



IWEA response to the SEM Committee Proposed Decision on the Treatment of Losses in the SEM

SEM-12-024

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The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to the SEM Committee proposed decision on the Treatment of Losses in the SEM.

Introduction

IWEA would like to highlight at the outset our concern over the time taken for this consultation process and the uncertainty that this has caused within the wind industry in Ireland. The current framework for implementing energy policy in Ireland is extremely difficult for potential investors with a significant number of highly material issues under review for a number of years. IWEA recommends that the SEM committee should develop a five year policy pathway highlighting issues that it plans to review. This will help promote more certainty within the industry. IWEA notes that a proposed decision to introduce uniform TLAFs was published in June 2010, however the process is still ongoing in 2012 with the proposed decision being materially different from the original intention of the consultation process which was to address the issues of appropriate costing of the networks and the mitigation of year-on-year tariff volatility and/or unpredictability.

In the Executive Summary of the proposed decision paper it states that the SEM Committee has considered the significant changes to the market that will take place in the coming years. The reluctance to change this methodology now due to future changes in the markers is not good regulation practice, especially considering the amount of time that has already gone into this consultation process.

IWEA is concerned at the proposed decision outlined in the paper to continue with compression of TLAFs, which does not eliminate the volatility and unpredictability of these locational signals. The volatility and lack of transparency of the current methodology of the All-Island Transmission Use of System Tariffs and Losses are a matter of serious concern to IWEA members. The volatility of the TLAF mechanism is disrupting proper investment decisions and risk analysis processes. In particular the current methodology of transmission charging contains a set of volatile and arbitrary tariffs that seem to unduly discriminate against wind generators. It is unclear how these signals are linked to the objective of efficient development of the energy infrastructure on the island. As indicated in previous responses, it no longer makes sense to incentivise development of renewable generation in windless population centres instead of in locations with rich wind resources. IWEA calls for the removal of these non-value added location transmission connection incentives in context of strategic grid development.

IWEA has argued to date that the cost of losses should be socialised for wind generators as the TLAF does not achieve its purpose as a locational signal and generator sites have already been decided through the Gate process in Ireland and significantly determined by the planning process in Northern Ireland. By the time a generator has completed these processes, the TLAF may have changed significantly. As such, the relevance of cost reflectiveness as a primary objective is diminished and should not be a deciding factor in terms of methodology selection as it would be unfair to discriminate between adjustment factors for generator losses when developers were unable to take this consideration into their investment decision.

The lack of predictability adds costs to investment in the industry. This in turn has a material effect on the competitiveness of the industry on the island. Most renewable generators use project finance, and the volatility of TLAFs could trigger project default. This would undermine broader investor confidence.

In our previous response, IWEA noted that the impact analysis did not present any clear direction on the approach that should be taken for the treatment of losses in the SEM. We noted that the most appropriate way forward is to choose the simplest option which is easiest to implement, while at the same time being transparent and removing volatility, i.e. move towards a uniform.

We believe that this needs to be a permanent and enduring solution to provide stability and predictability to investors going forward.

Our previous submissions to this consultation process outlined some of the following important considerations:

- The volatility of the existing methodology was outlined showing an example where the change in TLAFs for a wind farm between 2005 and 2010 was approximately 10%. This is a very significant change in charges and has serious impacts on the cost of finance for projects. While the impact of this volatility is most noticeable for wind farms that have experienced large changes in TLAFs, it is important to note that this volatility imposes a cost on everyone. These locational signals are unpredictable and this adds to the difficulty of financing projects.
- The potential savings associated with creating more efficient use of the system would only realistically be in the region of approximately €1.7 – €2.5 million per annum. It is worth noting that this is probably less than the margin of error in current estimates of the volume of losses. It would be difficult to measure the actual savings associated with improved efficiencies due to the fact that the losses are not currently robustly measured. It is likely that the cost associated with developing and administering any methodology would be more than the potential savings that could be made.
- A uniform TLAF of 1 adds greater transparency and simplicity to the SEM with the potential to reduce system costs, and to ensure appropriate revenue for wind generators as REFIT support is based on a TLAF of 1.0. Our submission also outlined how the impact to the consumer is minimal in this instance as the SMP will decrease in line with the increase in traded volumes.

It is important to note that the overall policy framework is very complex and interlinked. With the industry on the cusp of significant investment over the next eight years there is significant benefit in

having a joined up approach to network planning and generation development. The issue of transmission losses is just one of many areas that need to be tackled to provide a stable investment framework. The level of risk it is introducing is disproportionate to its importance.

Conclusions

IWEA believes that there is a need to remove the existing methodology of TLAFs as the values are volatile and unpredictable. This lack of predictability is of significant material impact as it increases the cost of finance for all generators. The TLAF is no longer effective as a locational signal as the location of new generation is restricted according to the offer process in Gate 3 and the planning process in NI.

IWEA believes the move to a uniform TLAF will provide more stability and predictability. Removing the volatility of TLAFs is essential to ensure proper investment decisions and risk analysis processes can be carried out.