



**Response to Consultation on
All-Island Generator Transmission Use of System (TUoS)
Charging
(SEM-11-018)**

17 May 2011

Calculation Method for All-island Generator TUoS Tariffs

Airtricity agrees with the TSOs' assessment that Option 3 "fundamentally undermines [the rationale behind] harmonised all-island tariffs" and consequently, as the TSOs', we discount it.

Option 2 would perhaps be more defensible if supplier TUoS was also harmonised on an all-island basis. It is not however, hence as identified within the TSOs' assessment, given the expectation as this workstream developed that suppliers would in the whole be unaffected, Option 2 transfers risks to stakeholders who have not been fully engaged in the process. We discount it on that basis.

On that analysis Option 1 remains as the sole candidate for consideration.

While the SEM Committee has issued its decision on establishment of an all-island generator TUoS charging methodology, there remain substantive concerns around not just the design and implementation, as the current consultation seeks to address, but also with the interactions of such a methodology with other parts of the system. We discuss some of these concerns below.

'Harmonisation' of networks' revenue requirements determination

Our understanding from the reading of the consultation document is that the revenue requirements for each of the NI and ROI networks would still be determined separately and independently by the respective regulatory authorities, before the resulting determinations are 'harmonised' into a single funding requirements 'pot'. Revenue requirements determination is not an exact science; it incorporates both stated and unstated assumptions, as well as financial parameters such as the risk-free rate used in formulating the WACC, that are indeterminate and vary even *intra*-jurisdictionally across often wide ranges. As such, if an all-island generator TUoS charging is to be adopted as per the SEMC decision, then 'harmonisation' ought to occur from the instant of initiating the networks' revenue requirements, not after. Consequently the determination of the all-island revenue requirements ought to be a SEM matter, determined in a single process thus 'harmonising' the assumptions, as well as the ranges of parameters employed, but preserving the jurisdictional differences in taxation and other matters.

Interaction with supplier TuoS charging mechanism

We have already alluded to the fact that supplier TUoS tariffs maintains status quo as jurisdictionally determined. We question whether the recovery of the all-island network requirement via transmission use of system charges should not have been made on a more

systemic basis, to include the contribution and impact on demand. Granted that this review is being driven largely by the anticipated increasing rate of renewable generation deployment, nonetheless given that changes to power systems are occurring across board including mechanisms to procure greater participation of demand elements, and also given that as much as is possible reviews of any aspect of the regulatory and commercial frameworks would benefit from being comprehensive, to ensure robust outcomes as well as provide some prospects of future stability, we consider that this process would have gained from examining at the very least the implications of an all-island supplier TuoS charging mechanism.

Interaction with inter-TSO compensation (ITC) mechanism

Our understanding from the context of a just concluded SEM working group on losses on the interconnector is that Ireland is a net contributor to the European ITC fund, a mechanism designed to recover the costs of cross-border trades. Given that ultimately those contributions are derived from network users, we are concerned that in a review concerning recovery of network costs which has a cross-border element, no consideration has been given as to how derivations from that fund can contribute to costs arising from the cross-border aspects.

We would strenuously recommend that the TSOs as a matter of urgency investigate the scope for deriving contributions from the ITC mechanism.

Alignment with primary objective – providing a competitive level field

Despite the concerns outlined above, perhaps the most glaring issue with the proposal to determine generator TUoS on an all-island basis relates to concerns as to its alignment with the primary objective of providing a competitive level field. There are two aspects to this. One is the potential step change that exists between the currently in force methodologies and the proposed one. There is no indication as to transitional arrangements to manage this.

The second aspect and the most vexing relates to impact of inter-jurisdictional constraints on the methodology. Given the constrained North-South tieline, the lifting of the capacity restrictions on the Moyle, as well as the provisions of the proposed intra-day trading in the SEM, the resultant dispatch outcomes in the near future may imply jurisdictional imbalances reflected in any MWh component of generator TUoS. While we note the recommendation of the TSOs for a move to capacity basis for non-firm generators given the trading arrangements that obtain under the SEM, we would counter that by pointing out an associated decision also in the Scheduling and Dispatch decision of the SEMC, namely that

when constrained, non-firm generators would get Constraint Payments only up to the greater of actual generation and fixed access quantity; essentially a restricted access to the Market Schedule. While we agree with the TSOs that “the distinction between the ‘service’ provided to firm and non firm generators is less clear than it was in the past in a bilateral market”, we contend that it is also far from clear that the converse is the case.

Given those issues, indicative tariffs would have been most helpful in evaluating alignment to this central tenet of the decision to implement an all-island generator TUoS methodology. Indeed indicative tariffs had been part of the next step requirements in the SEMC decision on TUoS. We are dismayed that such information has not been provided as a tool to evaluate the proposed implementation.

Fixed Tariff Options

The SEM Committee’s decision to have generator TUoS fixed was made “in order to provide stability for generators”. Unless that decision no longer holds, it would be fair to regard the TSOs’ Option 3, to fix the tariff relativity, as non-compliant with the decision. On that basis, we discount it.

On Option 2, to fix the tariff based on anticipated future requirements, the TSOs’ arguments against it, particularly regarding the practicality of implementation, are sufficient to also eliminate it from further consideration.

That leaves Option 1, which in the final analysis most obviously embodies the intent of the SEM Committee decision. While this option exhibits a weakness of potentially increasing tariff volatility for suppliers, the TSOs provide a counterbalance by noting the asymmetry in the revenue requirements base of suppliers compared to generators. While this view would have best been tested by actual figures, it is credible enough heuristically. Furthermore as the SEM Committee’s decision provides for monitoring of divergences, we would be of the view that means to address such be considered when, and if, material variations arise.

Non-firm Generator TUoS

Our argument against the TSOs’ proposal on this matter is already outlined above. However to reiterate, on the basis that when constrained, non-firm generators would get Constraint Payments only up to the greater of actual generation and fixed access quantity, resulting in essentially a restricted access to the Market Schedule, we disagree with the TSOs recommendation for “a fixed locational MW charge levied on all generators regardless of their access rights status”.

Distribution Connected Generators TUoS – Threshold Level

The most constant message in the debate on the future shape of the Irish power system is the need to both extend and reinforce the transmission systems both sides of the border. This is key to the growth in connected renewable generators, as well as in enabling the Irish power system physically link up and interact seamlessly with the broader European market. To deliver the substantially improved network however, considerable investment is required.

Given that context, we agree with the TSOs that the de-minimis threshold for TUoS exemption for generators needs to be re-examined. It will be necessary to determine the magnitude of the impact on the transmission system from the affected class of generators. But equally it will be useful to determine how the TSOs' proposals alleviate identified issues; the choice of 5MW as the new de-minimis threshold appears to have been made by an arbitrary exercise. Perhaps what may work best would be a sliding scale at different levels of connected capacity.

However, we do not regard the TSOs' proposal as onerous, given the consideration for "incremental MW charging to avoid step changes around the [proposed] threshold value". Should the SEM Committee elect to proceed with the TSOs' proposal as is, we would consider that it would add, rather than take away, from the overall objective of developing a suitable transmission system while keeping a relatively level competitive field for all classes of generators.