

# SEM - All-Island Generator Transmission Use of System (TUoS) charging – Consultation Paper

Synergen's response to SEM-11-018(a)

## 1 Introduction

This paper is Synergen's response to the consultation paper "SEM - All-Island Generator Transmission Use of System (TUoS) Charging" published by the RAs in April 2011 as SEM-11-018(a). SEM-11-018(a) invites views on a report by the TSOs titled "Locational Signals Project: All-Island Generator TUoS" (SEM-11-018) that was published by the RAs, and within this paper Synergen's comments generally relate to, and refer to, SEM-11-018.

Synergen has no objection to this response being published.

## 2 Calculation methods for All-Island generator TUoS

In SEM-11-018, the TSOs present three options regarding the calculation of all-island generator TUoS, and further options on the mechanics of implementing their recommended option. These are discussed in turn.

The three options presented for calculating all-island generator TUoS tariffs are:

1. "All-Island Generation Adjustment";
2. "Jurisdictional Supplier Adjustment"; and
3. "Jurisdictional Generator Adjustment".

Synergen concurs that the Jurisdictional Generator Adjustment does not treat generation on an all-island basis as it adjusts generation tariffs within jurisdictions to meet network revenue requirements within each region, and should thus be rejected. Options 1 and 2 do meet the objective of treating generators on an SEM wide basis and applying the locational elements of tariffs across jurisdictions. Both give rise to cost recovery issues for the network businesses in each jurisdiction. However, Option 1 retains the existing supplier TUoS by jurisdiction, whilst Option 2 introduces a degree of volatility on suppliers with respect to the level of Supplier TUoS charges.

### ***Synergen supports the TSO's Option 1 - "All-Island Generation Adjustment"***

Under an "All-Island Generator Adjustment" regime the revenue collected within each jurisdiction will not necessarily match the network owners' revenue requirement, and thus cross border financial flows between the TSOs will need to be managed. Synergen believes that the approach suggested by the TSOs is equitable with both Eirgrid and SONI sharing the risks, such risks being ultimately incorporated in the economic regulation framework.

***Synergen supports the TSO's preferred option – that both TSOs share the risks of under / over recovery.***

The final question considered by the TSOs relates to inter-year under / over recovery, on the assumption that the “All –Island Generator Adjustment” approach is adopted.

***Synergen supports the correction of generator TUoS charges each year to reflect the preceding years under / over recovery of costs.***

### **3 Fixed Tariff Options**

Regarding the postage stamp element of the generator TUoS tariff, options include:

1. Fixing the tariff absolutely. A one off setting of a generator’s costs for a five year period, not reflecting anticipated changes to network revenue requirements during the period, with a potential step change in tariffs after the five year period. Any shortfalls in generator cost recovery would be met by adjustments in supplier tariffs – essentially transferring any volatility.
2. Fixing the tariff with a forward-looking assessment of costs. This would potentially reduce the size of any step change after the five year fixed period, but be subject to the differences that would inevitably arise between forecast, and actual network conditions and the number, and location, of MWs on the system. Supplier volatility exposure would be lower.
3. Fixing the tariff relatively. This is essentially an evolving tariff during the five-year period that is likely to be stable and predictable, but not fixed. Individual generators charges would be set (and fixed relative to other generators) but scaled up or down as a consequence of system wide changes which drive overall network revenue requirements.

Synergen considers fixing the tariff absolutely to be unacceptable, as it would fail to reflect changes in circumstances across the period and the impact on suppliers may be problematic. Synergen considers that either of the other options in SEM-11-018 regarding the postage stamp element of the generator TUoS tariff would be acceptable.

***Synergen considers that fixing the tariff either with a forward-looking assessment of costs or relatively to be acceptable.***

### **4 Non-firm generator TUoS**

Synergen believes that the principles applied to both firm and non-firm generation should be aligned within the TUoS charging regime. Non-firm generation does not receive a lesser service from the grid than firm generation, as it will be dispatched on economic merit. As such generation is often price taking in nature, it is in practice more likely to be dispatched than conventional, firm, generation during most trading periods. Synergen does not, therefore, accept that a capacity factor should be applied to the capacity metric to reflect its intermittency – which is a function of its choice of generation technology. Further, under the SEM, firm generation has seen its capacity payments fall with the increased levels of intermittent generation being introduced to the system. Whilst the original RoI market allowed firm generation

access to the grid for meet its bilateral commitments subject to physical constraints, this no longer applies. Consequently, there is less distinction between firm and non-firm generation with regard to its access to market than under the original bilateral arrangements that formed the backdrop to non-firm generator TUoS charging in the Rol.

Synergen considers that the full access to the market that non-firm generation does, on balance, outweigh the “lesser service” it receives through the absence of constrained-off payments when considering whether it should pay capacity based, or capacity factor adjusted TUoS.

***Synergen supports the application of fixed locational MW charges being levied on generators regardless of whether they have firm, or non-firm access to the grid.***

## **5 De-minimis limit**

The increasing proportion of smaller generation (under the TUoS threshold level) serves to increase the contribution made by larger generators to TUoS costs. Smaller scale generation avoids (in aggregate) significant levels of TUoS charges, but as the TSO paper makes clear both impose costs on the transmission network (even though it is connected at the distribution level) and accesses SEM revenues.

In order to avoid a significant step change in the costs of smaller, and non-firm, generation, the TSOs propose that the de-minimis threshold is reduced to 5MW **but** locational TUoS is only charges on the incremental MWs above 5MW for embedded generation. Synergen considers that:

1. The 5MW limit is too high – and further consideration should be given to further lowering this limit. Clearly, there needs to be a threshold figure adopted (and all thresholds are somewhat arbitrary as there is no economic or system planning for a 10MW limit compared to one set at 9MW or 11MW, nor is there an argument for a 5MW figure in particular). Synergen believes that in principle all users should contribute to the costs of the system down to a level where the monies collected are less than the cost of collecting the funds. On this basis, we suggest a 1MW limit would be appropriate.
2. Synergen does not consider that this position is equitable as there is no rationale for the application of incremental charges for generation. Synergen does not support the incremental charging approach.

***Synergen supports the reduction of the de-minimis limit in principle but (a) believes that the limit should be lower, and (b) does not support the incremental charging approach suggested by the TSOs.***