of generation of such considerable scale at a single point on the network have exacerbated the issues with the current methodology. Given these changing circumstances EirGrid and SONI were aware of some of the shortcomings of the current TLAF methodology at the start of the review: others have been brought to light, or been further elucidated as part of this process. We support this timely review and believe a revised approach is warranted.

## **The Objectives of any Revised Methodology**

EirGrid and SONI continue to believe that the objectives as set out in the earlier papers prepared by us - cost reflectivity, efficiency, efficient dispatch, minimising volatility and predictability, transparency - represent the appropriate criteria against which any approach to TLAFs should be assessed. The key factor, however, is their appropriate weighting.

The weighting of the criteria is primarily a matter for the SEM Committee. In determining the appropriate weighting the SEM Committee has taken into account the views of respondents and a greater weighting has been placed on stability and transparency than was the case in some of the earlier TSO consultations. It was this weighting that has led the SEM Committee to propose the adoption of a uniform loss factor.

## **Is the Application of a Uniform Loss Factor a Reasonable Approach?**

EirGrid and SONI believe that the application of a uniform loss factor represents a reasonable approach based upon the SEM Committee's weighting of the criteria. The proposed decision states that this should be accompanied by an impact analysis into the potential benefits of applying a

different approach to losses in both dispatch and in the market with a view to aiding the other important criteria of short run efficiency; this is what has come to be termed 'splitting'. EirGrid and SONI have undertaken preliminary scoping of this work and will further engage with the SEM Committee on this matter.

When we prepared our own Preferred Options paper we had proposed a 'Compression' based methodology as achieving many of the same benefits of uniform while retaining some differential between participants. This compression method was recommended alongside the development of a longer term enduring solution for the treatment of losses. We had suggested this be done in a manner which phased in any change towards uniform for those who would be most adversely affected and retained some differential which would aid the efficiency of dispatch until the necessary further investigation could be carried out and further proposals developed as to whether a 'splitting' approach was warranted. This recognised that even if the methodology was to some extent deficient it still identifies areas on the system which would be expected to contribute most significantly to losses. In particular we had emphasised that this compression approach would seek to retain some differential between generators which locate in more loss affected areas. This in our view remains another reasonable approach which would mitigate the impact of moving straight to a uniform approach.

### **The Impacts of the Decision**

EirGrid and SONI believe it is important the full impacts of any proposed decision are appropriately assessed by the SEM Committee. Ultimately, any solution must consider not only the interests of generation; both incumbent and new entrants but also the impact upon customers, and other parties, such as the Error Supplier Units, who are affected by the attribution of losses. In addition it is important that no additional uncertainty is created through perception that the decision for 2010 is only a one year solution and is not leading towards an enduring solution.

One must look at the effects both in the short term and in the longer term. We have been assisting the SEM Committee in this regard through the carrying out of studies and submission of material in relation to the impact on Dispatch Balancing Costs. Our current assessment is that while there may be impacts in the short term on DBC through the implementation of either a uniform or compression approach we do not believe these to be substantive and indeed believe that any such effect is driven more by circumstantial factors, particular network and plant portfolio considerations, rather than by anything systematic in the approach to loss factors.

EirGrid and SONI have also been assisting the SEM Committee in the derivation of a uniform loss factor were this to be the approach applied and have provided a separate report to the Commission and the Authority on behalf of the Committee in respect of this. Furthermore, studies will be undertaken examining the potential for physical losses to change and the impact on SEM pool revenue with the application of a revised losses methodology.

## **What is EirGrid and SONI's view on the Splitting Proposal?**

The splitting proposal was contained within our own Preferred Options paper. Conceptually at least we believe it has merits and the System Operators intend to conduct a review of the impact as set out in the SEM Committee's proposed decision. Ultimately of course the implementation of any such proposal would have to stand up to cost benefit, and any degradation in performance or loss of efficiency which might result, would have to be considered in tandem with the benefits. EirGrid and SONI have a statutory responsibility and a licence obligation respectively to seek to deliver an overall efficient solution in terms of dispatch in real time. We intend to keep the SEM Committee informed of the progress of our investigations in this regard and will shortly outline the proposed scope of our work in this respect.

## **The Treatment of Losses on Interconnectors**

It is important the decision in respect of the application of TLAFs addresses the treatment of losses on interconnectors with the SEM. This is particularly the case as to date special loss arrangements, which have separately incorporated the assumed losses on the interconnector, have applied in the SEM. EirGrid and SONI would like to see a decision as to whether it is intended this arrangement continue be included in the SEM Committee's decision paper as this will have a bearing on the application of whatever decision is made in respect of TLAFs from October 2010.

## **Conclusion**

EirGrid and SONI recognise that the review is timely. The decision as to what replacement of the current methodology is appropriate is greatly dependent upon the weighting of the relevant criteria and the SEM Committee has been informed in reaching its own weighting by the responses received to the earlier consultations. The SEM Committee has proposed a uniform loss factor be applied; this is a reasonable option. EirGrid and SONI had in our Preferred Options paper proposed a compression methodology; we still believe this also to be reasonable.

We will, in discussion with the SEM Committee, be instigating a piece of work to look at the possible benefits, and impacts, of introducing a different approach to losses in dispatch from in the market. EirGrid and SONI have undertaken preliminary scoping of this work.

Ultimately it is important the impact of any decision on all parties is carefully considered. As we have no direct commercial interest this our primary concern is to ensure that the impact on all parties is evaluated. We also seek a decision in respect of the treatment of losses on interconnectors be incorporated as part of the decision to enable us to implement the Committee's decision with effect from 1<sup>st</sup> October 2010.