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## **Saorgus Energy Ltd comment on SEM-09-107;**

### **Preferred Options to be considered for the Implementation of Locational Signals on the Island of Ireland**

The view of Saorgus Energy Ltd is that generator locational signals in both tariffs and losses do not work and should be abolished.

Firstly, it is clear from the submissions of various generator types to the multiple previous consultation on this issue that locational signals do not influence generator behaviour in any way and are merely a nuisance, providing nothing but uncertainty. No evidence is provided by the RA's that any generator has improved the system by responding to these locational signals. In short, the system does not work and this is a result of inherent shortcomings.

Secondly, charging or rewarding specific participants for the system operator's (SO) success or failure in preventing specific locational examples of energy loss or other supposedly sub-optimal grid usage merely randomly rewards or penalises those who have no role in the grid operator's operation and development tasks. On a superficial or simplistic level, the current approach is ideologically-based on the "user pays" or "cost-reflective" principles but in the real world results in a conflict of interest for the system operators. The only principle established is that there is an incentive for the SO to impose greater penalties on generators who wish to locate in an area where the SO finds itself unable or unwilling to provide system improvements.

Thirdly, the existing policy is in contravention of the EU Renewables Directive which states that an appropriate network to accommodate renewables must be provided. The locational signal system not only disregards this imperative but actually and potentially does the opposite by punishing renewables located on the margins of the network. The existing system therefore works against the energy security aims of government and the EU.

A fourth argument is that the existing system favours fossil fuel plants; there was a significant difference in the TLAF's applied to conventional and renewable in 2009. This may be explained, for example, by the fact that gas plants can be located next to the junctions of the main electricity and gas networks whereas wind and other renewables must be located where the resource is available, commonly in regions or at nodes that attract a negative TLAF. The current charging system therefore unfairly favours those who use imported and insecure fuels.

Fifthly, locational charges create an uncertain investment environment overall because changes in TLAF are not controllable by generators and are both unpredictable and commercially significant. For example, it is proposed in SEM-09-102 that the TLAF for the Tralee node, to which all of our operational projects are connected, will decline by almost 4%

in a single year. This rate of decline significantly but needlessly affects our business case and the business case of all prospective generators who may wish to invest in Ireland.

Finally, even if the principle behind TLAF is that economic losses should be allocated at source, this idealistic approach fails when locational signals are swamped by the grid development effects of the Group Processing Approach and Grid25. In both cases, far stronger signals arise from elsewhere and render the TLAF signal ineffective, irrespective of whatever tweaking the SO's advocate. This argument against TLAF's strengthens in the context of a move to embedded generation when the modelling of transmission losses will become even uncertain.

The tone of the SO's paper is that they weakly advocate the status quo and do not wish to address the issues outlined in these comments. The SO's obviously have a vested interest in defending a system that they have been operating for some time but it seems clear that even they don't even believe in it. Section 5.2 for example acknowledges that the theoretical approach to the calculation of loss factors is deficient and that the resulting data have to be "scaled" twice in order to produce the TLAF's that are imposed on generators. This is an admission that, in addition to the systemic inadequacies and biases outlined in these comments, the SO's system modelling is incapable of producing the required data without arbitrary adjustment. The SO's suggested approach to this issue (at almost 200 pages) appears to be to impose another layer of adjustments and controls onto the layers of adjustments and "scaling" outlined in s5.2 of the document. This approach, effectively to complicate the matter further, appears unwise in the extreme.

Our understanding is that the existing system is (or is close to) a zero sum game where the TLAF penalties and incentives are almost evened out over all generators (average was 0.9965 in 2009). In that context, the most effective solution for the clear inherent inadequacies of the current system would be to abolish the use of TLAF's and to charge the relatively minor residual losses to final customers; see below.

We believe that losses, should be levied on the final customer, who pays in the end in any case. However, we also believe that UoS charges should also be levied on the final customer. The current arrangements, where generators and suppliers pay for UoS and losses, effectively buries these charges within suppliers' bills to final customers. We do not believe that it is good economic or regulatory practice to allow these major cost categories to be hidden and disguised in this way. The apparent justification, that this lack of transparency is necessary in order to drive optimal grid development, is simply not plausible. In the same way as PSO charges are levied in a transparent way on final customers' bills (an EU requirement), so too should UoS charges and losses be broken out for the benefit of final customers. There is no regulatory benefit, and certainly no benefit to the final customer, in purposely impeding public scrutiny of the cost of running the grid.



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