

**NIE Energy Limited  
Power Procurement Business (PPB)**

**Transmission Use of System Charging  
Methodology for  
All-Island Generation Tariffs**

**Consultation Paper**

**SEM-08-067**

**Response by NIE Energy (PPB)**

30 June 2008.



## Introduction

NIE Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper on the proposed Transmission Use of System Charging Methodology for All-Island Generation Tariffs.

## Main Comments

PPB has two main issues with the proposals for Generator Transmission Use of System (GTUoS) charges.

The first is that we disagree with the underlying principle of locational GTUoS charges and do not believe they deliver the appropriate or correct signal in respect of the appropriate location for investment in new generation. The paper states in Section V.4 that new entrants should be taking investment decisions based on their expectations of the Net Present Value (NPV) of tariffs over the lifetime of the generation project. It is not realistic to expect generators to have the capability to model what is clearly a complex area. The response to such an expectation is likely to be a perception of increased risk which will be reflected in the cost of capital for investors and ultimately increased costs for customers.

Notwithstanding the above point of principle, and turning to the tariff proposals set out in the consultation paper, we are very concerned that the proposals result in the doubling of GTUoS charges for Northern Ireland Generators. This effect largely results from the change to locational based charging. The consequence of such a change to the charging regime, highlighted in the NIE response to previous consultations on this issue, will be an increased cost for Northern Ireland customers. Under the proposals set out in the consultation paper, this would result in an increase in PPB’s costs of around **£6m** all of which will flow into higher PSO charges for Northern Ireland customers.

This locational cost would be a lesser issue for Northern Ireland customers if Demand TUoS (DTUoS) was also determined on a locational basis since it is likely they would benefit from offsetting lower DTUoS charges. However, as a result of the decision to have a single postalised DTUoS tariff, the consequence is a net increase in costs to be borne by NI customers. Previous decision papers (from March 2007 and July 2007) indicated that a Cross-Border Revenue Adjustment Mechanism would be developed to mitigate this effect yet the consultation paper makes no reference to any such arrangement. PPB considers it unreasonable to seek comments on the charging proposals in isolation and that a fully considered response is impossible in the absence of any definition of the proposals for the Cross-Border Revenue Adjustment Mechanism.

## Other Comments

The proposed timing of this consultation leading to the publication of the final GTUoS tariffs in September does not align with the general tariff timetable. This creates a significant problem for PPB as we are required to submit tariff proposals in early July including estimates of the GTUoS charges PPB must pay in respect of the generators contracted to it. PPB does not see any reason why GTUoS charges could not be agreed by the end of June in advance of each new tariff year.

The discussion on page 4 on the scenarios adopted to reflect running conditions highlights the conflict between the fundamentals of the SEM which determines generator income on the basis of un-constrained scheduling compared to the derivation of GTUoS charges where constrained scheduling is used.

It is not clear from the descriptions of the scenarios used (as discussed in Section IV) how imports from GB are treated in the modelling. Any such imports will clearly have a bearing on energy flows on the transmission network (including the North-South circuits) and if no charges are to be applied to Interconnectors, then any imports/exports across Interconnectors should similarly be excluded from the analysis since they could be unfairly distorting the analysis and influencing the charges for other adjacent generators.

It is also impossible to comment on the appropriateness of the scenarios used in the modelling. It is clear that the Summer Peak No Wind (SP0%) has a significant effect on the determination of charges for N. Ireland generators. Whilst this could be a low probability event it appears to have a disproportionate effect on the proposed charges. The arguments for including this scenario and excluding any of the multitude of other potential scenarios is not adequately presented and raises many queries over the integrity of the methodology and the resulting tariff determinations.

It is not clear why Lightly Loaded Lines are treated differently by being excluded from the calculation of tariffs. The consultation paper accepts that this treatment is "somewhat arbitrary" and presents no firm evidence to justify it. Volatility is a major concern and we consider a €5/kW cap to be too high. Under the proposals, the charges to NI generators would double and it is difficult to represent this capping mechanism as effectively dampening volatility.