



Response to SEM Decision Paper SEM-10-039

**“PROPOSED RA’s OPTION FOR ALL-ISLAND
HARMONISED TRANSMISSION LOSS ADJUSTMENT
FACTORS (TLAFs)”**

prepared by

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for and on behalf of

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Introduction

Premier Power Ltd (“PPL”) welcomes the opportunity to respond to the Regulatory Authorities (“RA’s”) proposed Decision Paper “Proposed RA Option for All Island Harmonised Transmission Loss Adjustment Factors (TLAFs)” of 18th June 2010 (SEM-10-039).

Summary

PPL recognises that the current TLAF methodology needs improvement. However, PPL strongly disagrees with the RA’s proposal to adopt uniform TLAF’s, even as an interim measure. Indeed, PPL believes the current TLAF methodology should be retained until an enduring solution is found.

PPL is extremely concerned about the integrity of the consultation process which has led to the proposed decision by the RA’s. In particular we believe the level of transparency, depth of cost / benefit analysis and overall rationale behind the decision does not constitute good Regulatory practice.

Consultation Process

PPL has significant concerns at the way in which this consultation process has been conducted. Because of the potential impact on both Participants and Customers, it is PPL’s view that this consultation (and decision making) process must be carried out on a Best Practice basis. Regrettably, in this instance, it is PPL’s view that the consultation process to date falls well short of what we would consider to be Best Practice. Given ‘Regulatory Risk’ is a significant element in investment decision making processes, perceptions of poor regulatory practice will clearly have a significant negative impact on investment decisions.

The fact that Participant opinion is particularly polarised on this issue has, in PPL’s perception, been magnified by the way in which the decision has been arrived at.

PPL’s particular areas of concern around the consultation process are: -

1. TLAF proposals by the TSO’s were extensively consulted upon and involved significant analysis and effort. The TSO’s subsequently rejected the introduction of Uniform TLAF’s as they did not provide a locational signal, increased dispatch inefficiency and were not compatible with the SEM High Level Decision paper (June 2005). However, despite Uniform TLAF’s being so comprehensively dismissed by the TSO’s, the RA’s have now apparently opted for this solution.

2. The RA's have not consulted on the Uniform TLAF option. They have simply moved to a decision.
3. The RA's have provided no cost / benefit analysis or impact assessment in relation to their decision and therefore Participants cannot adequately test the assumptions and assess the potential impacts.
4. The RA's indicated a Uniform TLAF on 0.98 based on system loss of 2% as determined by TSOs. The RA's paper indicated that the TSOs would make their analysis available. The TSOs only made this analysis available on the 11 August 2010 and we have not had sufficient time to review the analysis prior to making this submission.
5. The adoption of Uniform TLAF's as proposed unfairly penalises Generators in Northern Ireland. In addition analysis indicates that significant additional costs would be imposed on the Northern Ireland consumer. This doesn't sit well with the overarching RA's aim to ensure fairness and protect customer's interests.

Proposed Uniform TLAF Solution

PPL is firmly against the adoption of a Uniform TLAF solution for a number of reasons: -

1. As stated by the TSO's, Uniform TLAF's lead to inefficient dispatch. As a direct consequence this will mean an increase in constraint costs which in turn will inevitably increase costs to customers.
2. Uniform TLAF's do not give any locational signals which was a stated priority in earlier consultations and as a requirement in the SEM High Level Design.
3. Generators in Northern Ireland who are located in the optimal position to mitigate transmission losses (i.e. close to load centres) will be unreasonably penalised. (This may be true on an all Island basis, but PPL does not have sufficient data to support this wider conclusion).
4. There will be an immediate and unbudgeted for significant impact on PPL's expected capacity income from the SEM. This only serves to undermine confidence in predicting future income from the SEM which in turn impacts on future investment decisions.

Focus on enduring solution

PPL accepts that the current TLAF methodology is flawed. Rather than adopt an interim solution, PPL would strongly urge the RA's to work towards an enduring solution based on detailed cost / benefit analysis, open consultation and clear understanding of the balance between fairness, locational signals, cost reflectivity, predictability and volatility. Until such an enduring solution is found, the existing methodology, which all participants have lived with since 2007, should continue to be applied.

It may be worth exploring having separate TLAF's for Capacity and Energy.

- Investment decisions are taken based on a known TLAF prior to connection to the Grid. As outlined above, what might appear as a small variance can have a significant impact on a Generator's predicted income which, under the current BCOP, is unrecoverable. It would not seem unreasonable that a 'capacity' TLAF applicable at the time of connection to the Grid should be used as the minimum figure applied to the Capacity element. This would mean that Generators would not be penalised by future developments.
- It is recognised that for efficient despatch, the actual TLAF applicable will vary and will be impacted by future developments in both generation and transmission system upgrades etc. However, this is not such an issue for Generators as they can reflect changes in their energy bids. Therefore a volatile 'energy' TLAF is cost reflective, will allow for efficient despatch but Generators would not be directly penalised by future developments to the system.

Conclusion

Premier Power wishes the Regulator to take on board the following key points.

It is essential that:

- 1. Consultation is transparent, impacts are fully assessed and a robust cost / benefit analysis is carried out.**
- 2. Analysis data should be made available for review and consultation.**
- 3. Changes are dealt with in a consistent manner and assessed to ensure non-discriminatory outcomes across jurisdictions.**
- 4. An enduring solution should be sought and in the intervening period the existing methodology should be applied.**