

4th May 2012

Re: Treatment of Losses in the SEM – SEM-12-024

Endesa Ireland welcomes the opportunity to respond to the *Proposed Decision on the Treatment of Losses in the SEM*.

Endesa Ireland supports the SEM Committee's proposed decision not to implement splitting, as no benefits have been identified arising from the implementation of this approach.

However, we are disappointed by the proposed decision to maintain 'compressed TLAFs' in the market and dispatch schedules. Endesa Ireland believes that a uniform TLAF approach should be adopted instead. The consultation paper states that "the SEM Committee concluded that an improvement in dispatch efficiency through loss factors is most likely to be achieved by the adoption of close to real time TLAFs". This is supported by the analysis conducted by the TSOs, which showed there is no material difference in cost to customers between the use of marginal, compressed or uniform TLAFs in the market or dispatch schedules. For these reasons, Endesa Ireland considers that until reliable, close to real time TLAFs are available, it is more appropriate to adopt a uniform TLAF approach.

Endesa Ireland agrees with the aim of incentivising investments to locations which are optimal for the grid but does not consider that compressed locational TLAFs as proposed are an efficient way to do so. As these compressed TLAFs vary year to year generators bear the risk of this volatility. In addition, once an investment decision is made and a station is built, it is unable to move in response to this signal. Managing these risks is a cost to generators, which must be recovered from the final customer, thereby increasing prices. The fact that losses are variable over the lifetime of a generation unit shows that these losses are not directly attributable to the generator. Generators' inability to respond to these signals mean that there can be no value derived from this signal, rather it introduces unnecessary costs.

An alternative approach that Endesa Ireland considers would meet the RAs' objective of providing locational signals and would also provide incentives for the system operators to reduce losses is to fix a generator's TLAF for the life of the station (for new investment, the TLAF that is applicable at the time of signing a grid connection agreement should be applied). This would send an investment signal to generators to locate at points advantageous to the system and would also avoid the volatility for generators described above.

Endesa Ireland also considers that it is necessary to incentivise the System Operators to reduce losses, as they are best placed to do so. Endesa Ireland completely rejects the argument that it is necessary for the TSOs to have ownership of the transmission system to effectively manage losses and considers that an incentive scheme for the TSOs should be implemented in the short-term.¹

¹ In this regard we note the statement in CER-11-128 that incentive schemes are to be re-assessed for 2012.