Jamie Burke,
The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 4

Billy Walker,
Utility Regulator,
Queens House
14 Queen Street
Belfast
BT1 6ED

Your reference SEM 11/036

25 July 2011

Dear Jamie/Billy,

Generator Transmission Use of System Charging – 2011/2012 Indicative Tariffs

ESB PG welcomes the opportunity to respond to this consultation and indeed the Dundalk workshop on 22 June on this matter was also beneficial to this process.

As illustrated at the workshop, the most significant issue in the derivation of the tariffs is the TSO recommended creation of all-island calculated generator tariffs (i.e. a single pot).

ESB PG believes it is important to re-iterate its view as expressed in response to the previous TUoS consultation (SEM-11-018) that this TSO recommendation best represents the original intent of harmonised tariffs.

It is important to harmonise matters relating to the wholesale SEM (or at least minimise distortions) wherever possible. Creation of all-island generator tariffs (with the creation of a single all-island pot) is one such matter. SEM is designed to provide generators with unconstrained access to the all-island 'system'. However, in reality transmission is required to provide that access. Transmission costs manifest in losses and constraints cost in the short run and in new infrastructure costs in the long run. These short run transmission costs (Losses and constraints costs) are already derived/incurred on an all-island basis. It is entirely consistent that the long run costs of transmission as reflected in TUoS be derived on an all-island basis.

Notwithstanding the above general comments, ESB PG responds below to the specific detailed Methodology Statement from the TSOs (SEM-11-037).

Whilst ESB PG has concerns regarding the 'dynamic plus postage stamping' methodology itself, the SEM Committee has made its decision and our concerns are not repeated here. The Methodology Statement itself is generally clear and sufficiently detailed to allow participants to review the process. ESB PG is satisfied with the detailed process of tariff derivation except as provided for below:

Dispatch Scenarios:

Given that the rationale behind locational charging using a dynamic network model (as opposed to alternatives such as a static network model) is to provide efficient signals on the use of the system, it is imperative that the 'base case' scenarios chosen for the methodology reasonably align to the scenarios where network investments are driven (or to a lesser degree where constraints costs are the greatest). There is insufficient clarity to validate the four scenarios chosen.against the above objective.

Assumed Generator Dispatch/Creation of Dispatch Files
Of greater significance, and indeed it created the most discussion at the workshop in June, is the use of unconstrained merit order dispatches using Plexos to create the four dispatch files. The rationale underpinning this decision was due to transmission access providing access to potential MSQ.

There is merit in this approach but one particular difficulty with it is that fuel price forecasts at one particular point in time becomes the key parameter for determining TUoS tariffs not only for one year, but five years into the future as a result of the RAs' decision to fix TUoS tariffs for five years.

Recent fuel price volatility has underlined the dangers in this approach with coal plant moving in and out of merit at various stages and will prove very contentious whenever tariffs are designed.

An alternative is to use simple pro-rating of output based on MEC (with the exception of wind which is already addressed in the scenario choices) which is likely to be less contentious.

Non Alignment of five Year Tariff Periods with Seven Years Charging for a Built Asset
There is an inherent inconsistency between a tariff regime which has a five years 'fixed' cycle and a separate decision to ensure that new assets are charged for five years before being built and for seven years thereafter (with charging imposed for a stated maximum of twelve years). With a five year fixed tariff regime assets would be included for either ten years or fifteen years, but not twelve years(not accounting for delays etc). It would be more appropriate if assets were classified as new for periods that are multiples of 5.

Should you have any queries in relation to the above response please do not hesitate to contact me.

Yours sincerely,

John Lawlor
Manager, Strategic Regulation
Strategy & Portfolio Development