



ESB Customer Supply Response

to consultation on

**The Methodology Options to be considered for the
Implementation of Location Signals on the Island of
Ireland (SEM-09-060)**

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Table of Contents

Introduction..... 3
Transmission Use of System Charges..... 4
Loss Factors 5
Conclusion 6

Introduction

ESBCS is pleased to have this opportunity to respond to this consultation on the Methodology Options to be considered for the implementation of locational signal in transmission charges and losses. The locational basis for charging generators is a very important economic signal which is needed to improve system security and efficiency and helps to facilitate the build of renewable energy source plants which are likely to be situated at remote locations. There are two categories of charges which are used to achieve these objectives. Firstly the annual charges which recover the cost of the transmission system and secondly the loss factors which are used to schedule generators on a day-to-day basis. In both cases the recent consultation process has developed options for improving the stability of the financial impacts while retaining a meaningful incentive for efficient use of the transmission system.

Transmission Use of System Charges

While the current system has the benefit of providing strong locational signals for investment it is prone to significant changes relative to the timeframe of generator investments. Once a plant has been built there is no benefit to the system if its annual charges are increased. The most important purpose of a financial signal is that new plants are not added to locations where they create inefficient use of the network. Therefore we are in favour of using a postalised approach which will reward efficient investment and maintain that incentive in the medium term of around five years. This is described as option 7.3.2 in the consultation paper (Postage Stamp with Incentive Discount for Generation and Demand).

Our second preference is that the current system is maintained. We are not in favour of a postalised system which does not contain a strong incentive for location of new generation.

Loss Factors

The loss factor is a very important signal to allow the Transmission System Operator to dispatch generators in a more efficient manner. Where there is a choice between similarly priced generation then the loss factor will allow the cost of network losses to be considered in the most cost effective way to meet the demand. This will also contribute to reduced carbon emissions because a greater amount of generation and fuel is used when then the electricity has to be transported over long distances.

The current method of calculating the losses ignores the losses which are fixed and therefore will overstate the degree of losses associated with transporting electricity. This will create economic inefficiency and have a negative impact of the carbon emissions. To avoid this undesirable outcome we would favour the fixed losses being excluded from the calculation of the locational component of the losses. Instead they should be added as fixed component to all losses in all locations. We are not in favour of Suppliers paying a locational loss for their customers. This would be a significant and unwelcome change to the current tariff methodology.

The calculation of losses is based on a theoretical model and limited scenarios and will only be reliable within a certain level of uncertainty. In order to avoid undue discrimination between generators in the same zone based on uncertain calculation we are in favour of using the same loss factors for all generators in the same electrical location.

The use of loss factors to incentivise generators which are not dispatchable is of questionable benefit. We would be in favour of all such generators being given the same loss factor.

We are not in favour of a socialised loss factor as this will encourage inefficient dispatch. Although it is not our preferred option we note that the option of the System Operator purchasing losses will still allow generators to be dispatched in an efficient manner which takes account of locational losses.

ESBCS Response to Consultation on Methodology Options to be Considered for the Implementation of Locational Signals on the Island of Ireland SEM/09/060

Based on our comments above our preference is for the Losses Option as outlined in section 6.3 of the consultation paper (Zonal Losses Adjustment Factors).

Conclusion

We welcome and appreciate all the work by participants that has been put into developing a range of options for transmission charging and losses. We are in favour of those options which will incentivise efficient use of the network in order to improve efficiency, security of supply and environmental impacts.