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Ref: TEL/EOD/09/117

10th July 2009

RE: Methodology Options to be considered for the Implementation of Location Signals on the Island of Ireland

Dear Mark & Raymond,

The views of Tynagh Energy Limited (TEL) in relation to the Methodology Options to be considered for the implementation of Location Signals on the Island of Ireland are outlined below.

Transmission Losses Options:

Of the four options presented within this consultation, a policy of Uniform Loss Adjustment Factors achieves the highest number of the outlined high level objectives. Option 6.4, Purchase of Losses, is not workable as it is not compatible with the design of the SEM market in its current guise and therefore has not been considered in this response.

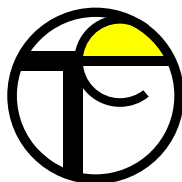
In a cost allocation process where all parties are jointly responsible for the cost and where no method exists of accurately measuring who contributed most to causing the cost – there is no perfect solution. Unless the transmission system is designed to meter losses on a nodal level, attempting to attribute transmission losses on a nodal or zonal basis is a futile and inaccurate exercise.

Options 6.1 (Loss Adjustment Factors) and 6.3 (Zonal Losses Adjustment Factors) are methodologies that attempt to calculate losses through dispatch and system modelling based upon assumed ex-ante forecasts of scenarios that might happen. This flawed fundamental assumption means these methodologies will always result in the wrong answer; the level of complexity involved in the process only serves to create a spurious impression of accuracy.

It is incorrect to suggest that Options 6.1 and 6.3 will lead to an efficient dispatch of the system. As mentioned already these methods result in loss factors being assigned to

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generators that in all likelihood bear no comparison to actual losses borne in reality. Losses calculated in this manner will not result in the efficient dispatch of generators.

Furthermore one just has to compare the significant differences between SEM generator Market Schedule Quantities and generator Dispatch Quantities to realise that, even if they were calculated correctly, transmission losses bear little influence over the dispatch of a generator in the SEM.

Without the capability to meter losses on an ex post basis, losses cannot be allocated to individual participants in a manner that is accurate and non discriminatory. Therefore the only fair solution is to allocate losses on a socialised basis.

Option 6.2, which proposes Uniform Loss Adjustment Factors, is one such solution. Using this methodology the discriminatory effects of the current loss adjustment methodology disappear as losses are allocated collectively rather than to individual generators. The problem of volatility is also remedied as the collective loss factor is unlikely to change significantly from year to year.

Transmission losses are not an appropriate mechanism for communicating locational signals to generators. Locational signals should be sent centrally through the planning application process. Allocating firm grid access to favourable sites and non firm access to unfavourable sites is an efficient method of encouraging generators to appropriate locations. These firm and non firm access rights should then be used to determine dispatch which will result in generators in favourable locations being given priority.

TEL recommends Option 6.2 Uniform Loss Adjustment Factors be the chosen losses methodology.

TUOS Options:

Six TUOS tariff options are presented within this consultation. Four of these six options (7.1.1, 7.1.2, 7.2.1 and 7.2.2) require load flow analysis to be carried out. As mentioned above, load flow analysis will produce results that are subjective and entirely specific to the scenario chosen, which is guaranteed never to happen in reality. These methodologies will produce results that are volatile, non transparent and bear no resemblance to real world occurrences. It is for this reason that these options should not be considered.

Again the only fair cost allocation route to adopt in this instance is one of socialisation of costs, as suggested by option 7.3.1 – Pure Postage Stamping for Generator and Demand TUoS. Adopting this method will not only greatly simplify the calculation process but will above all ensure all generator's are treated equally.

TEL recommends Option 7.3.1 Pure Postage Stamping for Generator and Demand TUoS be the chosen TUOS charging methodology.

Yours sincerely

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