

**Submission by Bord na Móna PowerGen**

**on**

**All Island Generator TUoS Consultation**

**SEM-11-018**

## **SEM Locational Signals Project All Island Generator TUoS**

### **Response to Consultation – SEM-11-018**

#### **Introduction**

Bord na Mona welcomes the opportunity to respond to this consultation on the implementation of all-island harmonised Transmission Use of System (TUoS) charges. The development of the all-island TUoS charging methodology has been a long and protracted process, which culminated in the SEMC decision<sup>1</sup> on a partly postalised, partly locational charge, which is due to come into effect for the tariff year starting Oct 2011.

The Generator TUoS decision paper, published by the Regulatory Authorities, (RAs) last December indicated a number of areas that required further development as part of the implementation of the new TUoS charging arrangements. It indicated that the TSOs would develop a consultation on a detailed methodology, including indicative tariffs for the tariff year 2011/12 in Q1 2011. The RAs might clarify in their response to this consultation whether these new TUoS charging arrangements will be finalised in time for the forthcoming tariff year, or if the current TUoS arrangements will be kept in force for another year.

There are four topics covered in this TUoS consultation. A response to each of these are addressed separately below

#### **1. Calculation Methods for All-Island Generator TUoS tariffs**

Of the three options proposed for the calculation of all island generator TUoS tariffs, it is agreed that the third option, where the generator tariffs are adjusted to ensure the required ratio of revenues raised from generators relative to suppliers, potentially distorts the locational signal determined from the initial all island tariff calculation algorithm.

A decision on the preferred option of the other two proposed comes down to the impact on the TSOs in relation to revenue recovery risks, and what are the potential impacts for consumers in each jurisdiction.

Option 1 places a risk on the TSOs, which have to transfer funds between jurisdictions to ensure revenue adequacy within each jurisdiction. There is some currency exchange and cash flow risk associated with the timing of compensation for under recovery.

In the case of Option 2, the risk of under-recovery from the generator TUoS within a jurisdiction is primarily passed to the customers within that jurisdiction, which does not meet the criteria of fairness and cost-reflectivity which are key objectives of the

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<sup>1</sup> SEM-10-081 All Island Generator Transmission Use of System Charging: Decision Paper

SEM. It would be unfair to think that the general consumer, (especially domestic customers) should have to face a locational signal as part of the structure of their electricity tariff.

Bord na Mona therefore agree with the proposal to adopt Option 1 as the calculation methodology for all island generator TUoS tariffs. In addition, the proposals to share the risk between the TSOs in proportion to aggregate jurisdictional demand and to allow for under/over recovery adjustments in relation to the management of currency risks appear reasonable.

## **2. Fixed Tariff options**

This section of the consultation addresses the decision of the regulators in the high level TUoS design decision paper to fix generator TUoS for a period of five years. The regulators acknowledged in their decision, that this may impact on the ability to maintain the 25%:75% split of revenues collected from generators and suppliers respectively, and suggest further consultation on the materiality of any divergence in the ratio of revenues collected from generators compared to suppliers.

This consultation has not attempted to quantify what level of divergence may arise, or indeed, what constitutes a material change in this ratio. There is an implicit assumption which is not quantified that a qualification of the original SEMC decision is required. The TSOs argue for a solution that maintains the target ratio, by maintaining the relativity between various generators TUoS tariffs, but adjusts the absolute level of the tariff, to reflect increases in the revenue requirement of the TSOs from one year to the next.

Bord na Mona feels that the TSOs have not justified in their proposal why there is a need to deviate from the original SEMC decision to fix generator tariffs for a five year period. This decision was taken by the SEMC to enhance the stability of network charges for generators, (especially new generators). The TSOs therefore need to demonstrate more clearly that this approach could lead to a material divergence in the ratio of revenues collected from generators compared to suppliers, before any other option could be considered.

## **3. Non Firm Generator TUoS**

The proposed position of the TSOs, to recommend that generators with non firm grid connections pay TUoS on a capacity basis, goes against the principle of shallow charging, where a generator pays for the cost of the deep reinforcements required to make the generator financially firm through TUoS charges over the course of the operational lifetime of the generator.

