



Endesa Ireland response to SEM/09/060 Methodology Options for the Implementation of Locational Signals in the SEM

Endesa Ireland welcomes the consultation on methodology options for the implementation of locational signals in Ireland. Endesa Ireland considers that locational signals are an important tool by which the system operators can incentivise the location of new plant. However, once an investment decision is taken, market participants are unable to respond to locational signals, eliminating any usefulness of the signal. In addition to lack of utility, the inclusion of locational signals in generator charges increases the risk profile for generators, as these signals have been variable year-on-year. The effect of requiring generators to accept higher risk for circumstances in which they have no control once they have made their investment decision results in increased prices to end customers. As such, Endesa Ireland strongly supports removing locational signals from generator charges.

Transmission Loss Adjustment Factors

Endesa Ireland agrees that a signal is needed to incentivise new investments in locations that are beneficial to the grid. However, once the investment decision has been made, generators are unable to respond to locational signals. Year-on-year variations in TLAFs increase income volatility and therefore generator risk, which generators must seek to manage. Managing these risks is a cost to generators, which must be recovered from the final customer, increasing prices. The fact that losses are variable over the lifetime of a generation unit shows that these losses are not directly attributable to the generator. Generators inability to respond to these signals mean that there can be no value derived from this signal, rather it introduces unnecessary costs.

Endesa Ireland considers that losses should be purchased by the TSOs, with the costs allocated to all generators on an equal basis. Losses are a system cost which can best be managed / reduced by the TSOs. However, the TSOs have indicated that significant investment would be required in order for them to implement systems to facilitate the purchase of losses. The costs to implement such systems may outweigh the current benefits. If this is the case, this option should be kept under review.

As a second choice, Endesa Ireland suggests that TLAFs remain constant for the life of a plant or TLAFs should be uniform, with all generators facing the same loss adjustment factors.



Endesa Ireland also considers that it is necessary to incentivise the System Operators to reduce losses, as they are best placed to do so. Endesa Ireland does not consider that it is necessary for EirGrid to have ownership of the transmission system to effectively manage losses and considers that an incentive scheme should be implemented in the short-term.

Transmission Use of System Charges (TUoS)

As with loss factors, Endesa Ireland does not support a TUoS charging methodology that attempts to include locational signals as generators are unable to respond to these signals after the investment decision has been made. Endesa Ireland also considers that demand customers should pay common rates.

Therefore, Endesa Ireland supports a postage stamp model for TUoS charges, with fixed charges for capacity (MW) and energy usage (MWh).

A second option for the introduction of a postalised tariff for existing generators was proposed which included an incentive discount for new generators that choose to locate in a place that is considered favourable to the performance of the transmission network.

Endesa Ireland does not agree with the proposal to give these generators long-term discounts to their TUoS charges. Rather, Endesa Ireland proposes that capacity auctions are introduced. When assessing the offers in the capacity auctions, preference should be given to those offers that plan to invest in locations considered favourable to the transmission network as indicated by the TSOs.