

Jean Pierre Miura,
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Your reference SEM-12-024

4 May 2012

Dear Jean Pierre,

Consultation on Proposed Decision Paper on Treatment of Losses in the SEM

ESB PG welcomes the opportunity to respond to this consultation and, as stated in our last response, looks forward to the conclusion of the TLAF consultation process which has been a long and contentious process for the industry.

ESB PG's position on this is clear and unambiguous. It has not changed throughout the process, i.e. the current methodology is fundamentally flawed and should be rejected in favour of a move to uniform TLAFs in the market. ESBPG agrees that the case for splitting TLAFs as established in the previous consultation was weak given the lack of near real time TLAFs and agrees with the SEMC conclusion that splitting should not be pursued at this juncture.

ESBPG also agrees with the SEMC that the modelling has not demonstrated any conclusive benefit for the use of TLAFs, but is of the view that the conclusion drawn by the SEMC to retain compressed TLAFs as a compromise given the above is inappropriate.

The draft decision provides two insights into the SEMC's reasoning:

'However bearing in mind the SEM Committee's stated objective for stability in the MS and efficiency in the DS, the Committee is of the view that the compromise solution offered by compression most closely meets these objectives at this time.'

'...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. Therefore, the SEM Committee is of the view that until such time as the determination of close to real time TLAFs is achievable by the TSOs, the current methodology should prevail.'

Surely the appropriate logical progression given the above information and objectives is the following:

1. The SEM Committee's previous stated objective was for stability in the MS and efficiency in the DS which was to be provided by splitting.

In respect of the DS

2. The efficiency of the dispatch schedule would best be provided by near real time TLAFs.
3. Near real time TLAFs are not available – therefore consider the existing locational/compressed TLAFs for dispatch.
4. There is no basis for believing the existing locational/compressed TLAFs are providing any efficiency benefit (or harm) in dispatch based on RAs own analysis.

Conclusion: No clear decision on what to do in DS, but simplicity would suggest uniform would reduce the administrative burden.

In respect of the market schedule:

5. The SEMC favours stability over efficiency (and the advantages it brings in terms of investibility and cost of capital etc). ESB PG assumes this is not to be an absolute stability at any cost, but only that stability has a greater weighting than efficiency in the decision making process.
6. Uniform is clearly the most stable approach to TLAFs in the market – therefore use uniform TLAFs unless there is a negative efficiency impact.
7. However, there is no efficiency impact (per the RAs own analysis) to suggest that the RAs should dilute the stability objective.

Conclusion:

Use of uniform TLAFs in the market schedule is the preferred outcome.

We would respectfully suggest that the SEMC should consider all the facts to hand at this juncture and their stated objectives and reconsider their draft decision. It is clear that based on the above a move to uniform TLAFs best achieves the RAs objectives and those of the industry at this time.

Should you have any queries in relation to the above response please do not hesitate to contact me.

Yours sincerely,

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Strategy & Regulation