

NORTHERN IRELAND ELECTRICITY plc

Single Electricity Market

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

**Consultation Paper
SEM-08-067
(11 June 2008)**

NIE's Response

2 July 2008.



Introduction

This paper sets out NIE's response to the RA's consultation paper entitled "Transmission Use of System Charging: Methodology for All-Island Generation Tariffs" (SEM-08-067, dated 11 June 2008). The consultation paper seeks views on the details of the method that the system operators intend to use in the derivation of the transmission use of system tariff for generators, in particular, options for the costing of network components. Whilst NIE is aware that fundamental concerns have been expressed with the principle of locational GTUoS which illustrate that Northern Ireland customers would be economically disadvantaged, our response focuses on the area of the consultation paper that is directly relevant to NIE, namely network costing.

Network costing

While NIE recognises that there have been significant increases in network costs over the last year, the fundamental cause of the reported widening of the range of individual generator tariffs between those in 2007 and indicative tariffs for 2008 would appear to be the significant change in the process by which the tariffs have been derived, rather than the real increase in network costs.

It is self-evident that the introduction of locational charges to generators in Northern Ireland (NI) will produce a range of tariffs, compared to the standard charge that was previously applied to all NI generators. Also, while the locational charging principles applied to generators in the Republic of Ireland (ROI) remain unchanged, it would be reasonable to expect that the dynamics of locational charging could change significantly when the locational model is expanded to encompass the NI transmission network.

It is apparent from the paper that there has been a step-change in the process by which network costings have been derived, between that used in the ROI-only 2007 model, which have been indexed only by general inflation since 2000, and the new all-island 2008 model, which has been populated with current replacement costs.

NIE agrees with the position of the system operators, as presented in section III.1 of the paper that the cost of transmission assets in recent years has increased far in excess of general inflation. As a consequence, it is unsurprising that the network costs assumed in the ROI-only 2007 model, are significantly lower than current replacement costs.

Also, NIE would suggest that the presentation of network costs in Table 4¹ of the paper could be misleading. The table attributes costings on a 'cost per circuit km' basis, therefore as it is a double circuit construction, we would suggest that the cost per circuit km of a 275kV double circuit overhead line should be half of the £1,297,000 replacement cost that is quoted in the table i.e. £648,500 per circuit km.

¹ Proposed OHL Costings – SONI

Options for the treatment of network costs

The RAs put forward a number of options for the treatment of network costs in section III.3 of the paper.

NIE concurs with the system operators' view that replacement costs (option 1) are the most appropriate basis for calculation in a locational TUoS price model. As referred to above, it is our view that the disadvantages of using replacement costs are more to do with the step-change in the basis of the costs used in the ROI-only 2007 model and the new 2008 model respectively, rather than possible volatility in replacement costs going forward.

It is not clear as to the basis upon which the historic 'regulated values' suggested by option 2 would be derived by NIE/SONI. Therefore, we cannot offer a view at this time as to the practicality of providing this information.

Option 3 suggests using a rolling average of network costs. As referred to in section III.1 of the paper, NIE has provided SONI and the RAs with its assessment that recent increases in transmission costs have been in the region of 10% per annum. This would suggest that the rolling three-year average of NI network costs is some 90% of current costs. It is unclear, therefore, why, the RAs' paper assumes a 60% figure. It is also unclear why the RAs suggest deriving the rolling average for the NI network based on the costs provided by Eirgrid, when as referred to above, the paper also recognises that SONI has already provided the RAs with its assessment of the three-year average applying to NI transmission assets.

In concluding our response, NIE would again reiterate its continued commitment to assisting the RAs and SOs to arrive at a sustainable basis for deriving transmission network costs in the development of the generator TUoS charging methodology.