

25th July 2011

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EirGrid,
160 Shelbourne Road,
Ballsbridge,
Dublin 4

Helen Magorrian,
SONI,
Castlereagh House
12 Manse Road
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Dear Mark, Helen,

**RE: All-Island Generator TUoS Consultation Indicatives 2011/12
and All-Island Generator TUoS Methodology**

Thank you for the opportunity to respond to and input into the Generator TUoS consultation process. Bord Gáis Energy (BG Energy) fully supports the initiative to consult on this process and provide clarity to this area.

On a general point, BG Energy considers it important that this consultation is not considered in isolation but rather as part of a holistic approach to locational signals for generators which includes the current TLAF and dispatch and scheduling consultation processes. All of these consultations include some element of a locational signal. On the basis of providing a clear and effective locational signal in the SEM, it would be more appropriate to first develop a policy on how locational signals should be applied and where they should be targeted before designing certain locational signal processes in isolation. Understanding that EirGrid and SONI as the system operators are not the policy makers in the SEM, it is still worth commenting that locational signals have a significant impact on generators and a more holistic, transparent and policy driven approach to the solution would be welcomed.

Similarly, given that the tariffs are calculated for only one year, based on modelling for one year, it is difficult to ascertain the impact of the detailed methodology on volatility year-on-year. Considering that the issue of volatility is being addressed in a number of other consultations, such as TLAFs, Capacity Payment Medium Term Review and Dispatch and Scheduling, it would seem counterintuitive to implement a solution that would further increase volatility

in the market for generators. BG Energy therefore asks the SOs to provide further analysis as part of the final decision on the forecasted impact of this methodology on tariffs for the next 5 years, based on current network development plans. Indeed, such a forecast is provided by National Grid in the UK in a 'Condition 5 Report'. This report aims to help investors forecast costs for project financing purposes.

As a high-level policy principle, BG Energy considers it vital that a harmonised all-island TUoS methodology is transparent and non-discriminatory for all generators. For example, non-firm generators are not compensated when constrained, therefore charging non-firm and firm generators on a like for like basis for TUoS would not be appropriate. Likewise, with the proposal for the payment of negative TUoS charges, assuming that you agree with the principle of negative tariffs, this payment should not be fuel-source specific. Whether a generator is fossil fuel or wind generated, it should be treated the same, indeed as they are for positive charges.

As the outturn tariffs are based on a forecasted merit order stack taken from the output of Plexos modelling, the probable scenarios can change with changes in fuel relativity (i.e. coal/gas) or a significant difference in wind generation. This will lead to a generator overpaying/underpaying significantly for their use of the Transmission system. Again, similar to the current TLAf anomaly, this leads to a cross-subsidy of wealth from one party in the market to another. In a competitive market such a cross-subsidy is commercially damaging. BG Energy would therefore suggest the inclusion of a correction factor at year end to ensure that those who actually use the system most pay for it in terms of the locational proportion.

On the methodology of fixing the tariffs absolutely or relatively for 5 years, BG Energy views it as essential that clarity is provided about how these tariffs will be calculated. While BG Energy would welcome the certainty that a 5 year fixed TUoS period would provide for financing investment, the subjective nature of the modelling means that there is a high potential for misrepresentative generator TUoS rates. This will inevitably lead to a less than optimum selection of projects that will be built out. The methodology needs to consult on and be

explicit on how new generators connecting early, or delayed build outs will be dealt with.

The uncertainty of TUoS rates for the remainder, and in a lot of cases the majority, of a project's lifetime will still remain very uncertain. As this fixed term is only for a short period, indicative rates are required for the long term life of a project.

Conclusion:

The short timeframe and lack of information on the TUoS methodology have made the indicative rates very hard to analyse at this point in time.

While recognising the fundamental importance of providing a strong, transparent and reliable locational signal, BG Energy considers it imperative that this is done in a manner that takes other market influencing factors and processes into account so as to provide a clear and reasonable locational signal for participants in the market as a whole. The proposed TUoS methodology does not provide us with enough information to assess how this system will work in the future and it also is open to market changes that will render the TUoS charges arbitrary and unreflective of true costs.

In short, BG Energy is of the view that a holistic policy on the provision of locational signals and how they are targeted should be developed by the Regulatory Authorities before the processes of delivering locational signals are designed. Overall, BG Energy is of the view that an all-island approach to TUoS charging should reflect parties use of the system as a whole and that there are robust processes and systems to ensure that transfers of wealth are minimised.

Please do not hesitate in contacting me if you have any queries on the comments raised

Yours sincerely,
Killian Walsh
Commercial Lead
Bord Gáis Energy