



NIE Energy Ltd

**Methodology options to be considered for the
implementation of locational signals on the
island of Ireland**

Consultation Paper

(SEM-09-060)

May 2009

NIE Energy (Supply)'s Response

10 July 2009

Introduction

NIE Energy (Supply) welcome the detailed level of analysis carried out by the Transmission System Operator (TSO) and the opportunity afforded to comment upon the work completed to date. Furthermore we appreciate the engagement with the market which the TSO have sought through facilitating workshops etc.

As this is a complex issue which has potentially diverse ramifications we urge the TSO to continue this level of interaction and provide as much detailed information to the market as possible to facilitate a fully informed discussion.

NIE Energy (Supply) is however concerned at this stage that there is a perceived focus solely on the generator impacts without taking appropriate consideration of the Supplier implications especially the effect of TLA's on the Error Unit calculation.

Objectives and Research

NIE Energy (Supply) believes the overall goal of harmonisation incorporating specific objectives of transparency, non-discrimination, cost reflectivity, consistency etc are laudable. We welcome the extensive academic research carried out by the TSO on other countries operations as this provides a useful context as well as potential options for the SEM implementation.

It is difficult however to fully assess the various options without some form of modelling, costings, worked examples and scenarios. While NIE Energy (Supply) understands that at this stage the analysis is focussed on the theoretical and we would urge the TSOs to make available the detailed figures as soon as possible to enable the industry to better consider the various options.

Losses Options

Of the 4 options suggested by the TSO NIE Energy (Supply) would like to make the following comment –

- 1) Loss Adjustment Factors (current nodal method) – the argument for the continuation of this methodology is that it is believed to be the most cost reflective and leads to the most efficient dispatch. We understand that the TLA's can change year on year and this adds a degree of uncertainty however this method does produce a locational signal and responds to network changes.
- 2) Zonal – while based upon the nodal method it increases the predictability however sacrifices some of the cost reflection. In addition this method has the potential to have a significant impact on the error unit calculation
- 3) Uniform –This has a high predictability however is not cost reflective and has no locational aspect. This could also have a significant impact on the error unit calculation.

- 4) Purchase - While this methodology is used in other countries and does have merit it could not be implemented without global aggregation which should be a consideration when assessing this methodology

At this stage NIE Energy (Supply)'s initial reaction is that the current nodal methodology remains the most appropriate however it is difficult to take a definitive view without more detailed analysis and modelling particularly of the Purchase suggestion.

Tariff Options

NIE Energy (Supply) notes that the tariff section focuses on the cost determination and the postage stamp methodology however not the basis on which the tariff would be applied e.g. energy only energy/capacity mix etc This aspect is essential to fully understanding TUoS billing.

An important issue to be considered when "reviewing postage stamp with locational aspect" is the effect on Supplier TUoS billing as it is very unlikely that a Supplier would incorporate a geographical element into retail bills especially those based upon a published tariff.

Next Steps

In conclusion NIE Energy (Supply) welcomes the TSO review process and the opportunity for engagement to date. In addition we would urge the TSO to give full consideration to the potential effects on the error unit calculation and publish as much of their statistical analysis as possible along with the subsequent consultation paper enabling market participant to be fully informed of all potential consequences of any proposed change.