Bord na Mona feels that it would be fundamentally unfair to require generators who do not have full transmission access rights to pay at the same level as users who do have full firm financial access. In effect, it is equivalent of asking non-firm generators to pay the TSOs for a service which they have not provided. The principles of fairness, which is a fundamental design objective of the SEM out-weighs any potential distortion of the TUoS tariff methodology.

It is argued in the discussion, that the advent of the SEM gives non firm generators more access to the market schedule than the previous bilateral market arrangements. There is a suggestion in this analysis that generators could make more use of their grid connections if they choose to do so. In fact, the bidding code of principles that are attached to the SEM market puts very strict limitations on generators on the formulation of their bids. In addition, generators are dispatched centrally by the TSOs, so it is probably the case that a generator has less control over his access to the market than was the case in the previous market arrangements.

Transmission users with non firm access rights are not just exposed in terms of their access to the market schedule. Renewable generators who rely on REFIT or ROC support mechanism are materially affected by dispatch decision where their output is constrained down, as they are not entitled to support from these schemes for any generation other than actual physically dispatched, (i.e. metered output) from their sites.

For low capacity factors plants, such as peaking plant, the issue of generator TUoS is also material. The theoretical BNE peaking plant is deemed to be fully firm, and therefore entitled to earn energy revenues when in the market schedule. An actual peaking plant, which is non-firm is only entitled to earn such revenues where the plant is also physically dispatched in the market. It is therefore at risk of not collecting the level of infra-marginal rent required to cover the adjustments to the BNE peaker's fixed costs in the calculation of the annual capacity pot, if it is not physically dispatched. This risk is offset in the current TUoS arrangement by limiting the level of charges in proportion to the actual physical dispatch of the generator.

The materiality of the potential distortion of generator tariffs which might be attributed to the rise in the level of non firm generation is not quantified in the paper. However, the principle reason why a generator remains non firm after connection is the delay in the completion of the necessary deep reinforcement works required to make a generator's access firm. A generator does not have control over the timeline required to complete the deep reinforcements associated with its connection. In the scenario where such a generator is paying TUoS based on its capacity, there is no additional incentive for the TSOs to complete the programme of works required to make that generator's access fully firm.

Bord na Mona therefore urge the SEMC to maintain the current arrangement where a generator only pays TUoS once it is provided with the service which the TUoS is supposed to remunerate.

#### **4. Threshold level for Distribution Connected Generator TUoS**

The proposal to reduce the threshold level for the application of TUoS tariffs on distribution connected customers again arises from forecasts that the amount of capacity which will fall into this category in the medium term will have such a material impact on the development of the transmission system, that not bringing them into the tariff scheme will distort the locational signal given by the scheme. It would be helpful if this impact could be quantified to assess the materiality of the issue.

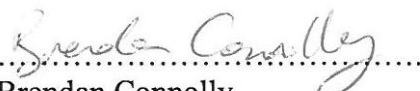
In principle, assuming that this is a material issue, the proposal seems reasonable, given that there is an attempt to mitigate the step change in tariff for those generators which fall between the current and proposed threshold levels. Bord na Mona feel that there is a strong argument to exclude existing distribution customers who fall within the proposed new structure, as the discussion on the topic links the materiality of the issue to new generation connecting at the distribution level. Existing generators who have committed investment on the basis of a business model which did not include TUoS charges do not have the capability of reacting to the tariff's locational signal. Bord na Mona would therefore ask, if the SEMC are minded to adopt this proposal based on their view of the significance of the issue for the tariff structure, that it only apply to new generators who sign connection agreements after the new proposal comes into force.

### **Summary**

In summary, Bord na Mona requests that the SEMC give due consideration to the following points in their deliberation on the TSO proposals

- On balance, Bord na Mona agrees with the TSO proposal on the preferred calculation methodology and proposals to minimise risk of short falls in revenues
- The materiality of the issue on the fixed tariff proposal is not clear. Bord na Mona respectfully suggests that the original proposal to fix such tariffs as per the SEMC decision paper be adopted, unless the TSOs can clearly demonstrate the materiality of why an alternative proposal is required
- The proposal to charge non firm generators on a capacity basis is fundamentally unfair, and should not be adopted.
- Any changes to the threshold for TUoS charges on distribution connected generators should not be applied to existing generators, but to new connections only.

For and on behalf of  
Bord na Mona PowerGen,



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