



Response to
Treatment of Losses in the SEM
Proposed Decision
(SEM-12-024)

With the current proposed decision on treatment of TLAFs, the RAs will be attempting to alter the direction of a process mid-stream. In proposing to continue with Compression the RAs are signalling that a methodology that was considered good enough only for the short-term has, by reason of being the default subsisting methodology, suddenly attained merits of becoming an enduring measure.

SSE Renewables views the proposed decision to continue with Compression as a mishandling of the overall review process for the treatment of losses in the SEM. Our views on this matter are outlined below.

Making Permanent an Incomplete Process

The decision of the RAs in September 2010 to move away from their previously proposed decision of June 2010 to implement Uniform TLAFs in the SEM was made on the basis of a replacement two-step process; step 1, implement Compression of TLAFs as an interim measure for one year, predicated on step 2, a permanent move to Splitting. If the RAs no longer propose to introduce Splitting, the intended goal of the September 2010 decision, then the situation with TLAFs in the SEM ought to revert to status-quo ante, i.e. the position prior to September 2010.

An incomplete process must not be used as a fortuitous excuse to establish a de-facto measure. In the decision to implement Compression for one year, the RAs regarded the measure to be a “[p]rogressive step to an enduring solution: compression by its nature is a short term solution...” The proposal to continue with Compression, turns a temporary, compromise measure designed simply to mitigate the most detrimental effects of a pre-existing methodology into a permanent one, and in the process undermines the principle on which the measure was introduced. This is essentially a case of a ‘bridge to a solution’ ending up as the ‘solution’.

‘Step Nature of Change’

Indeed the only clear rationale that promoted Compression over Uniform was that Compression was suitable for a ‘small steps’ approach to an enduring treatment of TLAFs. However with the proposal not to implement Splitting, this basis is no longer valid. Thus if this proposal is maintained, the decision will be based on faulty premises and will violate the rationale for the decision in September 2010.

Underlying Methodology Remains Faulty

Besides the core of Compression remains the previously operating methodology which the review process intended to find an enduring replacement for. All Compression achieves is removal of ‘the extremities of the [previously] existing TLAF [methodology]’. Thus maintaining Compression on an enduring basis perpetuates the methodology which has been put to question in the first place.

Ambiguity in Results of Impact Analysis

The RAs highlight the fact that the results of the recent impact analysis were largely inconclusive and particularly that “different loss factors may have significant impacts on individual plant in the SEM, the “global” results (e.g. on impact on consumer) were difficult to conclusively link to TLAFs. The ambiguity in the results of the impact analysis has a number of implications which we discuss below.

Locational vs. Operational

The merits of the various options for treating TLAFs have for most of the review period being subject to the sole criteria of plant location, circumscribed in the dichotomy of good locations against bad locations. But the inconclusive results of the impact analysis highlight the fact that grid location alone does not explain outturn losses. Operational conditions on the network are factors also.

The contributory factors to losses include locational and operational elements. Yet the proposal intends to continue with a methodology that primarily accounts for plant location.

Relativity in Merits of Options

The RAs have also previously noted that the loss factors used in the previously operating methodology “are [possibly] not much more representative of real time losses than a uniform loss factor would be...”

One thing the impact analysis makes clear is that until the time that close-to-real-time TLAF measurement is implemented, practically all the methodologies proposed for treatment of loss factors are imprecise. If improvement in real-time dispatch is not achievable by the various algorithmic methods, what advantage then does one method have over another? If none of the algorithmic methods can demonstrate positive superiority over another, then the criteria for selection should look at the negative impact of selecting one over the other.

Perverse Economic Outcome

The results of the impact analysis conclusively demonstrate that the economic objective of efficient dispatch which the RAs seek is unachievable by the various algorithmic methodologies evaluated. Failing in that primary task the methodologies in practice simply turn out to be economic value redistributive mechanisms. Treatment of losses by Compression is “not much more representative of real time losses” than Uniform; yet on shaky basis it proceeds to shift wealth from one class of generators to another class.

As we have previously argued, “[u]se of a marginal loss calculation exaggerates real losses, as marginal values are greater than the average. Conversely so are the benefits provided to generators in ‘favourable’ locations. As a result an inherently unfair wealth transfer between generators occurs. This arises as the marginal loss calculation does not add up to the total forecast estimate of losses, a scaling factor is applied to give final TLAF values, but this factor is distorted by the initial error arising

from the difference between marginal and average losses and so compounds the bias in the original calculation”.

Recommendation

On the basis of the foregoing discussion SSE Renewables strongly recommends that with the proposal not to continue with Splitting, the corollary use of Compression as a ‘stepping stone’ to that methodology should also be discontinued. Given that the combined two-step process outlined in the September 2010 decision will not be seen to completion, the rightful treatment of this process would be to revert to the prevailing RA view prior to the September 2010 decision. For the avoidance of doubt SSE Renewables calls on the RAs to revert to the proposed decision of June 2010 – to treat TLAFs on a Uniform basis.
